Fiscal Year Underwriters' Quarterly Reports for Regulatory Compliance Regarding Underwriters' Participation in Credit default Swaps (CDS)

NBR	Firm name	Due April 2012	
1	Barclays	x	
2	Bmo Capital Markets	x	
3	BoA, Merrill Lynch	x	
4	Cabrera	x	
5	Citigroup	x	
6	City Securities Corporation	x	
7	Duncan Williams, Inc / Rice	x	
8	Edward Jones	x	
9	Estrada Hinojosa	x	
10	Fifth Third Securities	x	
11	George K. Baum And Co	x	
12	Goldman Sachs	x	
13	Guggenheim Securities	x	
14	Jackson Securities	x	
15	Janney Montgomery Scott	x	
16	Jefferies	x	
17	JP Morgan	x	
18	Key Banc Capital Markets	x	
19	Lebenthal	x	
20	Loop Capital	x	
21	M. R. Beal	x	
22	Mesirow Financial	x	
23	Morgan Keegan	x	
24	Morgan Stanley	x	
25	North South Capital	x	
26	Northern Trust	x	
27	Oppenheimer and Co Inc	x	
28	Piper Jaffray & Co	x	
29	PNC Bank	x	
30	Podesta & Co	x	
31	Ramirez & Co, Inc /US Bank	x	
32	Raymond James	x	
33	RBC Capital Markets	x	
34	Rice / Duncan	x	
35	Robert W. Baird	x	
36	Siebert Bradford Shank	x	
37	Stern Brothers	x	
38	Sterne Agee	x	
39	Stifel, Nicolaus	x	
40	Wells Fargo	x	
41	William Blair And Co.	x	
42	Williams Capital Group	x	

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 16-100
100 W. Randolph
Chicago, IL 60601

RECEIVED
APR 16 2012
Governor's Chicago Office

Dear Mr. Sinsheimer:

Thank you for your letter dated April 9, 2012 to Philip Rooney. I am responding on behalf of Bank of America Corporation and its affiliates, including Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively "BofAML"). We value our relationship with the State of Illinois and are pleased to provide the following information. For purposes of this letter, we are providing information for the three months ended March 31, 2012. For ease of reference, we have restated your questions before each response.

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

By way of background, BofAML does not take and maintain unhedged long or short positions, unrelated to market making, of Illinois General Obligation ("GO") CDS. Instead, BofAML is a swaps market maker and in that capacity makes regular two-way markets in municipal CDS, including CDS on Illinois GO bonds, and acts as a swaps dealer with respect to Illinois GO CDS. BofAML's trading of Illinois GO CDS, while effected as principal for our own account, is in response to the flow of actual and anticipated counterparty market making transactions, and while BofAML's Illinois GO CDS exposure on a net basis at any given time may be modestly long (BofAML being a net purchaser of unhedged credit protection) or short (BofAML being a net seller of unhedged credit protection), BofAML seeks to maintain, over time, a more or less balanced book of long and short transactions. For the quarter ending March 31, 2012 the cumulative notional volume of Illinois GO CDS purchases was $0 and sales was $0. As of March 31, 2012, BofAML's outstanding gross notional amount of Illinois GO CDS was $791,700,000 and the outstanding net notional amount of Illinois GO CDS was a net short position of $23,900,000 (that is, BofAML was a net seller of Illinois CDS protection as of that date, and thus net long Illinois GO risk, as it would be if it were a holder of Illinois GO bonds).

In addition, we have prime brokerage positions which represent our "back-to back" intermediation of trades between certain hedge fund clients and their counterparties.

These transactions are custodial in nature and do not represent risk positions of our firm. As of March 31, 2012 BofAML's prime brokerage outstanding gross notional amount of Illinois GO CDS was $20,000,000 and the outstanding net notional amount of Illinois GO CDS was $0 (that is, prime brokerage accounts were flat Illinois GO CDS protection as of that date).

Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

As discussed above, BofAML does not engage in proprietary trading by taking and maintaining unhedged long or short positions, unrelated to market making, of Illinois GO CDS. The activity conducted for BofAML's own account is undertaken (a) to hedge specific, identified State credit exposures held by BofAML, such as State general obligation (GO) bonds, credit facilities or derivative credit exposures, or (b) pursuant to BofAML's ongoing, client- driven market-making activities.

Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

As discussed above, the question is not applicable as BofAML did not engage in proprietary trading.

List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

As discussed above, the question is not applicable as BofAML did not engage in proprietary trading.

Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

We are not aware that municipal research analysts at BofAML published any research reports referencing State of Illinois CDS during this period.

This letter is being submitted to you with the request that you keep it confidential and not provide or otherwise disclose it to any party, unless you are required to do so by law. If your office should decide to disclose any of the information to any other government agency or person, we also ask that you notify us immediately and provide that agency or person with notice of this request. Furthermore, if any person should request the opportunity to inspect or copy this letter, we ask to be notified immediately and given advance notice of any intended release.

If you have additional questions, please do not hesitate to contact me.

Very truly yours,

Susan Jun
cc: Sophia Ronis

BMO Capital Markets

BMO Capital Markets GKST Inc.
115 South LaSalle Street
37th Floor
Chicago, IL 60603

Tel: (312) 845-2000

April 24, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, 100 West Randolph, Suite 15-100
Chicago, IL 60606

Dear Mr. Sinsheimer:

Enclosed please find our firm's response to the questions regarding State of Illinois Credit Default Swap Activity. If you have any questions or need additional information, please let me know. I can be reached at (312) 845-2005 or marylee.corrigan@bmo.com.

Sincerely,

Mary Lee Corrigan

Mary Lee Corrigan
Managing Director/CFO
Administration

MLC/ays

Enclosure

<u>State of Illinois Credit Default Swap Questions</u>

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- In the event of your firms participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

  BMO Capital Markets GKST, Inc. has not participated in any State of Illinois CDS Activity within the past three months ending March 31, 2012.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

  No trades were done.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

  Not applicable.

- List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

  None.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

  No research or marketing reports were done referencing State of Illinois CDS.

BARCLAYS

CAROLE BROWN
MANAGING DIRECTOR

April 26, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-100
100 W. Randolph
Chicago, IL 60601

RECEIVED
APR 16 2012
Governor's Chicago Office

Dear Mr. Sinsheimer:

Thank you for your letter regarding our firm's State of Illinois credit default swap activities for the period January 1, 2012 through March 31, 2012. We are pleased to provide the following information in response to the questions referenced therein:

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

1. *In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.*

   Barclays does not actively make a market in credit default swaps ("CDS"). The firm did not engage in any State of Illinois CDS trades during the period from January 1, 2012 through March 31, 2012.

   As we have previously noted in our submissions to the State, in January 2011, Barclays' Credit Risk Management group, a group separate from Barclays Bond Department, erroneously entered into an Illinois CDS trade in order to hedge counterparty risk. This trade was unwound a few days later since it had been put on in error. The two trades consisted of $10 million buy and sell. Other than those trades, the firm has entered into no Illinois CDS trades since August 2009.

   Below is the most recent data regarding our gross and net positions for the period January 1, 2012 through March 31, 2012.

   - Gross notional of trades from January 1, 2012 through March 31, 2012= $0
   - Net notional of trades from January 1, 2012 through March 31, 2012= $0
   - Net notional of trades outstanding as of March 31, 2012 = $0

2. *Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.*

   Please see our response to #1.

3. *Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.*

   Please see our response to #1.

BARCLAYS
190 SOUTH LASALLE STREET, 27TH FLOOR | CHICAGO, IL 60603
TEL: (312) 609-8508 | FAX: (312) 609-8371
EMAIL: CAROLE.L.BROWN@BARCLAYS.COM

4. *List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.*

   Please see our response to #1.

5. *Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.*

   Prior to February 2011, Barclays published a monthly municipal research report that referenced CDS market activity for a group of fifteen major issuers including the State of Illinois. Barclays ceased publishing research that referenced Illinois CDS pricing in February 2011. Our firm did not release any publically-available research or marketing reports referencing State of Illinois CDS during the period of January 1, 2012 through March 31, 2012.

We are available at your convenience to discuss this information further. I may be reached at (312) 609-8508. Thank you.

Sincerely,

Carole Brown

Carole Brown

Managing Director

cc: Ms. Sophia Ronis, State of Illinois

BARCLAYS CAPITAL
190 SOUTH LASALLE STREET, 27TH FLOOR | CHICAGO, IL 60603
TEL: (312) 609-8508 | FAX: (312) 609-8371
EMAIL: CAROLE.L.BROWN@BARCLAYS.COM

CABRERA

CABRERA CAPITAL MARKETS, LLC

BOSTON • CHICAGO • HOUSTON • LOS ANGELES • NEW YORK • PEPPER PIKE • PHILADELPHIA • SAN ANTONIO • TAMPA

April 27, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governors Office of Management and Budget
100 W. Randolph, Suite 15-100
Chicago, IL. 60601

Dear Mr. Sinsheimer,

In response to your letter dated April 9, 2012, Cabrera Capital Markets, LLC has not participated in any credit default swap market activities related to State of Illinois General Obligation bonds or Build Illinois bonds for the period January 1, 2012 through March 31, 2012.

If there are any questions in this regard, please contact the undersigned.

Robert Aguilar
Chief Operating Officer

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Governor's Chicago Office

10 South LaSalle Street, Suite 1050, Chicago, IL 60603 phone (312) 236-8888 toll free (800) 291-2388 fax (312) 236-8936
www.cabreracapital.com

R. Ray Kljajic
Managing Director
Public Finance Department
Municipal Securities Division

Mail Stop PFD 25
227 W. Monroe Street
Chicago, IL 60606

Tel 1 312-876-3550
Fax 1 312-876-3551
rade.kljajic@citi.com

citi

April 30, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management
and Budget
James R. Thompson Center
100 West Randolph – Suite 15-100
Chicago, IL 60601

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Governor's Chicago Office

Re: Illinois Credit Default Swaps

Dear Mr. Sinsheimer:

In response to your letter dated April 9, 2012, below are responses for Citi's market activities related to credit default swaps per State Statute on State of Illinois General Obligation Bonds and Build Illinois bonds from January 1, 2012 through March 31, 2012:

- Citi cumulative (gross) notional volume of State of Illinois CDS trades for the period of January 1 through March 31, 2012 was 72,100,000 MM / 13.1 MM net short notional.USD.
- Citi outstanding gross Notional Amount of State of Illinois CDS as of March 31st was 794,200,000 MM Gross Notional.
- Citi outstanding net Notional amount of State of Illinois CDS as of March 31st was 258,600,000 MM Net Long Notional.
- No Illinois single-name Muni CDS in Q1 for the correlation desk.
- Nothing from research during the period.

This letter will be sent via Special Messenger today. I have attached your letter and list of questions.

Sincerely,

Rade Ray Kljajic
Managing Director

Attachments

CITY SECURITIES CORPORATION

Investments since 1924 • Insurance since 1933

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citysecurities.com

April 12, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
James R. Thompson Center, Suite 15-100
100 W. Randolph St.
Chicago, IL 60601

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APR 16 2012
Governor's Chicago Office

Dear Mr. Sinsheimer:

City Securities Corporation does not, and has never, participated in any credit-default swap market-making activities, and thus has not participated in any State of Illinois CDS activities from January 1, 2012 through March 31, 2012. Further, City Securities Corporation has never released any publically available research or marketing reports that reference State of Illinois CDS. Please let us know if you have any additional requests.

Sincerely,

Mike Schumaker
Vice President

Cc: Sophia Ronis

30 South Meridian Street, Suite 600, Indianapolis, IN 46204 • 317.634.4400 • 800.800.CITY (2489)
P.O. Box 44992, Indianapolis, IN 46244-0992

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April 16, 2012

John Sinsheimer
Director of Capital Markets
State of Illinois
Office of Management & Budget
JRTC, Suite 15-100
100 West Randolph
Chicago, IL 60601

RE: State of Illinois Credit Default Swap Questions

Dear John,

Duncan-Williams, Inc. does not participate in any credit default swap market-making activities. Duncan-Williams, Inc. did not participate in any State of Illinois credit default swaps within the past 3 months. In addition, the Firm did not release any publicly available research on marketing reports that reference State of Illinois CDS. If you have any questions please feel free to contact me by phone at 901-260-6926 or by e-mail at wbreunig@duncanw.com.

Sincerely,

Wayne Breunig

Wayne Breunig
Managing Director
Public Finance
Duncan-Williams, Inc.

Chicago: 203 N. LaSalle Street, Suite 2100 Chicago, IL 60601 Tel: 312.827.7966 Fax: 312.346.9603
Memphis: 6750 Poplar Avenue, Suite 300, Memphis, TN 38138 Tel: 901.260.6926 Fax: 901.260.6826

Richard A. Ryffel
Managing Director, Investment Banking
12555 Manchester Road
St. Louis, MO 63131-3729
314-515-2672 Tel
314-515-2674 Fax
richard.ryffel@edwardjones.com
www.edwardjones.com

Edward Jones®

April 12, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-100
100 West Randolph
Chicago IL 60601

Dear John:

In response to your letter dated April 9, 2012, I offer this response per the instructions provided. Hard copy of same follows by overnight mail.

With respect to Credit Default Swaps ("CDS"), Edward Jones does not participate in this market in any way. We are not a provider of CDS and do not make any markets in CDS. For completeness, however, I have provided below a response to each interrogatory you submitted.

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past three months. Please include and/or indicate the following:

- In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS as of the end of the current 3-mo. period.

Edward Jones has not participated in any State of Illinois CDS activities over the requested three-month periods.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-mo. period.

Edward Jones has not entered into any proprietary State of Illinois CDS trades over the requested period.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-mo period.

Edward Jones has no outstanding proprietary State of Illinois CDS positions as of the end of the requested three-month period.

- List all time periods during the past 3 mo. during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

Edward Jones has not during the past three months held any net long or net short positions of State of Illinois CDS.

- Indicate whether within the previous 3 mo. the firm released any publicly available research or marketing reports that reference State of IL CDS and include those research or marketing reports or attachments.

Edward Jones has not published any publicly available research regarding the State of Illinois which references State of Illinois CDS.

I appreciate the opportunity to address your questions. Should you have additional questions, please do not hesitate to contact me at richard.ryffel@edwardjones.com or 314.515.2672.

Thank you for your confidence in Edward Jones.

Sincerely,

Richard A. Ryffel
Managing Director
Investment Banking

cc: Sophia Ronis

ESTRADA • HINOJOSA

INVESTMENT BANKERS

April 12, 2012

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APR 16 2012
Governor's Chicago Office

Mr. John Sinsheimer, Director of Capital Markets
State of Illinois
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Dear Mr. Sinsheimer:

Estrada Hinojosa & Company, Inc. is pleased to respond to your letter of April 9, 2012 addressed to Mr. Fernando Grillo, Manager of our Firm's Illinois office.

Estrada Hinojosa is a FINRA-registered broker engaged solely in municipal bond underwritings and has never participated in credit default swap ("CDS") market-making activities related to the State of Illinois or any other bond issuer, and the Firm has no intention to deal in CDS activities at any time in the future. Estrada Hinojosa does not publish research reports related to the CDS market.

Please do not hesitate to contact us if you have any other questions. Best wishes for your continued success.

Sincerely,

RA Estrada

Robert A. Estrada
Chief Compliance Officer

Cc: Sophia Ronis, State of Illinois

Thomas B. Nolan, Firm
Fernando Grillo, Firm
Andrew Cubria, Firm
Carlos Buentello, Firm

FIFTH THIRD
SECURITIES

222 South Riverside Plaza
Mail Drop GRVROK
Chicago, Illinois 60606
tel. (312) 704-4025
fax (312) 704-7394
e-mail Doug.DeAngelis@53.com

May 16, 2011

John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, 100 W. Randolph St. Suite 16-100
Chicago, Illinois 60601

Re: State of Illinois Credit Default Swap Questions

Dear Mr. Sinsheimer,

Enclosed you will find responses to Fifth Third Securities, Inc's market activities in the last three months related to credit default swaps, as outlined by the State Statute on State of Illinois General Obligation bonds and Build Illinois bonds.

Should you have any questions or if I can assist you in any way, please contact me at (312) 704-4025. We look forward to working with the State and the underwriting team on the State's upcoming financing transactions.

Sincerely,

Douglas P DeAngelis

Douglas P. DeAngelis
Managing Director
Illinois Public Finance

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Governor's Chicago Office

FIFTH THIRD
SECURITIES

State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trade and the firm's outstanding gross and notional amount of State of Illinois CDS as of the end of the current 3-month period.

  Fifth Third Securities, Inc. and related entities have not participated in any activities related to credit default swaps, including those related to the State of Illinois.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3 month period.

  Fifth Third Securities, Inc. and related entities have not entered into any proprietary trades for its own account in State of Illinois CDS.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short of long credit protection as of the end of the current 3-month period.

  Fifth Third Securities, Inc. and related entities have no positions in any CDS, including those related to the State of Illinois.

- List all times during the past 3 months during which the firm held net long or short State of Illinois proprietary credit protection positions, the amount of such positions, and whether those positions were net long or short credit protection positions.

  Fifth Third Securities, Inc. and related entities have not held State of Illinois proprietary credit protection positions during the past 3 months.

- Indicate whether within the past 3 months, the firm has released any publicly available research or marketing reports that reference State of Illinois CDS and include copies of such research or report in your response.

  Fifth Third Securities, Inc. and related entities have not released any publicly available research or marketing report that reference State of Illinois CDS.

George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

April 17, 2012

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Governor's Chicago Office

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-1100
100 W. Randolph
Chicago, Illinois 60601

RE: State of Illinois Credit Default SWAP Questions

Dear Mr. Sinsheimer:

Enclosed please find our responses to the above-referenced questions.

We appreciate the opportunity to submit our response to the State of Illinois.

Regards,

George K. Baum & Company

Albert A. Boumenot
Senior Vice President
Illinois Public Finance

AAB/cb

Enclosure

Goldman, Sachs & Co. | 71 South Wacker Drive | Chicago, Illinois 60606
Tel. 312-655-4600

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Governor's Chicago Office

Goldman Sachs

April 20, 2012

John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Dear Mr. Sinsheimer:

I am pleased to respond on behalf of Goldman, Sachs & Co. to the questions posed in your letter dated April 9, 2012 regarding our firm's activities related to State of Illinois municipal credit default swaps ("CDS").

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months.

Please include and/or indicate the following:

- ***In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.***

  As it has done in respect of many states' CDS, Goldman Sachs participated in market-making activities with respect to State of Illinois CDS in the past fiscal quarter (January 1, 2012 through March 31, 2012). Goldman Sachs's cumulative notional volume of trades in State of Illinois CDS during that time was $444.0 million. Goldman Sachs's net notional position as of March 31, 2012 in Illinois CDS was $90.9 million, and our gross notional position in Illinois CDS was $2.508 billion.

  It is not feasible to assess whether Goldman Sachs is long or short exposure to State of Illinois credit solely by reference to notional amounts of CDS, as other considerations, including the various maturities of our CDS positions and our risks related to market-making activities in the State's bonds, are key determinants and drivers of the firm's risk profile.

- ***Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.***

  Goldman Sachs has not entered into any trades for its own proprietary account in State of Illinois CDS during the past fiscal quarter. As noted above, Goldman Sachs has entered into Illinois CDS contracts from time to time, stepping in with its own capital to execute client trades as a principal in order to promote market liquidity in a market-making capacity.

- ***Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.***

  Please see the above answers.

- ***List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.***

  Please see the above answers.

- ***Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.***

  During the previous fiscal quarter, Goldman Sachs has not published any research or marketing reports concerning State of Illinois CDS. In that regard, the firm's Global Investment Research Division does not create or publish research on municipal issuers. From time to time, various groups within the firm's Securities Division have provided marketing materials to clients to educate them generally about the municipal asset class and the products available to gain or limit exposure to that asset class, including tax-exempt bonds, interest rate derivatives, CDS and BABs. These materials are available to the firm's institutional sales force and are on occasion in turn provided to certain investing clients.

Thank you for the opportunity to respond to your questions. We look forward to continuing to serve the State of Illinois and the larger municipal market.

Sincerely,

Kathleen Brown

Kathleen Brown
Chairman of Investment Banking for the Midwest

Guggenheim's Response to the State of Illinois Credit Default Swap Questionnaire, May 1, 2012

State of Illinois Credit Default Swap Questions

For the period from January 1, 2012 through March 31, 2012

- Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

Guggenheim has never participated in credit default swap market-making activities related to municipal securities and Guggenheim has not participated in credit default swap market-making activities related to any State of Illinois CDS within the past 3 months.

- In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and notional amount of State of Illinois CDS as of the end of the current 3 month period.

Not applicable (see above)

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3-month period.

Not applicable (see above)

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short of long credit protection as of the end of the current 3-month period.

Not applicable (see above)

- List at all times during the past 3 months during which the firm held net long or short State of Illinois proprietary credit protection positions, the amount of such positions, and whether those positions were net long or short credit protection positions.

Not applicable (see above)

- Indicate whether within the previous 3 months, the firm has released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

Guggenheim has not released any publically available research or marketing reports that reference State of Illinois CDS.

This response is presented to the State of Illinois on behalf of Guggenheim Securities, LLC.

Ron Iervolino
Senior Managing Director,
Guggenheim Securities, LLC

JACKSON SECURITIES
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Friday, April 27, 2012

John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget

Dear Mr. Sinsheimer,

Jackson Securities has no market activities related to credit default swaps per State Statute on State of Illinois General Obligation bonds and Build Illinois bonds from January 1, 2012 through March 31, 2012.

Sincerely,

James F. Carter

James Carter
Vice President
Jackson Securities LLC

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Janney
CAPITAL MARKETS

1801 Market Street, 11th Floor
Philadelphia, PA 19103

April 16, 2012

John Sinsheimer, Director of Capital Markets
Governor's Office of Management and Budget
James R. Thompson Center
100 W. Randolph, Suite 15-100
Chicago, IL 60601

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RE: Janney Montgomery Scott ("Janney") Illinois Credit Default Swap ("CDS") Activity for 1Q 2012

Dear Mr. Sinsheimer:

Janney has not and does not participate in the CDS market. Therefore, we have not participated in any way in the CDS market with regard to the State of Illinois.

- **Q:** In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.
- **A: None**

- **Q:** Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.
- **A: None**

- **Q:** Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.
- **A: None**

- **Q:** List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.
- **A: None**

- **Q:** Indicate whether within the past 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.
- **A: None**

Sincerely,

Thomas K. Henson
Managing Director/Head of Public Finance
Tel: 215-665-1525
Fax: 215-587-9943
thenson@janney.com

Cc: Sophia Ronis

Jefferies

Jefferies & Company, Inc.
Municipal Securities Group
520 Madison Avenue
New York, NY 10022
tel 212.284.2300
fax 212.284.2111
Jefferies.com

April 16, 2012

John Sinsheimer
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Dear Mr. Sinsheimer,

I am providing you information about Jefferies & Company, Inc. market activities related to credit default swaps per State Statute of Illinois General Obligation bonds and Build Illinois bonds from January 1, 2012 through March 31, 2012. Please see page 2.

Sincerely,

Stephen Wood
Managing Director
Jefferies & Company, Inc.
520 Madison Avenue, 8th Floor
New York, NY 10022

Re: State of Illinois General Obligation bonds and Build Illinois bonds for the period of January 1, 2012 through March 31, 2012.

State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- In the event of your firms participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

  Jefferies reports: **NONE**

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

  Jefferies reports: **NONE**

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

  Jefferies reports: **NONE**

- List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

  Jefferies reports: **NONE**

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachment.

  Jefferies reports: **NONE**

J.P.Morgan

State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

In the event of your firms participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net national amount of State of Illinois CDS, as of the end of the current 3-month period.

The firm has participation in State of Illinois Credit Default Swaps.

IL: Gross notional = 65,000,000

IL: Net notional = 15,000,000 long credit protection

Outstanding gross and net notional volume for the period:

IL: Gross notional = 539,200,000

IL: Net notional = 9,200,000 long credit protection

Disclose whether your firm entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

The firm has not entered into any proprietary trades.

Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

Not applicable

List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

Not applicable

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Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

JPMorgan's Research group produces analytics materials titled "Muni CDX Daily Analytics." These materials consist of summaries of spreads and premiums or discounts and related information on the MCDX indices, and factual information regarding the components of the indices. These materials do not contain recommendations or substantive analysis of the credits that make up the MCDX index, one of which is the State of Illinois.

Eric R Rockhold 4/30/12

Eric R Rockhold

Thomas Coverick
Managing Director
312-730-2715 Phone
312-730-2759 Fax
tcoverick@keybanccm.com

KeyBanc
Capital Markets

April 20, 2012

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Governor's Office of Management and Budget
Attn: John Sinsheimer, Director of Capital Markets
James R. Thompson Center
Suite 15-100
100 W. Randolph Street
Chicago, Illinois 60601

Mr. Sinsheimer:

I provide herein response to your letter dated April 9, 2012 requesting KeyBanc Capital Markets' activities related to State of Illinois credit default swaps (from January 1, 2012 through March 31, 2012).

Specifically and in direct response to the following query:

State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- *In the event of your firm's participation in State of Illinois CDS activities within the past 3 months, please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and notional amount of State of Illinois CDS as of the end of the current 3-month period.*
- *Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3-month period.*
- *Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short of long credit protection as of the end of the current 3-month period.*
- *List at all times during the past 3 months during which the firm held net long or short State of Illinois proprietary credit protection positions, the amount of such positions, and whether those positions were net long or short credit protection positions.*
- *Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.*

Neither KeyCorp nor any of its subsidiaries, including KeyBanc Capital Markets Inc., participate in, make markets in or provide research for municipal credit default swaps.

Sincerely,

Thomas M. Coverick

Thomas Coverick
Managing Director
KeyBanc Capital Markets Inc.

cc: Sophia Ronis

LEBENTHAL

Member FINRA, SIPC & SIFMA

LEBENTHAL & CO., LLC
521 Fifth Avenue, 20th Floor
New York, NY 10175

(212) 697-3420 *direct*
(877) 425-6006 *toll free*
(646) 626-5592 *fax*

April 20, 2012

John Sinsheimer, Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-100
100 W. Randolph
Chicago, IL 60601

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Dear John:

Pursuant to your request for information dated April 9, 2012, Lebenthal & Co. **has not** participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past three months, nor in any prior period. Please find below our responses to the State of Illinois Credit Default Swap Questions for the period from January 1, 2012 through March 31, 2012.

- **In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.**

Lebenthal does <u>not</u> participate in the Credit Default Swap market. Lebenthal has had <u>no</u> notional volume of State of Illinois CDS trades and has <u>no</u> outstanding gross or net notional amount of State of Illinois CDS as of the end of the current 3-month period.

- **Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.**

Lebenthal has <u>not</u> entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

- **Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection as of the end of the current 3-month period.**

Lebenthal has <u>no</u> proprietary positions in State of Illinois CDS as of the end of the current 3- month period.

"THE WORKHORSE OF INVESTMENTS."

LEBENTHAL

- **List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.**

At no time during the past three months did Lebenthal hold net long or net short State of Illinois CDS proprietary credit protection positions.

- **Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.**

Lebenthal & Co. has not released any publicly available research or marketing reports that reference State of Illinois CDS within the previous 3 months.

If you should need any additional information, please feel free to call either Matthew Deane at (212) 697-3420 or Gregory Anderson at (212) 697-3286.

Sincerely,

Matthew Deane
Co-Head of Public Finance

Gregory Anderson
Co-Head of Public Finance

cc: Sophia Ronis

Loop Capital

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www.loopcapital.com

April 18, 2012

John Sinsheimer
Director of Capital Markets
State of Illinois – Governor's Office of Management and Budget
JRTC, Suite 15-100
100 W. Randolph
Chicago, IL 60601
United States

Dear Mr. Sinsheimer:

Please be advised that during the last three months Loop Capital Markets LLC has not engaged in any market making activities related to any State of Illinois credit default swaps. If you need any additional information please feel free to call me at (312) 356 – 5009.

Sincerely,

Clarence Bourne
Managing Director
Phone: (312) 356-5009
Email: clarence.bourne@loopcapital.com

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Governor's Chicago Office

Ronis, Sophia

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MAY 15 2012
Governor's Chicago Office

From:	Cliff, Rebecca <rcliff@mesirowfinancial.com>
Sent:	Tuesday, May 15, 2012 2:30 PM
To:	Ronis, Sophia
Subject:	Mesirow Financial Response: Credit Default Swap Questions

Dear Mr. Sinsheimer,

On behalf of Brian King and Steve Hoopes, I am writing to inform you that Mesirow Financial has not participated in any credit default swap market activities related to State of Illinois General Obligation bonds and Build Illinois bonds. Please contact me if you require any additional information or clarification.

State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/ or indicate the following:

- In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

Mesirow Financial has not held any State of Illinois CDS securities within the past 3 months.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

Mesirow Financial has not entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3-month period.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

Mesirow Financial does not have any outstanding State of Illinois CDS as of the end of the current 3-month period.

- List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

Mesirow Financial has not held State of Illinois CDS proprietary credit positions during the past 3 months.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

Mesirow Financial has not released any publicly available research or marketing reports that reference State of Illinois CDS in the past 3 months.

Sincerely,

Rebecca Cliff

Analyst

Public Finance

Mesirow Financial

353 North Clark

Chicago, IL, 60654

v 312.595.6088

f 312.595.6988

e rcliff@mesirowfinancial.com

April 20, 2012

By Email and Overnight Mail
John Sinsheimer
Director of Capital Markets
State of Illinois
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Re: Request for CDS Information

Dear Mr. Sinsheimer:

We write on behalf of Morgan Stanley & Co., LLC. ("MSCO") to provide information regarding MSCO's activity in single-name credit default swaps related to the State of Illinois for the period of Jan 1, 2012 through March 31, 2012 as required by Illinois statute.

The CDS transactions referenced herein were not effected by MSCO. Rather, they were effected by affiliates of MSCO known as Morgan Stanley Capital Services, LLC. and Morgan Stanley International, PLC, neither of which act as an underwriter for State transactions. The cumulative notional volume[1] of State of Illinois CDS trades during the Review Period was $205,000,000. The outstanding gross and net notional amount[2] of State of Illinois CDS as of the end of the Review Period is $2,089,331,000 and $82,669,000, respectively. There were no proprietary transactions in State of Illinois CDS effected during the review period. There was one research report published that during the review period that references "Net Notional Outstanding," please find it included for your review.

Respectfully submitted,

Carly Scales

Carly Scales
Executive Director

cc: Kacy Bassett

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[1] This number reflects the sum of the absolute value of the notional of all purchases and sales for CDS related to the State of Illinois.

[2] We interpret gross notional value to mean the sum of the absolute values of the notional of the individual transactions. We interpret the net notional value to mean the net amount of underlying exposure on the State of Illinois when transacting in CDS.

Morgan Stanley

MORGAN STANLEY RESEARCH

March 7, 2012

Global

Credit Derivatives

Credit Derivatives Insights

Municipal CDS – The Next Stage

Morgan Stanley & Co. LLC

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A Credit Driven Market: The global rise in risk premiums, particularly for government debt, and the decline of bond insurance have transformed the municipal market culture from one that is rates driven to one that is credit driven. Against this backdrop, the CDS market emerged several years ago, and we continue to see motivations for investors, particularly those who cannot benefit from the tax-exemption on the bonds.

Municipal Default History: Because defaults are rare historically, available default and recovery data for municipal issues is thin. Still, we look at a handful of defaults and other distressed situations and examine which would have triggered a CDS contract, had they existed at the time.

The Next Stage: The municipal CDS market is currently implementing much of the same standardization that the corporate CDS market did in 2009, including fixing coupons, instituting a determinations committee, and adding "look back" provisions for credit and succession events.

The Auction Process: Of these, one of the most important features of the new contract will be the implementation of the auction process to determine a single CDS recovery across all products. This eliminates the need for individual physical settlements.

Mechanics: Finally, we provide over three appendices abbreviated versions of our past primers on single names, indices, and defaults, tailored specifically for municipal CDS.

Municipal CDS – The Next Stage

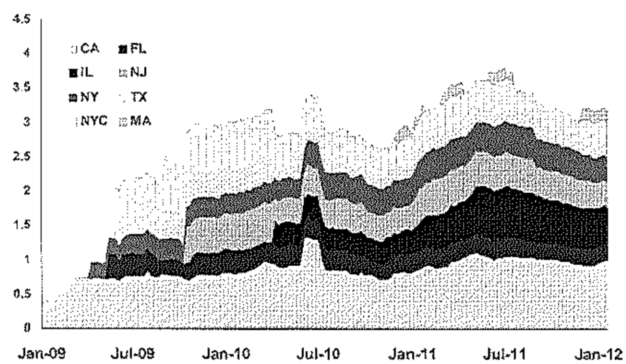
Ashley Musfeldt (212) 761-1727
Michael Zezas (212) 761-8609
Vishwas Patkar (212) 761-8041
Julie Powers (212) 761-0138

The municipal market, one of the older corners of the bond market, has undergone some dramatic changes in the last several years. The emergence of BABs transformed this market from one in which only very few local investors and funds could capture the full yield available by realizing the tax benefits to one in which a broader base of investors could invest in the debt of a particular state. This development of the taxable market coincided with a global rise in credit risk premiums and an increase in liquidity in non-corporate credit derivatives, particularly sovereign European debt.

Additionally, starting in 2007, the municipal market culture underwent a shift from being thought of purely as a rates product to one that was more credit driven on the back of stress in the monoline insurers and subsequent decline in the usage of municipal bond insurance. Suddenly, many municipal bonds had to stand on their own (albeit primarily strong) creditworthiness.

Exhibit 1

Municipal CDS Net Notional Outstanding



Source: DTCC

Against this backdrop, we saw the emergence of the municipal CDS market, which began trading prior to the crisis, but really only began to develop in a meaningful way in the past 3 years or so. As this market has grown, so has the attention it has gotten from traditional municipal tax-exempt investors to broader, more macro focused accounts. Along the way, one question we hear is whether this product is necessary, primarily given the historically low default rates of municipal general obligation (GO) bonds. Indeed we agree that from a pure default protection standpoint, this product may appear expensive, especially when looking at historical data.

However, default protection is not, and should not be the sole motivation for any CDS participant, to which even investment grade CDS hedge investors can attest. Indeed the corporate CDS market grew out of a need to hedge loan exposures for banks, but it grew into a thriving, liquid two-way market because additional motivations brought other investors to the table. For us, the impetus behind this market feels somewhat opposite from the corporate market, in that in this nascent stage, the long investor motivation feels just as strong as that of the hedger, given current technicals in the underlying cash market.

As municipal market participants know, the BABs program was discontinued in 2010, making tax-exempt issuance the overwhelming vehicle for GO issuers. However, during its brief tenure, the BABs program, for the first time in a scalable, systematic way, created a product that didn't advantage local investors over others, and by extension, broadened the investor base. Suddenly, out-of-state and even foreign investors had a way to gain exposure to the municipal market, in a way they really hadn't before, at least not in this size.

With the BABs program gone, at least for the foreseeable future, and with lingering global risk premiums and ongoing focus on governmental entities, we see the municipal CDS product in today's environment as a way to access an otherwise inaccessible asset class. Taxable municipal investors, which are a small but growing component of the broader municipal investor base, can use CDS to source risk that would be otherwise unattractively low yielding on a name-by-name basis, or use the MCDX index to get broader market exposure, like any other ETF or index product.

Today, flows in the municipal CDS market remain high, and market participants are focused on making the contract as standard and fungible as the older, more developed corporate CDS market. Indeed, a process similar to the corporate SNAC (Standard North American Contract) process is set to be implemented for municipal CDS on April 3, 2012, and should add the same standardization to municipal CDS as it did for corporates back in 2009.

Evolution of the Corporate CDS Market

In order to understand the municipal CDS market we first look to the corporate CDS market for lessons learned. In 1998, the corporate CDS market began as a way for banks to hedge corporate loan exposures. By 2002, a two-way market had emerged on a broader array of names, and the cash / CDS basis began to emerge as a fair value metric (see *Basis Basics in a Normalized World*, May 19, 2010). At this point, two factors contributed to the growth in liquidity of the corporate CDS market: contract standardization and structured CDS products.

Contract standardization. Initially, corporate CDS products were bilateral OTC derivative products that were settled individually when credit events were declared. As the number of credit events picked up, and outstanding notional amounts on CDS trades climbed, the market became increasingly alarmed by a lack of a standard settlement mechanism, out of which the auction settlement protocol was born (see *What Happens in a Default?*, February 23, 2012.) More recently, in 2009 the SNAC protocol standardized coupons for single-name CDS transactions, made adherence to the auction a requirement, and institutionalized the regional credit event determination committees, so deliverable obligations and credit event timing would be the same for all market participants.

Product growth. The other factor that contributed to the explosive growth of the CDS market in 2002-06 was the emergence of products built with CDS as the underlying building blocks. The CDX indices were certainly part of this, and once these became standard across dealers, they became both a market barometer and focal point of liquidity for the broader CDS and corporate bond markets. Around the same time, market participants began trading smaller baskets of credit, followed by levered forms of these baskets, known as FTDs (See chapter 4 of *Credit Derivatives Handbook – 5th Edition* for an FTD primer).

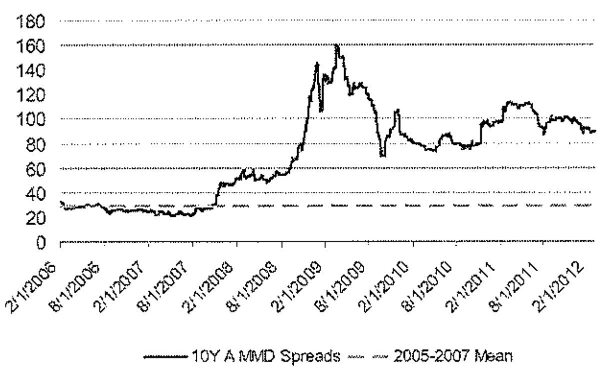
Next came the liquid, standardized tranche market, which provided benchmark models and metrics for the structured products market, allowing for growth in bespoke structured products. Post-crisis, volumes in bespoke products have waned, though index tranches remain liquid, and more recently, the credit index options market has grown, given investors' desire to hedge not only defaults, but also volatility.

Both structured product growth and market standardization have contributed to the maturation of the corporate CDS market. The municipal market, on the other hand, is still in the somewhat nascent stage, and to us, feels like it more closely resembles the corporate CDS market of 2002. However, with the benefit of hindsight, we anticipate the municipal market will develop much more quickly.

Municipal Defaults: A Brief History

As the municipal market transitioned away from being a purely rates-driven market and toward one that is more credit-driven, the concept of municipal CDS as an investment tool became increasingly relevant. This transition was born out of not only the early phases of the credit crisis but also the coincident decline of municipal bond insurance. In 2007, monoline insurers began to show weakness in their insured books of mortgage-backed and other asset-backed securities, leading the rating agencies to downgrade them, which in turn led to a vote of no confidence from the municipal market regarding the ability of the insurers to make good on their municipal bond guarantees. Consequently, the influence of municipal bond insurance on the market waned sharply.

Exhibit 2
10-Year, A-Rated Muni Credit Spreads



Source: Morgan Stanley, Municipal Market Data

As a result, municipal spreads widened considerably as the market grappled with pricing the credit component of municipal bonds. This re-pricing led to permanently higher spreads across all sectors and qualities, in contrast to the historically tight spreads that enabled municipals to more closely track rates.

Credit quality, and accordingly credit spreads, thus gained substantially greater influence on the market. However, despite heightened credit quality concerns, available default and recovery data continue to paint the picture of municipal GO bonds as a comparatively low-risk asset class. Historical data demonstrates a low default rate for most types of municipal debt, including investment grade and high yield, in both GO and non-GO issues (see Exhibit 3), particularly when compared to its corporate counterparts.

Exhibit 3

Average 10-Year Cumulative Issuer Weighted Default Rates, Moody's-Rated Only, 1970-2009

	IG	HY	All
GO	0.01%	0.01%	0.01%
Non-GO	0.13%	7.37%	0.19%
Corporates	2.50%	34.01%	11.06%

Source: Moody's

Because historical defaults have been rare, there is a great deal of uncertainty regarding the likelihood of a credit event trigger on a municipal CDS contract and the subsequent recovery value of the contract. Municipal CDS credit events are triggered when there is a failure to pay or a restructuring (see Appendix A for more details), and bankruptcy is notably *not* included on the list of credit event triggers. We look at several situations that have arisen in the municipal market over the years to determine what historical events, if any, would have triggered a CDS contract, had such a market existed at the time.

State of Arkansas. The State of Arkansas defaulted on and ultimately restructured a portion of its debt in 1934, the last state default on record. The credit event mirrors those defined within muni CDS contracts when the State missed coupon payments.

Orange County, CA. When Orange County declared bankruptcy in 1994, it continued to make bond payments on long-term debt. However, the county's short-term debt was restructured, with lenders agreeing to extend the maturity of the debt by one year. Upon exiting Chapter 9 after 18 months in bankruptcy, bondholders were not subject to a further restructuring. Given that the obligation characteristics to trigger a municipal CDS are "borrowed money", the short-term restructuring could have triggered the CDS.

Vallejo, CA. The Chapter 9 bankruptcy of the city of Vallejo in 2008 provides a more recent example. Though the city had filed for Chapter 9 bankruptcy, it continued making debt service payments for several months. Though the city eventually missed a payment, there was a significant period when its bonds were trading at distressed levels before the coupon payment was missed and the CDS would have triggered. Additionally, the City's debt was eventually restructured in the bankruptcy process, with bondholders taking a haircut and maturities being extended. In this case, any *new* CDS contracts written after the missed coupon would have triggered in the restructuring, though there would likely have been far fewer contracts to settle. Though rare, there is some precedence for the double triggering of the CDS in the corporate market, most notably Thomson in Europe, in which a restructuring credit event in August 2009 was followed by a bankruptcy credit event in December 2009.

Exhibit 4

Recoveries in Selected Municipal Defaults

Obligor	Year	Type	Amount ($MM)	Recovery
Washington Public Power Supply (WA)	1983	Electric Enterprise	$2,250	40%
Belfield (ND)	1987	GO	$2.38	55%
Vanceburg Electric (KY)	1987	Electric Enterprise	$124.5	100%
Baldwin County (AL)	1988	GO	$6-$8	100%
Polk County (IA)	1991	Lease	$39	100%
Orange County (CA)	1994	GO	$124.5	100%
Vallejo (CA)	2008	GO	$6-$8	5%-53%
Connector 2000 (SC)	2010	Toll Road	$200	5%-66%

Source: Moody's, Bloomberg, US Bankruptcy Court

Jefferson County, AL. The case of Jefferson County, Alabama, reflects another instance of municipal distress and default. The county's sewer system came under stress when yields on its debt, which was primarily in auction-rate and variable-rate mode, spiked after the auction-rate market froze in 2008. This was compounded when the county lost use of an occupational tax as a source of significant revenue. The cost burden led to the county filing for bankruptcy in November 2011 and missing payments on its general obligation warrants, which would have likely triggered CDS.

Connector Highway Bonds. Connector 2000 was a toll-road project that was constructed by a public-private partnership in South Carolina. The traffic on the road failed to generate expected toll revenues, which eventually led Connector to announce in 2009 that the association would miss its January 2010 payment. In this instance, a CDS contract would have triggered when Connector defaulted on its revenue bonds in January 2010.

More detail on municipal defaults and bankruptcies can be found in Municipal Bankruptcy: 3 Lessons and a Strategy, February 7, 2012.

Municipal CDS – The Next Steps

The municipal CDS market continues to develop much like the corporate market did in 2003 and again in 2009, with the SNAC protocol, and today a similar protocol for municipals is set to go into effect on April 3, 2012. We anticipate several changes that should help make the market more standardized and fungible, including:

- **Fixed Coupons.** The municipal CDS market will move to fixed coupons (of 100bp and 500bp, similar to the corporate CDS market) to make the unwinding and netting of risk simple, and make contracts fungible. While contracts may be quoted on a spread basis, they will effectively trade on an upfront price basis, much like the MCDX index already does (see Appendices A and C). To calculate the upfront, a recovery value of 75% will be used.

- **Incorporation of the Americas Determinations Committee (DC).** The DC will make binding decisions on whether a credit event has occurred, whether or not an auction will be conducted, and what is deliverable into the auction. A subset of the Americas DC, known as "Muni Dealer Institutions" will be participants in the auction settlement process.

- **Hardwired Credit Event Settlement.** The now well-established ISDA process for credit event settlement via an auction will become standard. We cover the auction process in Appendix B, as well as *What Happens in a Default?* (February 23, 2012). This eliminates the need for physical settlement of US Municipal CDS transactions.

- **Credit Event and Succession Look-Back Provisions.** The effective date of CDS contracts will be changed to a rolling 60-day period prior to the current date. The change narrows the window in which credit events can be triggered and succession events can be declared.

One area that we think merits attention with regard to the municipal CDS contract is the credit event triggers themselves. Municipal CDS credit events include failure to pay and restructuring, and because most municipal deals do not specify a grace period, a failure to pay could potentially be triggered after only three days of payment lapse, whereas the corporate market allows for a 30-day grace period. Furthermore, restructuring is actually "OldR", much like corporate CDS prior to the Xerox restructuring in 2001. What this means is that any debt, up to 30 years, is deliverable into the contract in either a restructuring or a failure-to-pay credit event scenario.

Furthermore, and unique to the municipal markets, debt does not accelerate in a default, making every credit event similar to a corporate restructuring. This makes the distinction between a failure to pay and restructuring less relevant, as in neither scenario would the issuer owe par to the investor. While we just explored the remoteness of such defaults in the municipal market, particularly in state GO debt, it is still a worthy exercise to consider what would actually happen if one of these CDS contracts were to experience a credit event.

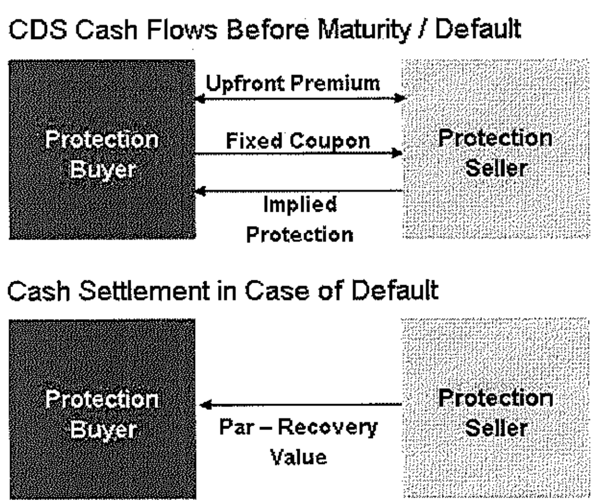
Most notably, and most impactful on CDS pricing, is the concept of a "cheapest-to-deliver" (CTD) bond in a credit event settlement, which can be a particularly important driver of valuation, especially under OldR. What this means is that any eligible pari passu bond, out to 30 years, including both taxable and tax-exempt, can be used in the auction. For many issuers, particularly GO issuers, debt that is 20-years to maturity and beyond would be conceivable to source, and there is a good possibility that this debt would be trading at a discount. So even in a scenario in which the issuer were to rectify the failure-to-pay in a very short time frame, at par, discount bonds could conceivably be available for use in the auction.

Appendix A: Municipal CDS Primer

Our *Credit Derivatives Handbook – 5th Edition* contains introductory materials on the CDS market, primarily referencing the corporate CDS market. Here, we aim to provide a similar overview, albeit with a focus on municipal CDS. A single-name municipal CDS is an OTC contract between the seller and the buyer of protection against the risk of default on a set of debt obligations issued by a specified reference entity. The protection buyer pays a premium to the protection seller and is, in turn, covered for the period. A municipal CDS is triggered if, during the term of protection, an event that materially affects the cash flows of the reference debt obligation takes place.

Credit events in the muni CDS market include failure to pay and restructuring. A CDS contract specifies the precise name of the legal entity on which it provides default protection. Thus, a credit default swap referencing a specific state or GO obligation does NOT cover other entities within that state; i.e., a failure to pay on a New York City bond would not trigger New York *State* CDS, for example, and vice versa.

Exhibit A.1
CDS Mechanics



Source: Morgan Stanley

Credit Default Swap Cashflows

Prior to SNAC implementation, municipal CDS traded with no upfront payment, and the coupon was simply the quoted premium. Post-SNAC, a municipal CDS trade could contain three cash flows: an upfront amount paid at inception to either the buyer or seller of protection, the coupon paid quarterly to the seller of protection and the possible loss payout if a credit event occurs, illustrated in Exhibit A.1.

Cash flow dates are the 20th of March, June, September and December of every year, and the maturity of the contract is typically 5 or 10 years from trade inception, rounded to the nearest cash flow dates. If an investor enters a transaction in between the payment dates, the protection seller would make a payment of accrued premium to the protection buyer, to reflect the fact that although the protection buyer would pay premium for the full quarter on the next payment date, the protection is only for part of the quarter.

The equivalent CDS premium strives to capture the probability-weighted expected loss on a particular reference entity in a risk-neutral sense – thus, the PV of the annuity stream should be the same as the expected loss on the contract. To calculate the CDS premium we first need to estimate the probability of default and expected loss given default. The following equations summarize the pricing approach:

PV of CDS Spread = PV of Expected Loss

Expected Loss = Loss Given Default * Probability of Default

Where expected loss given default equals

Protection Notional * (1-Estimated Recovery Rate).

While these calculations can clearly get quite onerous once we calculate them over several periods with curve shape taken into account, most market participants use either internal models or CDSW on Bloomberg.

As we mentioned, after SNAC, municipal CDS will trade with a standard coupon and upfront payment, similar to how corporate CDS contracts have traded since 2009. The upfront payment is made to compensate either the buyer or the seller for the fact that the coupon is not equal to the fair value spread. Upfront payments are calculated by taking the difference between the trading spread and the coupon and multiplying this difference by the duration. So for instance, if an investor were to buy protection on a 5-year CDS with a duration of 4 at 150bps, the buyer would pay 2% ((150-100)*4 = 200bps, or 2%) of the notional upfront and pay 100bps running. Note that if the quoted spread is higher than the coupon, the buyer of protection pays the upfront, while if the quoted spread is less than fixed coupon, the seller of protection pays the upfront.

Why Coupons Are Fixed

Prior to SNAC in 2009 in the corporate markets, and prior to SNAC in municipal CDS, most CDS contracts traded on an all running basis. Thus, if an investor were to buy protection on a name that was quoted at 110bp, the trade would simply have a coupon of 110bp. At low spread levels, the difference is minimal and thus not much of a risk issue. During times of credit distress, however, this can be an issue, as unwinding a CDS contract is complicated when the strike price is very far out of the money, a theme we have highlighted in numerous pieces (see LCDS, After the Trade from June 1, 2007). In the past, investors who wanted to unwind a trade done without a fixed coupon often found large penalties associated with the unwind due to the mismatched coupon streams. With a fixed coupon this legacy annuity risk is significantly reduced, as any difference in risk premium is paid in the form of an upfront payment. To illustrate this concept, we offer the following example.

Consider an example, where an investor purchased 5-year protection on credit "X" at 100bp and then subsequently elected to monetize the trade when spreads to the same maturity widened to 1,000bp. To monetize this widening, the investor could do one of two things. The first would be to sell protection at a strike of 1,000bp, and then hold two offsetting trades, one that is paying 100bps and another that is receiving 1,000bps. In this scenario, the investor would be hedged from a default risk perspective but would now have IO risk in this credit in the event of default.

Why? The key here is the uncertainty of the total cash flows and P&L for the investor, depending on the whether or not a credit event is triggered. The investor now receives 900bp (the difference between these two coupon streams) until maturity or a credit event. If a credit event were to occur, both contracts would trigger, the default loss settlement of the two contracts would offset each other, and *both* coupon streams would stop. Thus, the 900bps the investor had been receiving on a default "riskless" basis is now gone. And while the default settlement is hedged, the coupon stream is still exposed to default risk. In this example, if the default occurs one year later, the investor would have received $0.9mm on a $10mm position (900bp * 10mm). If the default is in four years, the investor would have received $3.6mm in total cash flow from the coupons.

To eliminate this risk, the investor can instead unwind the original 100bp swap and receive the PV of the 900bps difference between the 100bps coupon and the 1,000bps of credit risk the swap is now worth to monetize the P&L immediately. The investor unwinds the original swap struck at 100bp and receives an upfront amount of $2.9mm, which is the PV of the 900bp stream assuming a remaining duration of 3.2. In addition to having hedged the default risk on the reference entity, the investor has now eliminated the credit risk inherent in the risky coupon (as well as counterparty exposure, which is a separate issue). From the investor's perspective, the trade is completely closed and monetized. However, the uncertainty in cash flows is not eliminated, but instead transferred to the dealer, because the dealer now has to hedge the position with the market standard contract. If floating coupons were market standard, the dealer would have paid out $2.9mm today to buy protection at 100bp running from the investor, but can only sell protection to another investor on the now current running coupon – in this case 1,000bp.

If there is an immediate default, the dealer loses the $2.9mm paid to the investor but has not received any of the 1,000bp coupon from the protection sold. The dealer has effectively become exposed to the jump risk that the investor just got rid of. In the past, the dealer could buy short dated protection (say 1-year protection) to hedge these early default scenarios, but would most likely pass this additional cost, or at least some fraction of it, on to the investor who was unwinding the trade. This resulted in different spreads shown depending on whether the investor was unwinding an off-market coupon or putting on a new trade.

Common Metrics and Models

When trading CDS, an investor goes long risk (sells protection) and earns a "spread" to compensate for the probability of default of the underlying entity in a risk-neutral framework. As a result, the present value of all these incremental cash flows should equal the present value of expected losses. The probability of default of an entity is determined using market CDS spreads across the maturity spectrum.

PV01. The PV01 of a CDS contract (referred to as risky duration) is simply the present value of 1bp of the cash flow at every coupon payment date. It can also be interpreted as the mark-to market sensitivity of expected losses in a CDS contract to a 1bp parallel shift in the spread term structure of the underlying entity. In contrast to the calculation for the duration of a bond or risk-free interest rate swap, the discount factors for CDS duration are higher, as they have a survival probability term associated with them. This additional discount factor reduces the present value of cash flows, and consequently the risky duration for similar cash flows in CDS vs. less risky assets.

Duration. The duration of a CDS contract depends on the shape of the maturity structure as it directly impacts survival probability. Spread delta or DV01 is a more pertinent metric to look at today, given the advent of fixed coupons. Unlike duration, which is the sensitivity of the contract to a change in expected loss assumptions, the spread delta captures *just* the mark-to-market sensitivity of the contract to a 1bp parallel shift in the credit curve. Thus, we get this equation:

Upfront payment = (Par spread – Fixed Coupon)*PV01

DV01. DV01 is essentially the first derivative of the upfront payment with respect to par spread. The above equation shows that when a contract trades at par, the spread delta is the same as duration. However, as the coupon differs from the par spread, the change in upfront payment also depends on the change in PV01 with respect to spread (i.e., convexity).

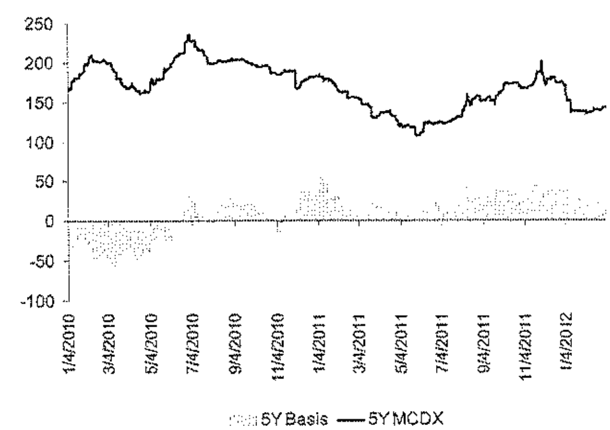
Municipal CDS vs Corporate CDS

While municipal CDS and corporates are mechanically similar, there are some differences we think are worth noting, particularly given that this market is relatively newer, and most credit derivatives market participants are more familiar with corporate CDS.

Tax Implications and cash / CDS comparisons. Given the tax-exempt nature of the majority of the market vs. the taxable nature of the CDS and index products, basis trading is generally unfeasible for out-of-state investors (doubly so for offshore investors). The BABs market somewhat mitigated this, and any taxable issuance on behalf of issuers will help, but given the majority of issuance and outstanding notionals today are tax-exempt, we think this is quite relevant.

Exhibit A.2

Basis Historical Data



Source: Morgan Stanley

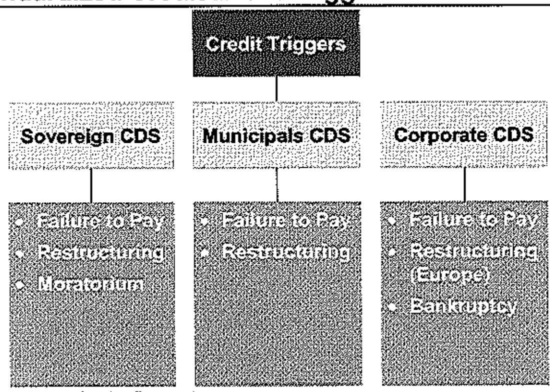
Credit event deliverables. Because debt does not accelerate upon default like corporate CDS, a credit event, even a failure-to-pay would be more analogous to a restructuring in the corporate market. The implications of non-accelerating debt in the context of CDS is that if a coupon payment is missed, the municipality is only responsible for paying the bondholder the missing coupon, and par is still not due until final maturity. Furthermore, unlike most corporate bonds, a bondholder has no claim to any of the municipality's assets, only the payability of the taxpayers or future revenue streams from the entity.

Appendix B: What Happens in a (Municipal) Credit Event

In a risk-neutral framework, the primary value of a CDS contract is derived from the credit events that can trigger it, the instruments that are deliverable upon this event, and their expected recovery. In the municipal market, failure to pay and restructuring are the only two triggers that apply, with the notable omission of bankruptcy (see Exhibit B.1).

Exhibit B.1

Standardized Credit Event Triggers



Source: Morgan Stanley Research

Confirmations for US municipal CDS transactions are governed by both the 2003 ISDA Credit Derivatives Definitions and an ISDA supplement that covers US municipal reference entities. We endeavor to provide a brief overview here, but we do recommend readers visit the ISDA and MarkIt Partners websites for further information.

Failure to pay. For bonds that do not specify a grace period in the bond documents, a failure to pay credit event is triggered if an entity doesn't make payments within 3 days. This would apply to most GO and revenue bond issues, very few of which specify a grace period. Payment does not have to be on the specified reference obligation, but on any debt pari passu to the reference security. Failure to pay does *not* trigger if a municipal entity fails to make non-debt related payments such as wages to employees or payments to contractors.

Restructuring. The ISDA 2003 credit derivatives definitions characterize restructuring credit events as a reduction in coupon or principal, a deferral of an interest or principal payment, a change in the ranking of priority of payments, or changes to the currency of the interest and principal payments. Additionally, the restructuring must be coercive to trigger the CDS – i.e., it must be agreed upon by a sufficient number of holders before it becomes binding on all the holders. Furthermore, restructuring is not applicable if any of the above events has not been the result of deterioration in credit quality. Under old-style restructuring, which applies to municipal CDS, in the event of a restructuring, bonds of any maturity less than 30 years can be delivered. This can introduce a significant amount of interest rate risk into a CDS contract upon a restructuring credit event (i.e., a 30 year fixed-rate bond could trade at a significant discount to par in a high interest rate environment). This is particularly important given that the municipal market tends to be long in duration, and in a credit event, bonds do not accelerate (i.e., become due immediately, as they would in a corporate bankruptcy).

The Credit Event Settlement Process

The municipal credit event settlement process, once the municipal SNAC protocol goes into effect on April 3, will make municipal CDS similar to corporate CDS. While this is by no means a comprehensive explanation of what would happen in the event that a municipal credit event were to be actually triggered, we highlight three things to be aware of once the contract has undergone the SNAC process:

Determination Committee (DC). The Americas DC will be the governing DC for municipal credit events, and will have the right to vote on whether a credit event has taken place. A 6-member subset (identified by trading volume), known as "Muni Dealer Institutions" will participate in the auction.

Declaring a credit event. To initiate the credit event process, market participants submit a request to the DC who will decide whether a credit event has occurred and what type. Finally, the DC determines whether there will be an auction. In case the outstanding CDS in a name is very small, no auction may be conducted.

Auction process. The auction is meant to concentrate trading in the bonds in a short window of time, and is then applied to all outstanding credit derivative products, including both single-name CDS and indices, as well as any other derivatives products (see *What Happens in a Default?* February 23, 2012 for a complete description of the credit event auction process). The important thing to note is that the auction will now be standard for all municipal CDS contracts, and thus one standard recovery will be in place for all market participants.

Appendix C: MCDX Primer

Launched in May 2008, MCDX is a portfolio of 50 single-name credit default swaps, serving both as an investment vehicle and a barometer of market activity. It was set up to roll biannually and pays quarterly, exactly like the corporate indices. MCDX comprises 50 municipal reference entities, each adhering to a stringent set of criteria:

- $250mm debt outstanding, must be uninsured parity debt
- Credit events are failure to pay and restructuring
- Minimum rating of Baa3 (Moody's), or BBB- (S&P and Fitch) that are not on negative watch for downgrade below investment grade
- 3 obligation types; Revenue Obligation, Full Faith and Credit Obligation and General Fund Obligation
- Excludes healthcare and tobacco issues

By buying protection on an index, an investor is protected against defaults in the underlying portfolio. In return, the buyer makes quarterly premium payments to the protection seller, just like a single-name CDS. If there is a default, the protection seller pays par less recovery determined in the auction settlement. Exhibits C.1 and C.2 show the cash flows in an index before and after a default. Some key characteristics that are unique to the indices are as follows:

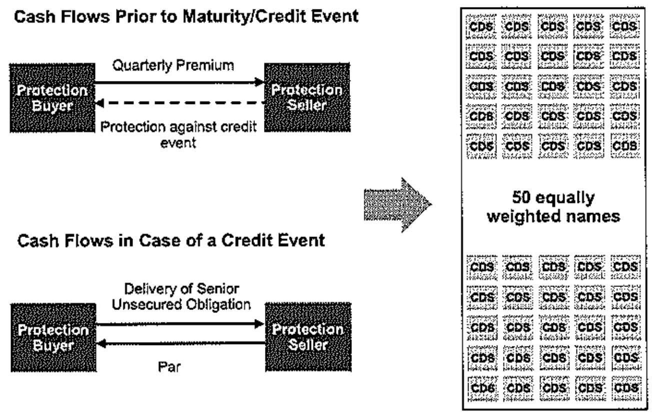
Static underlying portfolio. Once the MCDX series composition is determined it remains static unless a credit event occurs. Reference entity changes are made in new index series rather than the current index. All names are equally weighted.

Rolling to new series. As time passes the index maturity remains the same while the 5-year maturity for new CDS contracts gets longer and eventually the single-name CDS and the index maturities are no longer the same. To rectify this, new index series are introduced periodically and the latest series of the indices represents the current on-the-run index. When a new MCDX series is launched every 6 months (on April 3 and October 3), the maturity is extended and the portfolio constituents are reviewed and can be changed from one series to another.

Quoting convention. MCDX, like CDX IG and other indices, is quoted on a spread basis, though it trades with a standard fixed coupon with an upfront payment to account for the difference between the market spread and the coupon.

Exhibit C.1

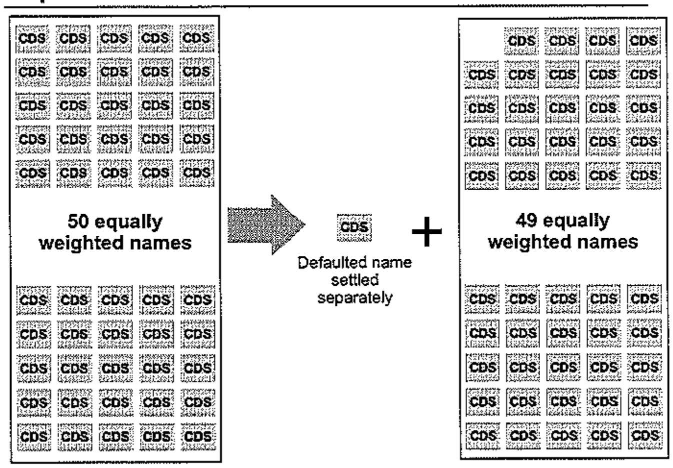
Index Construction



Source: Morgan Stanley

Exhibit C.2

Impact of Default on an Index



Source: Morgan Stanley

Cash flows at trade inception. The coupon amount is fixed for all trades on a particular series and an upfront payment is made to compensate either the buyer or the seller for the fact that the coupon is not equal to the fair value spread. Upfront payments are calculated by taking the difference between the trading spread and the coupon and multiplying this difference by the duration. So for instance, if an investor were to buy protection on the 5-year index with a duration of

4 at 150bps, the buyer would pay 2% ((150-100)*4 = 200bps, or 2%) of the notional upfront and pay 100bps running. Again, if the quoted spread is higher than the coupon, the buyer of protection pays the upfront, while if the quoted spread is less than fixed coupon the seller of protection pays the upfront.

Cash flows upon default. When an underlying single name defaults, it is removed from the index and settled separately. If one of the 50 underlying names in MCDX were to default, the remaining index (known as version 2) would have 49 names and the same fixed coupon. The seller of protection would owe the buyer of protection par minus recovery (going forward, determined at auction) on 1/50th of the index trade notional. After a default, the premium payments for the index would be (49/50)*index coupon*original notional.

Recovery Assumptions. Unlike the corporate market, which has robust historical default and recovery data, the muni market has had very few defaults historically, when looking exclusively at general obligation and revenue bonds. Recovery assumptions are therefore largely theoretical. The recovery assumption used for calculating the upfront payment exchanged when putting on an MCDX trade will be 75%, however, the recovery as a result of default will still be "floating", and determined at auction.

Constituent liquidity. Unlike CDX IG and iTraxx Main, a large portion of MCDX constituents are still illiquid. LCDX and to a certain extent CDX HY in the corporate space are similar in this regard, and still function well as indices, but index arb trading is not possible on indices of this nature, and thus in certain environments the index and the underlying CDS can trade out of sync.

Correlation. A point of differentiation on MCDX is the high degree of default correlation in the underlying names. Indeed, a municipal default is a highly remote occurrence. An economic downturn is the most likely reason for a precipitous decrease in tax revenues, and while economic distress can be regional in some circumstances – i.e., loss of manufacturing jobs in Detroit, natural disasters in the coastal regions, etc. – economic downturns are often nationwide. Therefore, regional or tax source diversification will do little to help in periods of a US recession, and there are no "countercyclical" municipalities with which to diversify a portfolio.

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Hong Kong
Tel: +852 2848 5200

50 South LaSalle Street
Chicago, Illinois 60603
(312) 557-2000

Northern Trust

April 17, 2012

RECEIVED
APR 16 2012
Governor's Chicago Office

John Sinsheimer
Director of Capital Markets
State of Illinois
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Dear Mr. Sinsheimer,

This is in response to your letter regarding The Northern Trust Company's ("Northern") involvement in credit default swaps on State of Illinois General Obligation Bonds and Build Illinois Bonds. Northern has, in no way, participated in any State of Illinois credit default swaps from January 1, 2012 through March 31, 2012. In addition, all of our responses to the enclosed questions provided in your letter are not applicable.

Should you have any questions, please feel free to contact me at (312) 557-0945.

Sincerely,

Allan R. Ambrose
Senior Vice President
The Northern Trust Company

Cc. Sophia Ronis

State of Illinois Credit Default Swap Questions

April 16, 2012

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months **(from January 1, 2012 through March 31, 2012)**

Please include and/or indicate the following:

- In the event of your firm's participation in the State of Illinois CDS activities within the past 3 months, please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

  As of the end of the current 3-month period, M.R. Beal & Company has <u>not</u> participated in any State of Illinois CDS activities.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

  As of the end of the current 3-month period, M.R. Beal & Company has <u>not</u> entered into any proprietary trades for its own account in State of Illinois CDS.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

  As of the end of the current 3-month period, M.R. Beal & Company has a <u>ZERO</u> outstanding gross and net notional amount of proprietary State of Illinois CDS.

- List all time periods during the past 3-months during which the firm held long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

  During the past 3–months, M.R. Beal & Company has <u>not</u> held ANY long or net short State of Illinois CDS proprietary credit protection positions.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

  Within the previous 3 months, M.R. Beal & Company has <u>not</u> released any publicly available research or marketing reports that reference State of Illinois CDS.

N
S

North South Capital LLC

April 19, 2012

State of Illinois Credit Default Swap Questions

North South Capital LLC has not participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months (January 1, 2012 through March 31, 2012).

- In the event of your firms participation in State of Illinois S activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period. **None- North South Capital LLC has not participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months**
- **North South Capital LLC has not entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3-month period.**
- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period. **None- North South Capital LLC has not entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3-month period.**
- List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protections positions. **None- North South Capital LLC has not entered into any proprietary trades for its own account in State of Illinois CDS as of the end of the current 3-month period.**
- **North South Capital within the previous 3 months, has not released any publicly available research or marketing reports that reference State of Illinois CDS.**

Jane Ott

Jane Ott
President

200 W. Adams Street, Suite 2230, Chicago, IL 60606
Phone: 312-445-5400

Oppenheimer & Co. Inc.
Investment Banking
4717 Grand Avenue, Suite 700
Kansas City, Missouri 64112
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4-18-12

Mr. John Sinsheimer, Director of Capital Markets
State of Illinois Governor's Office of Management and Budget
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Dear Mr. Sinsheimer:

Oppenheimer & Co. Inc. participates in the credit default swap market as part of its overall participation in the capital markets. Our response to your specific questions on our market-making activities in State of Illinois credit default swaps ("CDS") within the last three months are as follows:

- In the event of your firms participation in the State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

  None.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

  We have not.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

  We have none.

- List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

  We had no positions.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

  We have not released any research or marketing reports on State of Illinois CDS.

Sincerely,

Jack Holland

Jack Holland
Managing Director
Oppenheimer & Co. Inc.

PiperJaffray®
1200 Seventeenth Street, Suite 1250, Denver, CO 80202
Tel: 303 405-0865 | 800 274-4405 | Fax: 303 405-0891
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April 19, 2012

Mr. John Sinsheimer
Director of Capital Markets
Governor's Office of Management and Budget
State of Illinois
JRTC, Suite 15-100
100 W. Randolph
Chicago, IL 60601

Re: State of Illinois, General Obligation Refunding Bonds, Series 2012 (the "Bonds")

Dear Mr. Sinsheimer:

Thank you for engaging us as an underwriter for the Bonds. We are writing to provide you with certain regulatory disclosures as required by the Municipal Securities Rulemaking Board. As part of our services, Piper Jaffray may provide advice concerning the structure, timing, terms, and other similar matters concerning an issue of municipal securities that Piper Jaffray is underwriting or placing. However, Piper Jaffray intends to serve as an underwriter respecting the Bonds and not as a financial advisor to you; and the primary role of Piper Jaffray is to purchase the Bonds for resale to investors in an arm's-length commercial transaction between you and Piper Jaffray. Piper Jaffray has financial and other interests that differ from your interests.

Please contact us directly for any questions concerning this letter. If you have any questions concerning these matters, please do not hesitate to call me.

Sincerely,

P. Jonathan Heroux

P. Jonathan Heroux
Managing Director
Public Finance Deal Administration
303 405-0848

PNC

VIA OVERNIGHT MAIL

April 20, 2012

John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, Suite 15-100, 100 W. Randolph
Chicago, IL 60601

Dear Mr. Sinsheimer:

This letter is in response to your letter of April 9, 2012 addressed to me as a Managing Director of PNC Capital Markets LLC. Based on conversations with the appropriate personnel of PNC Capital Markets LLC and PNC Bank, National Association, I can inform you that neither entity has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") during the period from January 1, 2012 through March 31, 2012 or released any publicly available research or marketing reports that reference State of Illinois CDS. Thus, neither entity has any information to report in response to the other four questions posed. In addition, based on the conversations referenced above, I can inform you that no other entities that are subsidiaries of The PNC Financial Services Group, Inc., are authorized to enter into credit default swaps for their own account. If you need any further assistance from PNC, please contact me by one of the means listed below.

Respectfully,

Jason DiMartini

Jason DiMartini, Managing Director
Phone: 412–762-6580
Email: jason.dimartini@pnc.com

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cc: Leonard S. Ferleger

PODESTA & CO.

208 SOUTH LASALLE STREET
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CHICAGO, IL 60604
(312) 899-0133
FAX (312) 899-0910
podestaco.com

April 16, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JRTC, 100 W. Randolph, Suite 16-100
Chicago, Il 60601

Dear Mr. Sinsheimer,

Podesta & Co. has not participated in any credit default swap market-making activities related to any State of Illinois credit default swaps ("DCS") within the past 3 months, January 1, 2012 through March 31, 2012, and has never released any publicly available research or marketing reports that reference the State of Illinois CDS.

Sincerely,

Carol P Foley

Carol Podesta Foley
President

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RAMIREZ
SINCE 1971
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usbancorp.

April 17, 2012

John Sinsheimer, Director of Capital Markets State of Illinois
Governor's office of Management and Budget
100 W. Randolph St.
Chicago, IL 60601

Mr. Sinsheimer:

Please find our response below to your communication dated April 9, 2012 regarding Ramirez & Co's ("Ramirez") and U.S. Bancorp's ("USB") use of credit default swaps ("CDS").

1) In the event of your firms participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.
    a. **N/A - Ramirez and U.S. Bancorp do not and have not engaged in CDS trades for any municipal issuer.**

2) Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.
    a. **N/A - Ramirez and U.S. Bancorp do not and have not engaged in CDS trades for any municipal issuer.**

3) Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.
    a. **N/A - Ramirez and U.S. Bancorp do not and have not engaged in CDS trades for any municipal issuer.**

4) List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.
    a. **N/A - Ramirez and U.S. Bancorp do not and have not engaged in CDS trades for any municipal issuer.**

5) Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.
    a. **N/A - Ramirez and U.S. Bancorp have not released or produced any of the reports referenced above.**

Please feel free to reach out to Phil Culpepper directly at 312-630-2004 or Chris Cochran at 312-325-2056 if you have any questions or concerns regarding this disclosure.

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Sincerely,

Phil Culpepper
Senior Vice President- Ramirez & Co.,Inc.

Chris Cochran
Director- U.S. Bancorp

CC: Sophia Ronis – GOMB
Ramirez Compliance Department

Ramirez & Co., Inc. 120 N. LaSalle Street, Suite1110 ■ Chicago, IL 60602 ■ Tel. 312-630-2002 ■ Fax 312-630-2005 ■ www.RamirezCo.com
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RAYMOND JAMES®

Morgan Keegan

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Governor's Chicago Office

TO:	John Sinsheimer Director of Capital Markets State of Illinois Governor's Office of Management and Budget
FROM:	Raymond James I Morgan Keegan Kevin Thompson, Managing Director
RE:	State of Illinois Credit Default Swap Questions
DATE:	April 25, 2012

In response to your request dated April 9, 2012, below please find information related to Raymond James I Morgan Keegan market activities related to credit default swaps per State Statute on State of Illinois General Obligation bonds and Build Illinois bonds from January 1, 2012 through March 31, 2012.

Per your request, this information is being furnished to you in hard copy form and to you and Sophia Ronis via email.

State of Illinois Credit Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

In the event of your firm's participation in State of Illinois CDS activities within the past 3 months, please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

Raymond James I Morgan Keegan has **NOT** participated in CDS market-making activities related to any State of Illinois CDS within the past 3 months.

Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

Raymond James I Morgan Keegan has **NOT** entered into any proprietary trades for its own account in the State of Illinois CDS as of the end of the current 3-month period.

Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

Raymond James I Morgan Keegan does **NOT** have outstanding gross or net notional amount of proprietary State of Illinois CDS.

List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

Raymond James I Morgan Keegan has **NOT** held net long or short State of Illinois CDS proprietary credit protection positions at any time during the past 3 months.

Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

Raymond James I Morgan Keegan has **NOT** released any publicly available research or marketing reports that reference State of Illinois CDS in the past 3 months.

RBC Capital Markets

Kevin Hoecker, Director
RBC Capital Markets, LLC
500 W. Madison Street, Suite 2500
Chicago, IL 60661
Telephone: (312) 559-3876; Fax (312) 559-1650

April 26th, 2012

John Sinsheimer
Director of Capital Markets
State of Illinois
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

RE: State of Illinois Credit Default Swap Inquiry

Dear John:

On behalf of RBC Capital Markets, LLC please allow the following to reply to the April 9, 2012 correspondence related to the above captioned matter.

RBC Capital Markets, LLC has not participated in credit default swap market-making activities related to any State of Illinois credit default swap within the past 3 months. In addition, RBC Capital Markets has no responsive information to the five bullet points contained in the April 9 correspondence. This does not reflect a categorical decision by the firm not to recommend or sell credit default swaps in appropriate circumstances, nor has the firm made any determination regarding marketing making activities of credit default swaps in the future.

Please advise if you are in need of any further information.

Regards,

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Kevin Hoecker
Director
Municipal Finance
RBC Capital Markets, LLC
312-559-3876

cc: Ralph Desena
Mark Maroney
Brain Hellberg

RICE
Financial Products Company

April 30, 2012

VIA Electronic and Overnight Mail

John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
100 W Randolph
JRTC, Suite 15-100
Chicago, IL 60601

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Dear Mr. Sinsheimer:

Below please find our responses to the request for information of Rice Financial Product Company's market activities related to credit default swaps per State Statute on State of Illinois General Obligations bonds and Build Illinois bonds from October 1, 2011 to December 31, 2011.

Disclose whether your firm has participated in credit default swap market-marking activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- In the event of your firm's participation in State of Illinois CDS activities within the past 3 months please disclose your firms' cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

  None.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS , as of the end of the current 3-month period.

  No.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

  None.

RICE
Financial Products Company

- List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary were net long of net short credit protection positions.

  None.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports that reference State of Illinois CDS and include those research or marketing report as attachments.

  No.

Please feel free to contact me if you have any questions or require additional information. Thank you.

Sincerely,

Michael C. Murray

Michael C. Murray
Chief Executive Officer

BAIRD

Thomas J. Gavin
Managing Director
Public Finance

April 24, 2012

Mr. John Sinsheimer
Director of Capital Markets
Governor's Office of Management and Budget
Jr. Thompson Center, Suite 15-100
100 West Randolph
Chicago, IL 60601

Dear Mr. Sinsheimer,

We received your written request for information regarding our firm's market activities related to credit default swaps ("CDS") on State of Illinois General Obligation Bonds and Build Illinois Bonds. Below we provide Robert W. Baird's ("Baird") responses to your CDS questions.

Q: In the event of your firms participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

A: Baird has not participated in State of Illinois CDS activities within the past 3 months.

Q: Disclose whether your firm entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

A: Baird has not entered into any proprietary trades for its own account in State of Illinois CDS.

Q: Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

A: Baird does not have any outstanding amounts of proprietary State of Illinois CDS.

Q: List all time periods during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

A: Baird has not held State of Illinois CDS proprietary credit protection positions during the past 3 months.

Q: Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

A: Baird has not released any publicly available research or marketing reports that reference State of Illinois CDS within the previous 3 months.

Should you require any additional information, please feel free to contact me.

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Governor's Chicago Office

Sincerely,

Thomas J. Gavin

Thomas J. Gavin
Managing Director
Robert W. Baird & Co.

Robert W. Baird & Co. Incorporated
300 East Fifth Avenue, Suite 200
Naperville, IL 60563-3181
Main (630) 778 9178
Toll-Free (800) 686 4346
Fax (630) 848 6450
tgavin@rwbaird.com

Siebert
Brandford
Shank & Co., L.L.C.

222 W. Adams St., Ste 520
Chicago, IL 60606
Phone: (312) 759-0400
Fax: (312) 759-0109

April 27, 2012

John Sinsheimer
Director of Capital Markets
JRTC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601

Dear John:

Below please find Siebert Brandford Shank's response to the State of Illinois's request for information regarding our firm's market activities related to credit default swaps ("CDS") from January 1, 2012 through March 31, 2012.

Siebert Brandford Shank does not participate in CDS market-making activities; accordingly, we have not participated in CDS market-making activities over the past three months. During this timeframe, our firm's cumulative notional volume of State of Illinois CDS trades is $0 as is our firm's outstanding gross and net notional amount of State of Illinois CDS. Our firm has not entered into any proprietary trades for our own account in State of Illinois CDS as of the end of the current three-month period. Siebert Brandford Shank has never held net long or short State of Illinois CDS proprietary credit protection positions nor has our firm released any publicly available research or marketing reports that reference State of Illinois CDS over the past three months.

Please feel free to contact us if you have any questions or require additional information. We look forward to working with you and the State of Illinois in the future.

Thank you,

Elizabeth Coolidge

Elizabeth Coolidge
Managing Director

cc: Sophia Ronis

sterne
agee

April 30, 2012

Dear Mr. Sinsheimer,

Sterne, Agee & Leach, Inc. does not participate in Credit Default Swap market making activities. That being said, Sterne, Agee & Leach, Inc. does not participate in the selling or trading of the State of Illinois Credit Default Swap Instruments.

Thank you,

Shams R. Lawson
Senior Vice President
Public Finance
Sterne Agee & Leach Inc.
277 Park Avenue-25th Floor
New York, NY 10172
917-692-6260

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8000 MARYLAND AVENUE, SUITE 800
ST. LOUIS, MISSOURI 63105-3911
(314) 727-5519 • FAX (314) 727-7313
WWW.STERNBROTHERS.COM

April 10, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget

Dear Mr. Sinsheimer:

Enclosed please find Stern Brothers & Co.'s response to questions regarding State of Illinois Credit Default Swap Activity.

If you need any additional information, please contact me at 314-743-3051.

Sincerely,

Karen Warren

Karen Warren
Chief Compliance Officer
Stern Brothers & Co.

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Enclosure

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State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- In the event of your firms participation in State of Illinois CDS activities within the past 3 months please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of end of the current 3-month period.

  Stern Brother's & Co. did not participate in State of Illinois CDS activities during the 1st quarter of 2012.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

  Stern Brothers & Co. has not entered into any proprietary trades for its own account in State of Illinois CDS as of the end of March 2012.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

  Stern Brothers & Co. has not participated in State of Illinois CDS activities and therefore does not have any information to disclose in regards to our net position.

- List all time period during the past 3 months during which the firm held net long or net short State of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

  Stern Brothers & Co. has not participated in State of Illinois CDS activities and therefore does not have any information to disclose in regards to time periods.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

  Stern Brothers & Co. has not released any research or marketing reports that reference State of Illinois CDS.

STIFEL
NICOLAUS

April 26, 2012

Mr. John Sinsheimer
Director of Capital Markets
Illinois Governor's Office of Management and Budget
James R. Thompson Center, Suite 15-100
100 West Randolph Street
Chicago, IL 60601

Via Electronic and U.S. Mail Delivery

Dear John:

In response to your letter of April 9, 2012 to Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), this is to advise you that Stifel Nicolaus has not participated in any credit default swap market-making activities related to any State of Illinois bonds, including, but not limited to, the State's General Obligation or Build Illinois bonds, within the period January 1, 2012 through March 31, 2012. A response to the questions accompanying your letter is attached.

Sincerely,

Mary C. Kane
Senior Vice President—Public Finance

MCK/jas

Attachment

CC: Sophia Ronis, Debt Analyst, Illinois Governor's Office of Management and Budget
Peter J. Czajkowski, Director of Public Finance, Stifel, Nicolaus & Company, Incorporated
Ken Williams, Director of Municipal Finance, Stone & Youngberg, A Division of Stifel Nicolaus
Omar Daghestani, Managing Director—Public Finance, Stifel, Nicolaus & Company, Incorporated

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Governor's Chicago Office

RESPONSE BY STIFEL, NICOLAUS & COMPANY, INCORPORATED OF APRIL 26, 2012 TO THE STATE OF ILLINOIS CREDIT DEFAULT SWAP QUESTIONS OF APRIL 9, 2012

As indicated in our letter dated April 26, 2012 to John Sinsheimer, Director of Capital Markets, State of Illinois, which is attached to this response, Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus") has not participated in any credit default swap ("CDS") market-making activities related to any State of Illinois bonds, including, but not limited to, the State's General Obligation and Build Illinois bonds, within the period January 1, 2012 through March 31, 2012.

1. As stated, Stifel Nicolaus has not participated in credit default swap market-making activities related to State of Illinois CDS activities within the past three months.

2. Stifel Nicolaus has not entered into any proprietary trades for its own account in State of Illinois CDS within the past three months.

3. Stifel Nicolaus does not nor has not had any gross nor net notational amount of proprietary State of Illinois CDS outstanding as of the end of the current three-month period.

4. There have been no time periods within the past three months during which Stifel Nicolaus has held net long or net short State of Illinois CDS proprietary credit protection positions.

5. Stifel Nicolaus has not released any publicly available research or marketing reports that reference State of Illinois CDS within the previous three months.

Government & Institutional Banking
Public Finance
MAC E2616-240
230 W. Monroe Street, Ste 2450
Chicago, IL 60606

WELLS FARGO SECURITIES

April 13, 2012

JRTC, Suite 15-100
John Sinsheimer
100 W Randolph
Chicago, IL 60601

Re: State of Illinois Credit Default Swap Inquiry for First Quarter 2012

Dear Mr. Sinsheimer:

I am writing in response to your letter dated April 9, 2012 in which you request information about Wells Fargo Bank, N.A.'s ("WFBNA") market activities related to State of Illinois ("IL") credit default swaps ("CDS") for the time period noted above.

After performing appropriate due diligence around your request, we have not identified any information indicating that WFBNA has participated in CDS market making activities related to any IL CDS in the relevant time period.

The only publicly available research or marketing reports released by WFBNA or by its affiliate, Wells Fargo Securities LLC, that we are aware of that references IL CDS is a General Market Municipal Commentary piece that is published by our Municipal Products Group's Credit Strategies team on Wednesday of each week. That piece includes a table listing CDS rates for several states (including State of Illinois) and directional commentary.

I trust this is responsive to your inquiry. Please let me know if you have any further questions.

Sincerely,

Victor H. Chang
Director
Midwest Region
Public Finance

Together we'll go far

William Blair

April 16, 2012

Mr. John Sinsheimer
Director of Capital Markets
State of Illinois
Office of Management and Budget
James R. Thompson Center
100 West Randolph Street - Suite 15-100
Chicago, Illinois 60601

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Governor's Chicago Office

Dear Mr. Sinsheimer:

This letter responds to your letter dated April 9, 2012 requesting certain information concerning our firm's activities related to credit default swaps of the State of Illinois General Obligation and Build Illinois programs from January 1, 2012 through March 31, 2012.

William Blair & Company has never engaged in any market activities related to State of Illinois credit default swaps. The answer is "NONE" to all of the questions contained in the attachment to your letter. We are happy to provide any additional information that you think helpful.

We appreciate the opportunity to assist the State of Illinois with its capital markets needs, and in so doing we always try to align our interests with those of the State.

Very truly yours,

Thomas E. Lanctot

Thomas E. Lanctot

TEL:jts

+1 312 236 1600 tel

William Blair & Company, L.L.C.
222 West Adams Street
Chicago, Illinois 60606

The Williams Capital Group, L.P.

April 20, 2012

Mr. John Sinsheimer, Director of Capital Markets
State of Illinois
Governor's Office of Management and Budget
JTRC, Suite 15-100
100 W. Randolph
Chicago, Illinois 60601
United States

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Governor's Chicago Office

Re: State of Illinois Credit Default Swap Questions

Dear Mr. Sinsheimer:

In response to the State of Illinois letter dated April 9, 2012, requesting information concerning the Firm's activities relating to State of Illinois Credit Default Swaps ("CDS") for the Period January 1, 2012 through March 31, 2012, The Williams Capital Group, L.P. ("Williams Capital") discloses the following:

The Williams Capital Group, L.P. has not participated in any State of Illinois credit default swaps within the past three months, nor has the Firm entered into any proprietary trades for its own account State of Illinois CDS. In addition, Williams Capital has not released any publicly available research or marketing reports that reference State of Illinois CDS.

Williams Capital is not aware of any plans by any of its entities to transact in credit default swaps related to the State of Illinois.

Please see the Firm's response to the State of Illinois Credit Default Swap Questions.

Sincerely,

Jacqueline B Knights

Jacqueline Knights, Principal
Director of Public Finance
The Williams Capital Group, L.P.
650 Fifth Avenue, 11th Floor
New York, NY 10019
(212) 373-4282
knights@willcap.com

State of Illinois Credit Default Swap Questions

Disclose whether your firm has participated in credit default swap market-making activities related to any State of Illinois credit default swaps ("CDS") within the past 3 months. Please include and/or indicate the following:

- In the event of your firm's participation in State of Illinois CDS activities within the past 3 months, please disclose your firm's cumulative notional volume of State of Illinois CDS trades and the firm's outstanding gross and net notional amount of State of Illinois CDS, as of the end of the current 3-month period.

Not Applicable. The Williams Capital Group, L.P. ("Williams Capital") has not participated in any State of Illinois CDS activities during the period commencing January 1, 2012 and ending March 31, 2012.

- Disclose whether your firm has entered into any proprietary trades for its own account in State of Illinois CDS, as of the end of the current 3-month period.

Williams Capital has not entered into any proprietary trades for its own account in State of Illinois CDS during the most recent 3-month period, ending March 31, 2012.

- Disclose your firm's outstanding gross and net notional amount of proprietary State of Illinois CDS and whether the net position is short or long credit protection, as of the end of the current 3-month period.

$0.00 (No positions).

- List all time periods during the past 3 months during which the firm held net long or net short Stat of Illinois CDS proprietary credit protection positions, the amount of such positions, and whether those positions were net long or net short credit protection positions.

None.

- Indicate whether within the previous 3 months, the firm released any publicly available research or marketing reports that reference State of Illinois CDS and include those research or marketing reports as attachments.

Williams Capital has not published nor released any publicly available research or marketing report that references State of Illinois CDS.