DEPARTMENT OF CORPORATIONS
Business Services and Consumer and Investor Protection

JAN LYNN OWEN
California Corporations Commissioner

MEDIA RELEASE

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California Announces Settlement with E*Trade Securities to Recover Millions for Investors in Auction Rate Securities

SACRAMENTO, CA (January 13, 2012) – The California Department of Corporations today announced a settlement agreement with E*Trade Securities LLC to facilitate the return of up to $20 million dollars to investors in California. Today's agreement will settle an investigation alleging E*Trade misrepresented auction rate securities (ARS) to investors as safe, cash-equivalent products, even though the products faced increasing liquidity risk.

"This multi-million dollar agreement provides relief for many individuals and small business investors who lost access to funds in the collapse of the auction rate securities market," Commissioner Jan Lynn Owen said. "We are pleased that this negotiation with E*Trade will return money to many investors who suffered losses and illiquidity when the auctions failed and their assets were frozen."

Under the settlement with E*Trade, the brokerage will offer to repurchase all auction rate securities sold to California customers. E*Trade must also continue to use their best efforts to identify and locate customer who purchased eligible auction rate securities.

Terms of the settlement provide that E*Trade pay $1,095,015.21 in administrative penalties to the State and agree to abide by a Desist and Refrain order prohibiting violations of California's securities law including failure to supervise its employees in the sale of auction rate securities.

The Department extends its gratitude to the North American Securities Administrators Association (NASAA) and its multi-state Auction Rate Securities Task Force, of which California has been an active participant. Settlement negotiations previously occurred with other broker-dealers nationwide who sold auction rate securities without adequate investor protections.

Working with NASAA and other state regulators, the Department of Corporations has successfully settled auction rate securities cases with fourteen brokerages. These settlements have covered up to $26 Billion worth of securities potentially eligible for repurchase, and have resulted in penalties paid to California in excess of $67 Million.

Anyone interested in having auction rate securities repurchased by E*Trade should contact the firm directly. E*Trade has agreed to establish a dedicated toll-free telephone line and website by January 16, 2012. E*Trade has committed to repurchase eligible securities through May 15, 2012.

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An auction rate security is a non-conventional, fixed income, long-term security whose dividend rates are reset periodically at auctions at set weekly or monthly intervals. In the recent past, many brokerages represented auction rate securities to investors as safe, cash-equivalent products, even though the products faced increasing liquidity risk.

The Department of Corporations is California's investment and financing authority and is responsible for the regulation, enforcement, and licensing of securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending, residential mortgage lending, payday lenders, check sellers, bill payers, and debt reduction services

To view the Department of Corporation's "Findings of Fact, Conclusion of Law, and Consent Order" for E*Trade, please go to: http://www.corp.ca.gov/ENF/pdf/e/eTrade_Finding_011012.pdf.

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