



1 voluntarily agreed to purchase ARS from certain customers, as described in Section IV below, and  
2 to use best efforts to provide liquidity solutions for certain other customers; and

3 WHEREAS, WFI neither admits nor denies the Findings of Fact and Conclusions of Law  
4 contained in this Order.

5 NOW, THEREFORE, the Commissioner, as administrator of the VUSA, hereby enters this  
6 order:

7 **I.**

8 **FINDINGS OF FACT**

9 **Background**

10 1. Auction Rate Securities (“ARS”) are long-term bonds issued by municipalities,  
11 corporations, and student loan companies, or perpetual equity instruments issued by closed-end  
12 mutual funds, with variable interest rates that reset through a bidding process known as a Dutch  
13 auction.

14 2. In a successful Dutch auction, ARS are auctioned at par and bids with successively  
15 higher rates are accepted by the auction agent for the issuer until all of the available securities are  
16 sold. All ARS are then purchased or sold at the lowest interest rate bid that will result in all ARS  
17 placed up for auction being sold. If there are not enough buy orders to purchase all the securities  
18 being sold at auction, a failed auction occurs. In the event of an auction failure, the issuer of the  
19 ARS pays a default interest rate until the next successful auction. Broker-dealers that served as  
20 dealers for the auctions sometimes placed “support bids” on their own behalf in order to prevent  
21 auction failures.

22 3. Beginning on or about February 13, 2008, there were not enough purchasers for  
23 ARS at many auctions. The broker-dealers that had previously supported the auctions for these  
24 securities ceased their practice of bidding to prevent auction failures. As a result, the ARS market  
25 experienced widespread failed auctions. ARS purchasers who wished to sell their ARS were  
26 forced to continue holding their positions.

1 Marketing of ARS by WFI

2 4. WFI marketed ARS to some of its customers, including individual customers, small  
3 businesses, and non-profit organizations. Since at least 2001, WFI offered Auction Rate Preferred  
4 Shares ("ARPS") through its fixed-income desk. In addition, beginning in 2006, WFI facilitated  
5 Auction Rate Debt Securities ("ARDS") trades for select customers. WFI did not underwrite ARS  
6 and did not serve as an auction manager or auction agent.

7 5. On February 14, 2008, WFI customers nationwide were holding approximately  
8 \$2.95 billion in ARS in 5,692 accounts.

9 6. WFI participated in sales of ARS to customers in the state of Vermont. In Vermont,  
10 no WFI accounts held any money in ARS on February 14, 2008.

11 7. Because of the auction failures described above, certain WFI customers who were  
12 holding ARS on February 14, 2008, have been unable to sell their ARS at auction.

13 8. In connection with the marketing of ARS, WFI failed to adopt policies and  
14 procedures reasonably designed to ensure that its registered agents recommended ARS only to  
15 customers who had stated investment objectives that were consistent with their purchase of ARS.  
16 Some WFI registered agents recommended ARS to customers as a liquid, short-term investment.  
17 As a result, some WFI customers, who needed short-term access to funds, invested in ARS, even  
18 though ARS had long-term maturity dates, or in the case of ARPS, no maturity dates.

19 Failure to Supervise Agents Who Marketed ARS

20 9. WFI failed to provide adequate supervision and training to its registered agents in  
21 connection with the marketing of ARS. Some of WFI's registered agents were not adequately  
22 educated about ARS products. WFI failed to provide timely and comprehensive sales and  
23 marketing literature regarding ARS and the mechanics of the auction process.

24 10. Some WFI registered agents believed that the ARS were safe and were not aware  
25 that auctions could fail and that money invested in ARS could become frozen. In part, this was  
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1 because some WFI registered agents were not aware of significant aspects of the auction rate  
2 market.

3 11. WFI did not establish specific written supervisory procedures for the review of ARS  
4 transactions, nor did WFI train supervisory personnel on how to review ARS transactions.

5 **II.**

6 **CONCLUSIONS OF LAW**

7 The Commissioner has jurisdiction over this matter pursuant to the VUSA.

8 For the reasons alleged in the Findings of Fact, above, WFI failed to supervise  
9 reasonably its registered agents in connection with the marketing of ARS to its customers.

10 The Commissioner finds the following relief appropriate and in the public interest.

11 **III.**

12 **ORDER**

13 On the basis of the Findings of Fact, Conclusions of Law, and WFI's consent to the entry of  
14 this Order, for the sole purpose of settling this matter prior to a hearing and without admitting or  
15 denying the Findings of Fact or Conclusions of Law,

16 **IT IS HEREBY ORDERED:**

17 1. This Order concludes the investigation by the Commissioner and any other action  
18 that the Commissioner could commence under applicable Vermont law on behalf of Vermont as it  
19 relates to WFI's marketing of ARS to customers.

20 2. This Order is entered into solely for the purpose of resolving the above referenced  
21 multistate investigation and is not intended to be used for any other purpose.

22 3. Within ten (10) days from the entry of this Order, WFI shall pay the sum of  
23 \$3,800.00 to BISHCA, which amount constitutes Vermont's proportionate share of the multistate  
24 settlement amount of \$1,900,000.

1           4.       The total amount paid pursuant to BISHCA pursuant to the foregoing paragraph  
2 shall remain at \$3,800.00 regardless of whether another state securities regulator determines not to  
3 accept WFI's state settlement offer.

4           5.       WFI shall take certain measures with respect to current and former customers that  
5 purchased "Eligible ARS," as defined and described in Paragraphs 6 through 13 of Section III.  
6 below.

7           6.       Eligible ARS. For purposes of this Order as it relates to WFI, "Eligible ARS" shall  
8 mean ARS that were purchased for customers by WFI on or before February 13, 2008, and that  
9 have failed at auction at least once since February 13, 2008. Notwithstanding the foregoing  
10 definition, Eligible ARS shall not include ARS that were purchased for customers by WFI or  
11 entities acquired by Wells Fargo's parent companies in accounts owned, managed or advised by or  
12 through independent registered investment advisers.

13          7.       Eligible Investor. For the purposes of this Order as it relates to WFI, "Eligible  
14 Investor" shall mean:

15           a.       Natural persons (including their IRA accounts, testamentary trust and estate  
16 accounts, custodian UGMA and UTMA accounts, and guardianship accounts) who  
17 purchased Eligible ARS;

18           b.       Charities, endowments, or foundations with Internal Revenue Code Section  
19 501(c)(3) status, or religious corporations or entities, that purchased Eligible ARS; and

20           c.       Trusts, corporate trusts, corporations, employee pension plans/ERISA and  
21 Taft Hartley Act plans, educational institutions, incorporated not for profit organizations,  
22 limited liability companies, limited partnerships, non public companies, partnerships,  
23 personal holding companies, unincorporated associations, government or quasi government  
24 entities, which are the beneficial owners of an account that purchased Eligible ARS.

25           d.       "Eligible Investors," for the purposes of this Order as it relates to WFI, shall  
26 not include brokers, dealers or banks acting as conduits for their customers. This provision

1 shall not affect the rights of any beneficial owner of an account that otherwise would  
2 qualify as an Eligible Investor, as set forth in Section III, Paragraph 7, subparts a, b, or c,  
3 above.

4 e. "Eligible Investors," for the purposes of this Order as it relates to WFI, shall  
5 not include any WFI customer who has entered into a settlement agreement with WFI prior  
6 to November 18, 2009, or who has received a final arbitration award against WFI prior to  
7 November 18, 2009, with respect to their Eligible ARS holdings at WFI.

8 8. Purchase Offer. WFI shall offer to purchase, at par plus accrued and unpaid  
9 dividends/interest, from Eligible Investors their Eligible ARS that have failed at auction at least  
10 once since February 13, 2008 (the "Purchase Offer"). WFI shall make the Purchase Offer and  
11 purchase the Eligible ARS either as riskless principal or agent for one or more affiliated  
12 companies, and not for its own account.

13 9. Notification and Buyback Procedures.

14 a. WFI shall undertake to identify and provide notice to Eligible Investors of  
15 the relevant terms of this Order by no later than February 16, 2010. Said notice shall  
16 explain what Eligible Investors must do to accept, in whole or in part, the Purchase Offer,  
17 including how Eligible Investors may accept the Purchase Offer. WFI shall also provide  
18 written notice of the relevant terms of this Order to any subsequently identified Eligible  
19 Investors.

20 b. Initial Offer Period

21 i. WFI shall keep the Purchase Offer open for sixty (60) days after  
22 mailing the notice required by Section III, Paragraph 9a, above ("Initial Offer  
23 Period").

24 ii. Eligible Investors may accept the Purchase Offer by notifying WFI  
25 as described in the Purchase Offer, at any time before midnight, Eastern Time, on or  
26 before the last day of the Initial Offer Period. For those Eligible Investors who

1 accept the Purchase Offer within the Initial Offer Period. WFI shall purchase their  
2 Eligible ARS by no later than five (5) business days following the expiration of the  
3 Initial Offer Period (the “Initial Purchase Deadline”).

4 c. Second Offer Period

5 i. WFI shall undertake its best efforts to identify and provide a second  
6 notice to all Eligible Investors who do not accept the Purchase Offer within the  
7 Initial Offer Period. This second notice must satisfy the requirements discussed in  
8 Section III. Paragraph 9a. above, and be sent no later than thirty (30) days after the  
9 Initial Purchase Deadline.

10 ii. WFI shall keep the Purchase Offer open for sixty (60) days after  
11 mailing the second notice required by Section III. Paragraph 9c.i, above (“Second  
12 Offer Period”).

13 iii. Eligible Investors may accept the Purchase Offer by notifying WFI  
14 as described in the Purchase Offer, at any time before midnight, Eastern Time, on or  
15 before the last day of the Second Offer Period. For those Eligible Investors who  
16 accept the Purchase Offer within the Second Offer Period, WFI shall purchase their  
17 Eligible ARS by no later than five (5) business days following the expiration of the  
18 Second Offer Period (the “Second Purchase Deadline”).

19 d. An Eligible Investor may revoke the Eligible Investor’s acceptance of WFI’s  
20 Purchase Offer at any time up until WFI purchases such Eligible Investor’s Eligible ARS or  
21 provides notice of WFI’s intent to purchase such Eligible ARS.

22 e. WFI’s obligation to those Eligible Investors who custodied their Eligible  
23 ARS away from WFI as of November 18, 2009 shall be contingent on: (1) WFI receiving  
24 reasonably satisfactory assurance from the financial institution currently holding the  
25 Eligible Investor’s Eligible ARS that the bidding rights associated with such Eligible ARS  
26 will be transferred to WFI; and (2) transfer of the Eligible ARS back to WFI.

1 f. WFI shall use its best efforts to identify, contact and assist any Eligible  
2 Investor who has transferred the Eligible ARS out of WFI's custody in returning such ARS  
3 to WFI's custody, and shall not charge such Eligible Investor any fees relating to or in  
4 connection with the return to WFI or custodianship by WFI of such Eligible ARS.

5 10. Customer Assistance Line. WFI shall promptly establish a dedicated toll-free  
6 telephone assistance line and e-mail address to provide information and to respond to questions  
7 concerning the terms of this Order. WFI shall maintain the telephone assistance line and e-mail  
8 address through at least the Second Purchase Deadline.

9 11. Relief for Eligible Investors Who Sold Below Par. No later than upon the  
10 completion of the buyback (as described in Section III, Paragraph 9, above), WFI shall undertake  
11 its best efforts to identify and provide notice to, using the notice to Eligible Investors referenced in  
12 Section III, Paragraph 9 above, Eligible Investors who sold Eligible ARS below par between  
13 February 13, 2008 and November 18, 2009 ("Below Par Seller") and, upon receipt of satisfactory  
14 evidence of the sale, pay them the difference between par and the price at which the Eligible  
15 Investor sold the Eligible ARS, plus interest thereon at the rate of seven-day LIBOR.

16 12. Consequential Damages Arbitration Process.

17 a. WFI shall consent to participate in a special arbitration process  
18 ("Arbitration") for the exclusive purpose of arbitrating any Eligible Investor's  
19 consequential damages claim arising from their inability to sell Eligible ARS. WFI shall  
20 notify Eligible Investors of the terms of the Arbitration process through the notice described  
21 in Section III, Paragraph 9 above.

22 b. The Arbitration shall be conducted under the auspices of FINRA, pursuant to  
23 the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007. WFI  
24 will pay all applicable forum and filing fees.

25 c. Eligible Investors who choose to pursue such claims in the Arbitration shall  
26 bear the burden of proving that they suffered consequential damages and that such damages

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were caused by their inability to access funds invested in Eligible ARS. In the Arbitration, WFI shall be able to defend itself against such claims: provided, however, that WFI shall not contest liability for the illiquidity of the underlying ARS position, and provided further that, unlike the FINRA’s established special arbitration process, WFI shall be able to use as part of its defense an investor’s decision not to borrow money from WFI or its affiliates.

d. Eligible Investors who elect to use this special arbitration process provided for herein shall not be eligible for punitive damages, or for any other type of damages other than consequential damages.

e. Eligible Investors that elect to utilize FINRA’s special arbitration process, as set forth above, are limited to the remedies available in that process and may not bring or pursue a claim relating to Eligible ARS in another forum.

13. Reimbursement of Negative Carry. In connection with the notices described in Section III, Paragraphs 9 and 11 above, WFI shall inform Eligible Investors that, if they paid more in interest on a loan through WFI or its affiliates secured by Eligible ARS than the customer received in interest or dividends from the Eligible ARS during the time the loan was outstanding (“Negative Carry”), then the Eligible Investor can provide WFI documentation evidencing the amount of Negative Carry, and upon receipt of such documentation, WFI will reimburse the Eligible Investor the amount of Negative Carry actually paid.

**IV.**

**Additional Considerations**

1. WFS (as successor to WFBS) and WFIS have voluntarily agreed to purchase ARS from Eligible Investors as set forth in this Section IV, Paragraph 2 below.

2. “Eligible Investors,” for the purposes of this Order as it relates to WFS (as successor to WFBS) and WFIS, shall mean the following:

1 a. Natural persons (including their IRA accounts, testamentary trust and estate  
2 accounts, custodian UGMA and UTMA accounts, and guardianship accounts) who  
3 purchased Eligible ARS;

4 b. Charities, endowments, or foundations with Internal Revenue Code Section  
5 501(c)(3) status, or religious corporations or entities that purchased Eligible ARS; and

6 c. Trusts, corporate trusts, corporations, employee pension plan/ERISA and  
7 Taft Hartley Act plans, educational institutions, incorporated not for profit organizations,  
8 limited liability companies, limited partnerships, non public companies, partnerships,  
9 personal holding companies, unincorporated associations, governments or quasi  
10 government entities, which are the beneficial owners of an account that purchased Eligible  
11 ARS, unless the value of the account exceeded \$10 million as of January 31, 2008 or the  
12 beneficial owner had disclosed to WFI, WFS (as successor to WFBS), WFBS or WFIS total  
13 investable assets in excess of \$10 million;

14 d. "Eligible Investors," for the purposes of this Order as it relates to WFS (as  
15 successor to WFBS) and WFIS, shall not include brokers, dealers, or banks acting as  
16 conduits for their customers. This provision shall not affect the rights of any beneficial  
17 owner of an account that otherwise would qualify as an Eligible Investor, as set forth in  
18 subparts a, b, or c of this Paragraph, above;

19 e. "Eligible Investors," for the purposes of this Order as it relates to WFS (as  
20 successor to WFBS) and WFIS, shall not include any WFI, WFBS, or WFIS customers who  
21 have entered into a settlement agreement with WFI, WFBS (or WFS as its successor), or  
22 WFIS prior to November 18, 2009, or who has received a final arbitration award against  
23 WFI, WFBS (or WFS as its successor), or WFIS prior to November 18, 2009, with respect  
24 to their Eligible ARS holdings at WFI, WFBS (or WFS as its successor), or WFIS.

25 f. "Eligible ARS," for purposes of this Order as it relates to WFS (as successor  
26 to WFBS) and WFIS, shall mean ARS that were purchased at WFBS or WFIS on or before

1 February 13, 2008, and that have failed at auction at least once since February 13, 2008.  
2 Notwithstanding the foregoing definition, Eligible ARS shall not include ARS that were  
3 purchased at WFBS or WFIS or entities acquired by WFBS's or WFIS's parent companies  
4 in accounts owned, managed or advised by or through independent registered investment  
5 advisers.

6 3. WFS (as successor to WFBS) and WFIS have agreed to use their best efforts to  
7 provide liquidity solutions to their customers who have investible assets above \$10 million. WFS  
8 (as successor to WFBS) and WFIS shall endeavor to work with issuers and other interested parties,  
9 including regulatory and governmental entities, to expeditiously and on a best efforts basis provide  
10 liquidity solutions, such as facilitation of secondary market transactions and announced issuer  
11 redemptions of the Eligible ARS purchased through WFBS and WFIS. Though WFS (as successor  
12 to WFBS) and WFIS shall use their best efforts to offer opportunities to the institutional and other  
13 customers who are not Eligible Investors to liquidate Eligible ARS, WFS (as successor to WFBS)  
14 and WFIS are under no obligation to offer to purchase ARS from these customers.

15 4. In consideration for the settlement terms contained in this Order, the Commissioner  
16 shall not seek additional penalties, and shall terminate its investigation with respect to WFI, WFS  
17 (as successor to WFBS), and WFIS regarding the marketing of ARS. However, if the  
18 Commissioner determines that WFS (as successor to WFBS) and WFIS have failed to adhere to  
19 their voluntary agreement as described above, the Commissioner may initiate investigation and  
20 take enforcement action related to the marketing of ARS by WFS (as successor to WFBS) and  
21 WFIS.

22 5. If payment is not made by WFI as required in this Order, or if WFI defaults in any  
23 of its other obligations set forth in this Order, the Commissioner may send WFI a written notice of  
24 default and, if within ten (10) days after receiving the written notice, WFI does not cure the default,  
25 the Commissioner may move to enforce the Order before any competent administrative body  
26 and/or court of law.

1           6.       This Order is not intended to indicate that WFI or any of its affiliates or current or  
2 former employees shall be subject to any disqualifications contained in the federal securities law,  
3 the rules and regulations thereunder, the rules and regulations of self-regulatory organizations or  
4 various states' securities laws, including any disqualifications from relying upon the registration  
5 exemptions or safe harbor provisions. In addition, this Order is not intended to form the basis for  
6 any such disqualifications.

7           7.       Except as expressly provided in this Order, for any person or entity not a party to  
8 this Order, this Order does not limit or create any private rights or remedies against WFI, limit or  
9 create liability of WFI, or limit or create defenses of WFI to any claims. Unless applicable law  
10 provides otherwise, by entering into this Order, the Commissioner does not waive any rights any  
11 departments, agencies, boards, commissions, authorities, political subdivisions and corporations of  
12 Vermont other than the Commissioner may have under applicable law, to the extent any such rights  
13 exist, to assert a claim, cause of action, or application for compensatory, nominal and/or punitive  
14 damages, administrative, civil, criminal, or injunctive relief against WFI in connection with the  
15 marketing of ARS by WFI.

16           8.       This Order shall not disqualify WFI or any of its affiliates or current or former  
17 employees from any business that they otherwise are qualified or licensed to perform under  
18 applicable state law and this Order is not intended to form the basis for any disqualification.

19           9.       This Order and any dispute related thereto shall be construed and enforced in  
20 accordance with, and governed by, the laws of Vermont without regard to any choice of law  
21 principles.

22           10.      WFI, through its execution of this Order, voluntarily waives its right to a hearing on  
23 this matter and to judicial review of this Order under 9 V.S.A., Chapter 150, the Vermont Uniform  
24 Securities Act ("VUSA"); 3 V.S.A., Chapter 25, the Vermont Administrative Procedure Act; and  
25 the rules, regulations, and orders of the Commissioner.  
26

1 11. WFI enters into this Order voluntarily and represents that no threats, offers,  
2 promises, or inducements of any kind have been made by the Commissioner or any member,  
3 officer, employee, agent, or representative of the Commissioner to induce WFI to enter into this  
4 Order.

5 12. This Order shall be binding upon WFI, its affiliates, successors and assigns with  
6 respect to all conduct subject to the provisions above and all future obligations, responsibilities,  
7 undertakings, commitments, limitations, restrictions, events, and conditions.

8 13. Nothing contained in this Order shall be deemed to be an admission of any liability,  
9 fault or wrongdoing. The Parties agree that this Order shall not be admissible in any hearing,  
10 action, or proceeding except to prove the existence of this Order or to enforce the Order's terms.

11  
12 Dated this 11 day of May, 2010.

13  
14 BY ORDER OF THE COMMISSIONER

15  
16 Paulette J. Thabault  
17 PAULETTE J. THABAULT, Commissioner  
18 Vermont Department of Banking, Insurance,  
19 Securities and Health Care Administration  
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