

JUDGE SWAIN

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**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

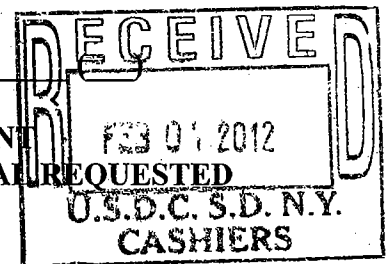
**KAREEM SERAGELDIN, DAVID HIGGS,
FAISAL SIDDIQUI and SALMAAN SIDDIQUI,**

Defendants.

12 Civ.

COMPLAINT
JURY TRIAL REQUESTED

(ECF CASE)



Plaintiff Securities and Exchange Commission (the "Commission"), for its complaint against Defendants Kareem Serageldin, David Higgs, Faisal Siddiqui and Salmaan Siddiqui, alleges as follows:

SUMMARY OF ALLEGATIONS

1. As the subprime credit crisis escalated in late 2007 and 2008, Defendants – investment bankers and traders specializing in structuring and trading mortgage-backed securities – engaged in a scheme to fraudulently overstate the prices of over \$3 billion of subprime bonds owned by Credit Suisse Group (Credit Suisse). Defendants’ words – captured on recorded telephone calls – provide a real-time narrative of their colossal fraud.

2. Defendants' fraudulent scheme was initiated by Kareem Serageldin, the Global Head of Structured Credit Trading for Credit Suisse, and overseen by David Higgs, Credit Suisse's Head of Hedge Trading, who reported to Serageldin. The physical process of falsely pricing the bonds was carried out by two New York-based structured products traders who reported to Higgs and Serageldin, Faisal Siddiqui and Salmaan Siddiqui (no relation). Both Serageldin and Higgs (and in particular, Serageldin) travelled to New York frequently in connection with their employment and the scheme alleged herein.

3. As is customary on trading desks, Defendants were required to price (or mark) the bonds held on their books on a daily basis to accurately record the bonds' fair value. As the fair value of their bonds began to decline in late 2007, accurately recording the decline in value would cause hundreds of millions of dollars of losses, vaporize Defendants' hopes for multi-million dollar year-end bonuses and, in the case of Serageldin, imperil a highly-coveted promotion.

4. Beginning in late August 2007, Defendants abandoned their obligation to accurately record the fair value of their bonds and instead began to price the bonds in a way that allowed them to achieve their goal of showing consistently profitable trading. In November and December 2007, as the credit markets declined further, the false pricing scheme accelerated. "Marking to P&L" rather than marking to fair value became these Defendants' *modus operandi*.

5. As the subprime market deteriorated in the fall of 2007, Defendants Serageldin and Higgs became increasingly concerned about the value of a massive (\$3.5 billion) portfolio of AAA-rated bonds backed by subprime mortgages held in a Credit Suisse trading book known as ABN1. Given the huge size of the position, these Defendants knew that lowering the prices of

the AAA bonds to reflect the steep downturn in the market would cause them to suffer substantial losses.

6. By the end of 2007, Defendants were in possession of ample market data showing that their bonds were grossly overvalued. Despite freely discussing that “housing was going down the tubes,” and acknowledging that their bonds were overpriced and should be marked down, Defendants kept the bonds priced at falsely high levels at year-end .

7. On January 4, 2008, in a recorded call, Defendants Serageldin and Higgs *admitted* that the year-end prices on their AAA bonds were too high, that another trading desk supervised by Serageldin had priced similar bonds up to 20 points lower than Defendants, and that there was a danger that Credit Suisse Price Testing personnel would “spot” the falsely overvalued prices of the AAA bonds.

8. Yet just a few days after this call, Serageldin approved his unit’s year-end P&L results without correcting the year-end mispricing. Higgs later directed that the prices of the bonds be increased *above* their year-end levels in order to achieve favorable P&L results at the end of January.

9. On February 12, 2008, Credit Suisse reported net income in 2007 of CHF 8.55 (\$7.12) billion, with fourth quarter earnings of CHF 1.3 (\$1.16) billion¹. Credit Suisse’s year-end earnings disclosures – which incorporated false gains from Defendants’ mismarked bond positions – were materially false and misleading.

¹ Credit Suisse did not present results in U.S. dollars. Full year results have been translated at the approximate average exchange rate for 2007 for 1.20 CHF/1 USD disclosed by Credit Suisse in its Form 20-F, filed with the Commission on March 20, 2008. The results for the 4th quarter of 2007 have been translated at an exchange rate of 1.147 CHF/1 USD, representing the average for the quarter of the daily rate per Federal Reserve Board Release H.10 - *Foreign Exchange Rates*.

10. Defendants' scheme unraveled a few days after Credit Suisse reported its fourth quarter results when senior management detected abnormally high prices on certain bonds controlled by Defendants. On February 19, 2008 Credit Suisse issued a press release stating that the results it had announced just one week earlier were incorrect, and that it was in the process of quantifying the error. Credit Suisse estimated the reduction in the fair value of all affected securities to be about \$2.85 billion, having an estimated net income impact of \$1.0 billion.

11. On March 20, 2008, Credit Suisse announced that the actual fair value reduction was about CHF 2.86 billion or \$2.65 billion (about \$200 million less than previously estimated). The markdown impacted both the 4th quarter of 2007 and the 1st quarter 2008 with CHF 1.18 (\$1.03) billion (before tax) impacting 2007 and CHF 1.68 (\$1.62) billion being recorded in 2008. The bank revised net income for full year 2007 downward from CHF 8.55 (\$7.12) billion to CHF 7.76 (\$6.47) billion and for the fourth quarter of 2007 from CHF 1.3 (\$1.16) billion to CHF 540 (\$471) million.

12. The epicenter of the write-down was Defendants' ABN1 book, which recognized a write-down of approximately \$1.3 billion, approximately half of the fair value reduction of \$2.65 billion announced on March 20, 2008.

VIOLATIONS OF THE FEDERAL SECURITIES LAWS

13. By virtue of the foregoing conduct, Defendants, directly or indirectly, singly or in concert, have engaged in transactions, acts, practices or courses of business that constitute violations of Sections 10(b) and 13(b)(5) of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §§ 78j(b) and 78(m)(b)(5)] and Rules 10b-5 and 13b2-1 thereunder [17 C.F.R. §§ 240.10b-5 and 240.13b2-1]; and are also liable, pursuant to Section 20(e) of the Exchange Act [15 U.S.C. § 78t(e)], for aiding and abetting violations of Sections 10(b) and 13(a) and 13(b)(2)

of the Exchange Act [15 U.S.C. §§ 78j(b), 15 U.S.C. §§ 78m(a) and 78m(b)(2)], and Rules 10b-5 12b-20 and 13a-16 thereunder [17 C.F.R. §§ 240.10b-5, 17 C.F.R. §§ 240.12b-20 and 240.13a-16].

NATURE OF THE PROCEEDINGS AND THE RELIEF SOUGHT

14. The Commission brings this action pursuant to the authority conferred upon it by Section 21(d)(1) of the Exchange Act [15 U.S.C. § 78u(d)(1)].

15. The Commission seeks a judgment (a) permanently enjoining Defendants from committing future violations of the above provisions of the federal securities laws; (b) ordering Defendants to disgorge any ill-gotten gains with prejudgment interest thereon; (c) ordering Defendants to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and (d) ordering such other and further relief the Court may deem just and proper.

JURISDICTION AND VENUE

16. This Court has jurisdiction over this action pursuant to Section 21(d), 21(e) and 27 of the Exchange Act, [15 U.S.C. §§ 77u(d), 77u(e) and 78aa]. Venue lies in this district pursuant to Section 27 of the Exchange Act, [15 U.S.C. § 78aa]. A substantial portion of the transactions, acts, practices and courses of business constituting the violations alleged herein occurred within the Southern District of New York.

17. In connection with the transactions, acts, practices and courses of business alleged in this Complaint, Defendants, directly or indirectly, singly or in concert, have made use of the means and instrumentalities of interstate commerce, or of the mails, or of the facilities of a national securities exchange.

DEFENDANTS

18. **Kareem Serageldin**, age 39, was, at all relevant times, Global Head of Structured Credit Trading at Credit Suisse, and worked for the bank in both London and New York. Serageldin supervised Credit Suisse's ABS Credit, CDO Secondary, CDO Syndicate, ABS CDO Structuring, Counterparty Credit Risk Management, and Mortgage Derivative businesses. He is a resident of the United Kingdom and a dual citizen of the United States and United Kingdom. Serageldin is not registered with the Commission in any capacity.

19. **David Higgs**, age 41, was, at all relevant times, a Managing Director and Head of Hedge Trading at Credit Suisse, reporting to Serageldin. Higgs was a senior member of the firm's Synthetic CDO group. He is a resident and citizen of the United Kingdom. Higgs is not registered with the Commission in any capacity.

20. **Faisal Siddiqui**, age 36, was a vice president in Credit Suisse Group's CDO Trading Group in New York, reporting to Higgs. He is a resident of New York, New York. Faisal Siddiqui was a registered representative associated with Credit Suisse Securities (USA) LLC from November 1997 until March 2008. He held Series 7 and 63 licenses.

21. **Salmaan Siddiqui**, age 36, was a vice president in Credit Suisse Group's CDO Trading Group in New York, reporting to Higgs. He is a resident of McLean, Virginia. Salmaan Siddiqui was a registered representative associated with Credit Suisse Securities (USA) LLC from July 1996 until March 2008. He held Series 7 and 63 licenses.

RELEVANT NON-DEFENDANTS

22. **Credit Suisse Group** is a financial services company headquartered in Zurich, Switzerland, with offices located in the United States and around the globe. Its American

depository receipts (ADRs) are registered pursuant to Section 12(b) of the Exchange Act and are listed on the New York Stock Exchange.

23. **Credit Suisse Securities (USA) LLC** is a wholly-owned subsidiary of Credit Suisse Group, and a broker-dealer registered with the Commission. Its principal place of business is New York, New York.

BACKGROUND

A. The Framework for Marking Bonds to Market

24. The ABN1 trading book was a portfolio of various subprime-related debt securities, such as cash bonds, as well as credit default swaps. The cash bonds that were eventually written down consisted of various types of securities, including AAA-rated and non-AAA-rated bonds, monoline-wrapped bonds,² and collateralized debt obligations (CDOs) and were valued at approximately \$4.7 billion at December 31, 2007. Home Equity cash bonds accounted for approximately \$3.9 billion of the ABN1 book.

25. Traders at Credit Suisse, including Defendants, were required to mark securities such as the bonds in ABN1 on a daily basis at fair value, as defined below. Credit Suisse also required traders to mark their portfolios at the same time each day to ensure consistency.

26. Credit Suisse reported its results in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and adopted Statement of Financial Accounting Standards No. 157 (SFAS 157) as of January 1, 2007. The bonds in the ABN1 trading book were trading securities and as such, they were required under GAAP to be reported at fair value at each reporting date. SFAS 157 defined fair value as the price that would be received to sell an asset

² "Wrapped" bonds include a guarantee – or wrap – from a monoline insurer to pay principal and interest due in the event of an issuer default.

or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

27. The best evidence of fair value was a quoted price in an active market for an identical security. Absent such information, Credit Suisse policy required that traders look next to quotes of similar securities in active markets, quotes of identical or similar securities in markets that are not active, *i.e.*, markets in which there are few transactions for the security, the prices are not current or price quotations vary substantially either over time or among market makers, or in which little information is publicly available, and then (if no such quotes were available) to data and inputs that are less directly indicative of the security's price such as indices or models. Credit Suisse traders were also directed to consider all relevant market-related information obtained by Credit Suisse's trading desks.

28. Under the relevant fair value accounting standards, even if a market participant believes that a bond is likely to return interest and principal at a future maturity date, fair value pricing requires the bond to be priced at a level that reflects where it could currently be exchanged in an orderly transaction. Put differently, what matters under fair value pricing is the current price of the bond, even in an atypically distressed market, not what a market participant believes the bond might be worth at maturity. Defendants were aware of these fair value principles.

1. **The Use of the ABX Index as a Valuation Data Point**

29. In approximately August 2007, as the credit markets became more distressed and less liquid, Credit Suisse senior management directed structured products traders and supervisors

to consult the pricing levels of the ABX Index³ when recording the fair value of bonds. This instruction applied to the subprime bonds in the ABN1 book.

30. At all relevant times, the ABX Index was a pricing data point for subprime bonds. The Index is made up of credit default swaps (CDS) which reference twenty subprime bonds issued during a specific six-month period. The components of the ABX are broken down by vintage, which is the year the subprime bond was issued to the market, and by rating (AAA, AA, A, BBB and BBB-). Within a given rating, there are different tranches having different seniority and duration (expected average life). In the AAA rating, the tranches referenced by the ABX are lowest in seniority, have the longest duration and are often referred to as last cash flow bonds. During late 2007 and early 2008, last cash flow bonds suffered significant declines in value.

31. Just like subprime bonds, ABX Index prices are quoted as a percentage of par. Traders can execute long or short trades in the ABX Index itself; because of this frequent buying and selling activity, the prices of the ABX Index are a key reference point for determining the fair value of subprime bonds. Traders, including Defendants, could “map” subprime bonds they owned to the prices of the corresponding vintage of the ABX Index to determine an approximate

³ Launched in January 2007, the ABX Index serves as a benchmark for certain floating rate bonds backed by home loans. The ABX is a series of credit-default swaps indices, each based on 20 RMBS cash bonds of identical credit rating, ranging from AAA to BBB-. The components of the ABX are classified by vintage, which is the year the subprime mortgage loan was issued. For example, ABX Index 06-01 references subprime bond tranches for mortgage loans issued in the second half of 2005, and 06-2 references subprime bond tranches for mortgage loans issued in the first half of 2006, and so on. The price of a security in the ABX is the cost of buying protection via credit default swap against a specific bond. The price is set to par on the day the particular index is launched. At 100, the only payment made by the buyer to the seller is the Coupon Rate. When the Index drops below 100, it signifies that protection has become more expensive, demanding an additional premium payment. The amount of the additional premium is expressed by the amount by which the index drops below 100. For example, if a particular tranche is trading at \$85.00, this represents a \$15 discount from its 100 par value. The discount represents, in addition to the coupon payment, the amount of protection sellers are also demanding as an up-front fee equal to 15% of the bond’s face value. An investor wishing to purchase \$100 million of protection on such a bond would have to pay an up-front fee of \$15 million, in addition to the coupon payment that will be made over the life of the credit default swap.

fair value, e.g., a floating rate AAA-rated subprime bond issued during the first half of 2007 could be mapped to the ABX Index that included comparable AAA-rated subprime bonds issued during the same period. As Defendants knew, if the ABX Index for the corresponding vintage was trading in the low seventies, a comparable last cash flow AAA subprime bond priced at 95 was not correctly valued.

2. Pricing to “FTID”

32. Defendant Faisal Siddiqui was the trader primarily responsible for recording the daily fair value of the subprime bonds in the ABN1 book. Defendant Salmaan Siddiqui was responsible for recording the fair value of the bonds when Faisal Siddiqui was out of the office.

33. Prior to August 2007, the daily fair values of the bonds in ABN1 were set by using the bond prices provided by an automated pricing service called Financial Times Interactive Data (FTID). The FTID prices during that time period were generally at or close to par, and thus did not raise any P&L challenges for Defendants.

34. By the end of August 2007, however, the FTID prices for AAA bonds began to decrease from par, reflecting a weakening market for these securities. Serageldin later observed in a November 2007 email that AAA bonds first “came under pressure” in August.

35. At around the same time, senior Credit Suisse management implemented a system whereby the firm’s trading desks were required to produce real-time “flash” reports of P&L movements. In light of this enhanced scrutiny of their bonds, Defendants Serageldin and Higgs were placed under intense pressure to avoid showing negative P&L.

36. At this point, Serageldin and Higgs took a hands-on role in monitoring P&L and the prices of the bonds in ABN1. At their direction, Faisal Siddiqui and Salmaan Siddiqui began to creatively and aggressively manage the prices to achieve daily and month-end P&L goals.

B. Serageldin and Higgs Begin to Manipulate P&L in ABN1.

37. Serageldin wanted the ABN1 book to show a “flat” P&L result for August month-end. He told Higgs to implement this directive.

38. On August 29, 2007, a trading assistant downloaded the FTID prices to the ABN1 pricing spreadsheet, and sent a P&L report to Higgs and Salmaan Siddiqui. The report showed that deteriorating FTID prices had caused a loss of approximately \$75 million.

39. To erase the loss, Higgs directed Salmaan Siddiqui, who was marking the book in Faisal Siddiqui’s absence, and the trading assistant to increase the prices on some bonds (which had unfavorable FTID prices) by manually entering the prices into the system instead of using FTID prices. The parties referred to the process of changing the prices on the bonds as “re-marking” or “re-marks.”

40. At 6:25 p.m. London time, the trading assistant emailed Higgs a summary of Salmaan Siddiqui’s unsuccessful attempts to re-remark the ABN1 book to eliminate the P&L loss: *“The first set of re-marks this morning were +64mm. The second set below was -30mm. Net re-marks +34mm.”*

41. As such, the book still faced a \$40 million loss for the day. Higgs emailed Salmaan Siddiqui and directed him to go through the rest of the ABN1 book and make more manual adjustments.

42. Salmaan Siddiqui and the trading assistant thereafter manipulated the marks to eliminate the P&L deficit through a series of trial and error re-markings.

43. At one point, at Higg’s suggestion, Salmaan Siddiqui increased the prices of several commercial mortgage-backed securities (CMBS) positions without any justification.

Salmaan Siddiqui emailed a spreadsheet with these arbitrarily-increased prices to Higgs and the trading assistant, noting “hopefully this should get us something close to what we need.”

44. During a subsequent telephone call⁴ between the trading assistant and Salmaan Siddiqui, the trading assistant told Salmaan Siddiqui that the manipulative strategy of increasing the CMBS prices had failed to make a dent in the P&L deficit:

Trading Assistant: *I'm just putting those prices in, I just wanted to warn you it's not going to make what you think it's going to make.... I think basically if we put them in we probably make around \$200,000.*

Salmaan Siddiqui: *Oh God!*

Trading Assistant: *Which was not what you were expecting...*

45. The trading assistant and Salmaan Siddiqui eventually achieved Defendants' directive of a “flat” P&L by selecting the largest bond positions within the ABN1 book and arbitrarily increasing the prices on those positions across the board by 0.34. The trading assistant later confirmed to Higgs that he and Salmaan Siddiqui had increased the prices in this manner to keep the book flat.

46. Over the next two days, Salmaan Siddiqui continued to price the ABN1 book to achieve arbitrary P&L results directed by Higgs and Serageldin.

47. On August 30, 2008, the trading assistant told Salmaan Siddiqui that the FTID prices had caused a loss in ABN1 of about \$60 million. Salmaan Siddiqui manually entered prices in the book and increased the P&L by \$95 million, \$27 million of which was allocated to ABN1. The trading assistant used the balance of this fictitious profit to, among other things, reduce the prices of certain CMBS bonds that had been recorded at artificially high levels by Salmaan Siddiqui.

⁴ At all relevant times, it was Credit Suisse policy to tape the telephone lines of UK-based trading professionals.

48. On August 31, 2008, the trading assistant told Salmaan Siddiqui that once again, they were *“going to need quite a bit more P&L ... Overall, in ABN we’re currently down about 25 now...David [Higgs] said we can’t be more than a couple down in ABN.”*

49. The trading assistant and Salmaan Siddiqui worked together to re-mark the book in order to falsely hit the desired P&L target.

C. Higgs and Salmaan Siddiqui Obtained Adverse Marks from Other Dealers.

50. On August 29, 2007, anticipating scrutiny of their bond prices from Credit Suisse’s Price Testing group because of the volatility in the market, Higgs instructed Salmaan Siddiqui to obtain third-party marks from other dealers.

51. Although the Price Testing unit was theoretically responsible for reviewing the prices assigned by traders, in practice the unit lacked the expertise to adequately challenge pricing by traders, and Price Testing personnel were often deferential to the views of traders.

52. When pricing a trading book, traders often ask third-party dealers, typically traders at other investment banks specializing in the same class of securities, to provide indicative prices on a list of securities. The prices provided by the third-party dealers – which reflect the dealers’ knowledge of the market for the selected bonds – are valuable valuation reference points.

53. On August 30, 2007, Salmaan Siddiqui asked his contacts at two investment banks, Dealer A and Dealer B, to provide marks on approximately 30 AAA subprime bonds in ABN1. The prices provided by Dealer A and Dealer B were substantially lower than the marks Defendants had already recorded in ABN1, and were not provided to Price Testing personnel.

54. Salmaan Siddiqui decided to ask a friend and former colleague at another investment bank (Dealer C) to provide marks on AAA bonds in ABN1. In a telephone call with

Higgs, Salmaan Siddiqui apprised him of his plan: “*there [are] some guys I know at a smaller shop called [Dealer C]. I wanted to at least get some price feedback on some of the fixed bonds.*”

55. On August 31, 2007, Salmaan Siddiqui sent a list of four AAA bonds to his bond salesman contact at Dealer C and requested month-end prices for the bonds. At approximately the same time, Salmaan Siddiqui communicated to his contact the desired prices on the bonds. In the space of less than one minute, the bond salesman at Dealer C sent the bonds and prices back to Salmaan Siddiqui, making them look like genuine third-party prices when they were not.

56. On September 4, 2007, Higgs instructed Salmaan Siddiqui to obtain additional third-party prices on AAA bonds in the ABN1 book.

57. At 10:28 a.m. on September 5, 2007, Salmaan Siddiqui sent his contact at Dealer C an email titled “Month End Price Marks.” The email attached a spreadsheet titled “*Month_End_Price_Test_Result.xls*,” which contained two columns; the first was a list of AAA subprime positions in ABN1, and the second, which was blank and presumably intended to be filled in by the bond salesman, was labeled “Dollar Price Mark.”

58. A few seconds later, Salmaan Siddiqui sent his contact another email attaching a different version of the first spreadsheet; this version of the spreadsheet listed the same 30 bonds as the original spreadsheet, but also included a “Dollar Price Mark” column populated with Defendants’ *own* prices on the listed bonds.

59. Approximately 50 minutes later, the Dealer C salesman transmitted the second spreadsheet back to Salmaan Siddiqui in a new e-mail, which deceptively appeared to reflect that Dealer C had inserted the prices into the spreadsheet. This new e-mail removed any trace that it

had been received from Credit Suisse and contained the same prices as originally received from Salmaan Siddiqui.

60. Salmaan Siddiqui forwarded the email and spreadsheet to Higgs and Faisal Siddiqui.

D. Defendants' P&L Manipulation Grows In Scale and Scope.

61. In September 2007, Defendants began to routinely manipulate bond prices in ABN1 to achieve P&L results. As a result, Credit Suisse's books, records and accounts contained false and misleading information.

62. Serageldin frequently communicated to Higgs the specific P&L outcome he wanted. Higgs in turn directed Faisal Siddiqui or Salmaan Siddiqui to mark the book in a manner that would achieve the desired P&L.

63. On September 13, 2007, the trading assistant told Faisal Siddiqui that the ABN1 book was "up" from a P&L perspective, but that the positive P&L had to be used to adjust the prices of certain CMBS bonds that had been manipulated to "*hide, to cover a few losses*" in ABN1.

64. In another telephone call on September 13, Serageldin told his trading assistant that "today we should have a pretty big [P&L] number." The assistant agreed with Serageldin that there was positive P&L, but stated that profit from non-ABN1 books was being funneled to the ABN1 book to correct the prices of subprime bonds that had been marked up to falsely high levels to achieve specific P&L directives.

65. Channeling the increasingly bold culture of P&L manipulation within Defendants' group, the trading assistant also volunteered to Serageldin that he could "move" the prices around to hit whatever P&L target Serageldin desired:

Trading Assistant: *We've got 10 bucks [million] in RCV [another book]. We had a big [P&L] number but with Dave [Higgs] and Faisal we're using it to write down some positions in ABN.*

Serageldin: *Which positions?*

Trading Assistant: *Just some bonds that were overpriced and to re-mark the CMBX index to where it is. If you want it [P&L] to be a big number let me know what you want, then I'll just go through it with Dave [Higgs], because obviously I can move things back to where they were.*

Serageldin: *If we made a lot of money it would be nice to take it, once in a while.*

66. Later that day, Higgs confirmed to the trading assistant: ***“With the P&L: we do need to show some, we want to show some.”*** The team eventually agreed that Serageldin's books would show a \$16 million P&L increase, including \$6 million in ABN1.

67. During a telephone call on September 17, 2007, the trading assistant asked Higgs: ***“What sort of P&L do you need today?”*** Based upon instructions received from Serageldin, Higgs responded that all books needed to end the day **“up”** about \$35 million. The trading assistant responded that the various non-ABN1 books were only up approximately \$20 million. Higgs confirmed that he was ***“looking for another 15 [million]”*** in P&L.

68. The trading assistant then called Faisal Siddiqui to inform him that Defendants Serageldin and Higgs would need even more fictitious P&L: ***“Dave [Higgs] is looking for 15 [million].”*** Faisal Siddiqui artificially increased the prices of several ABN1 positions in a manner that did not reflect the bonds' fair value to satisfy Serageldin's and Higgs' P&L instruction.

69. In another call on October 11, 2007, Higgs asked Faisal Siddiqui what he could do to ***“get rid of P&L [loss]”*** for the day, stating ***“we just need to lower that loss, and it should***

be lowered by basically moving the bonds up for the AAA stuff. . . . It's nine bucks [million] down in ABN[1] which is too much. We should be down a bit, but if you want to see if you can get, say, six back, that would be great." Faisal Siddiqui complied with the instruction.

70. On October 17, 2007, Higgs and Serageldin discussed the P&L results of several books under Serageldin's control. After Higgs informed Serageldin that they would be "down 18 [million]" on the day, Serageldin stated that he needed a more favorable P&L result because senior management expected him to make money: *"I want to be up a little bit of money today, because everyone's going to think we're going to be up and be very surprised if we're not."*

E. Defendants' Massive AAA Holdings Begin to Cause P&L Issues.

71. On October 17, 2007, Higgs and Serageldin discussed their mounting fears that declines in the fair value prices of their massive (\$3.5 billion) holdings of AAA subprime bonds in ABN1 would have a catastrophic impact on P&L.

72. At the time, the bonds were marked at or slightly below par, but Defendants Serageldin and Higgs knew that, given the sheer size of the holdings, even modest write-downs would cause large losses that would be obvious to senior management. Serageldin told Higgs to work with Faisal Siddiqui and Salmaan Siddiqui to begin to discreetly sell their AAA bonds. Noting the urgency of the situation, he warned Higgs: *"we can't keep picking up pennies in front of the steamroller."*

73. The next day, on October 18, 2007, Higgs informed Faisal Siddiqui and Salmaan Siddiqui that Serageldin wanted them to begin "quietly" selling their AAA bonds. Higgs also explained that if they were to accurately fair value the bonds, *i.e.*, mark them to market, the negative P&L outcome would have adverse consequences for them: *"these things [the AAA bonds] are a big thing that can hurt us on a mark to market basis. Let's just close it down."*

74. Salmaan Siddiqui warned Higgs that if the team sold its AAA bonds, those trades would take place at prices *below* the prices of the corresponding ABX Indices. At the time, the AAA bonds in the ABN1 book were marked substantially *above* the relevant ABX Indices. Faisal Siddiqui told Higgs that the AAA LCF (last cash flow) bonds that they held in ABN1 were “very comparable” to the ABX Index, even though those same bonds were priced as much as twenty points higher in ABN1.

75. After some inconclusive efforts to sell some bonds, with Serageldin’s authorization, Defendants instead purchased a large (\$1 billion+) short position against the ABX Index to partially hedge their long AAA risk. The short position was essentially a bet against the housing market, and would make money if the prices of the ABX Index continued to decline.

76. Even though the short position was intended to function as a hedge against price declines in the AAA bonds, Defendants did not write down their AAA bonds as they should have, which would have offset the profit earned on the ABX hedge, which was generated as the subprime market continued to decline. Instead, Defendants recognized positive P&L on these ABX hedges and left the pricing of the AAA bonds at artificially inflated levels.

77. On October 26, 2007, Higgs informed Serageldin that the AAA bonds in the ABN1 book should be marked down, and proposed a modest \$15 to \$20 million reduction. Serageldin agreed to mark the bonds down \$15 million but indicated that his primary focus was P&L related, specifically getting a “*message across*” to senior management that his books were profitable despite the market downturn.

F. The Mismarking Scheme Continues In November and December 2007

78. By November 2007, Defendants were actively manipulating internal systems to generate specific P&L results set by Higgs and Serageldin. For example, on November 22, 2007, the trading assistant informed Higgs that P&L for the ABN1 book was “flat” because he had “reversed out” certain prices, which would have otherwise caused a \$19 million loss. In other words, regardless of contrary market data, the team froze the marks at a favorable point in time to achieve a P&L result. Serageldin, the senior-most participant in the fraud, was aware of and sanctioned the practice of “reversing out” to avoid undesired P&L outcomes.

79. At November month-end, confronted with a potential loss of approximately \$25 million, Higgs told Faisal Siddiqui that a loss of that magnitude would cause him “personal pain.” He persuaded Faisal Siddiqui to reduce the loss to \$20 million, and acknowledged “*I realize they might say something, but I think we just make it minus 20.*”

80. In late November, Faisal Siddiqui and Salmaan Siddiqui told Higgs that the AAA bonds in ABN1 were overpriced, particularly the LCF floating rate bonds that most closely corresponded to the bonds in the ABX Index.

81. Serageldin also knew that the AAA bonds in ABN1 were overpriced in late November and early December. By virtue of his senior role in Credit Suisse’s structured products group, Serageldin was very familiar with the subprime market and pricing trends, in part because he supervised the secondary trading desk that actively traded and priced subprime bonds on behalf of clients. In this capacity, Serageldin received periodic pricing feedback from his direct reports.

82. In a recorded call on November 28, 2007 to discuss the group's AAA exposure, Serageldin told Higgs, Faisal Siddiqui and Salmaan Siddiqui that "housing is going down the tubes," and debated whether to revive earlier efforts to sell the AAA bonds.

83. Serageldin also told his team that he believed fixed-rate AAA bonds, which traditionally were better-performing than floating rate bonds, would shortly begin to "trade through the floaters." In other words, Serageldin believed that the prices of all AAA bonds, whether fixed rate or floating rate, were inevitably converging toward the low pricing levels of the ABX Index. At the time, however, as Serageldin knew, the AAA bonds in ABN1 were marked materially higher than the ABX Index.

84. In late November and early December 2007, as his concerns over the oversized concentration of AAA bonds in ABN1 intensified, Serageldin asked Higgs to comprehensively analyze the bonds, including by calculating the weighted average (WAVG) price of each vintage and type (*e.g.*, floating rate, fixed rate, *etc.*) of the bonds. By including a WAVG price of each vintage and class of AAA bonds, the team could readily compare their prices to those of the corresponding ABX vintage.

85. Salmaan Siddiqui prepared an analysis of the ABN1 book showing the breakdown of the AAA exposure as of November 30, 2007, including by WAVG price. The spreadsheet, which Salmaan Siddiqui distributed to the other Defendants on December 3, showed that the AAA floating last cash flow bonds for 4 key vintages had WAVG prices between 91.3 and 98.5 as of November 30, while the corresponding ABX indices reflected market prices between 71.8 and 94.8. In the aggregate, the ABN1 marks were approximately 19% higher than if the bonds had been marked at or near ABX prices for this subset of the AAA portfolio.

86. In early December 2007, Defendants met at Credit Suisse's offices in New York to discuss the spreadsheet. During this meeting, Defendants discussed that the prices on the AAA bonds in ABN1 were too high.

87. Serageldin and Higgs acknowledged that the prices were too high, particularly those of the AAA last cash flow bonds that mirrored the bonds in the ABX Index.

88. Despite Defendants' acknowledgement that the prices of the AAA bonds in ABN1 were too high, Serageldin did not direct Faisal Siddiqui or Salmaan Siddiqui to revise the prices downward.

89. After the meeting, and through the balance of December 2007, Serageldin continued to receive market data showing that the ABN1 bonds were priced too high, including information received from internal risk personnel at Credit Suisse and market data in connection with the liquidation of a structured investment vehicle containing principally AAA-rated bonds backed by residential mortgages.

G. The Team Manipulates P&L at Year-End.

90. Higgs and Serageldin continued to engage in improper P&L manipulation through the end of December 2007 to enhance the group's fourth quarter numbers. Serageldin instructed Higgs that he wanted to end the year "flat" from a P&L perspective.

91. For instance, on December 28, 2007, unhappy about year-end P&L in a CDO book, as well Price Testing questions about the pricing of certain positions, Serageldin instructed Higgs and another trader to select four positions that Price Testing could not test and to increase the prices on those positions "to make back the money" that Price Testing was questioning.

92. At around the same time, Higgs learned that Serageldin had agreed to assume P&L and marking responsibility for the 260 AAA RMBS bonds received by Credit Suisse as part of the liquidation of a structured investment vehicle.

93. In recorded calls in late December, Higgs and Salmaan Siddiqui discussed how to mark the 260 newly-acquired AAA bonds at year-end. Because the bonds had recently been priced by external dealers, Salmaan Siddiqui stated that the bonds should be marked at the prices provided by the external dealers.

94. Higgs instead directed Salmaan Siddiqui to get “flat” by marking up the newly acquired AAA bonds by 0.25 and marking CMBS bonds in another book down by 0.25.

95. Salmaan Siddiqui complied with Higgs’ directive to make off-setting marks against two asset classes – residential mortgage bonds and commercial mortgage bonds – that were uncorrelated. This procedure was a corruption of fair value pricing.

96. In late December 2007, Serageldin instructed Higgs to tweak the prices of the last cash flow AAA bonds in ABN1. Serageldin directed Higgs to lower the prices so that the WAVG price was only a fraction below 0.90, *i.e.*, 0.89.9. The marginal reduction in the price of the bonds was cosmetic and was intended to make the bonds less vulnerable to scrutiny from others within Credit Suisse.

97. Salmaan Siddiqui was responsible for entering the year-end ABN1 prices. On December 31, 2007, Higgs directed Salmaan Siddiqui that the price of certain later vintages of the AAA last cash flow bonds should “touch the 80s.” Higgs then directed Salmaan Siddiqui to “figure out which bonds we can re-mark against them” in order to counteract the negative P&L impact of writing down the AAA bonds.

98. The next day, Salmaan Siddiqui sent Higgs an email with a spreadsheet that included the marginally reduced AAA last cash flow prices. In the email, Salmaan Siddiqui noted that he had re-marked ABN1 by (1) reducing the weighted average prices of certain vintages of last cash flow bonds to a mere fraction below \$90, and (2) making unjustified positive price adjustments to unrelated bonds in ABN. By making positive “offsetting marks” on unrelated bonds, Salmaan Siddiqui neutralized the negative P&L impact caused by lowering the price of the last cash flow AAA bonds.

99. Rather than mark the AAA bonds down to reflect their actual fair value, Salmaan Siddiqui merely lowered the weighted average prices so that they were valued at 89.9. This write-down was trivial. Defendants knew that the prices of the AAA bonds in the ABN1 book were not recorded at their fair value at the end of December 2007.

100. At the time the bonds were priced in the extreme high 80s, Serageldin was aware that another senior trader in the Fixed Income group who oversaw a comparable portfolio of bonds had priced his floating rate LCF bonds *below* the ABX Index.

H. Serageldin and Higgs Acknowledge that Their AAA Bonds are Overpriced.

103. During a telephone call on January 4, 2008, Serageldin and Higgs reviewed a spreadsheet setting forth the year-end AAA prices. In the call, Serageldin and Higgs acknowledged that the fixed and floating rate last cash flow AAA bonds in ABN1 were priced too high as of December 31:

Serageldin: *The dollar prices of our floating rates and fixed rates honestly are quite high, right?*

Higgs: *I agree they are quite high.*

* * * *

Serageldin: *Why can't we lower the dollar prices on that stuff?*

Higgs: *They definitely should be marked down.*

Serageldin: *We should mark these down because someone is going to spot this. On the fixed rates we have some room, but not on the floating rates, we don't. On the other desk, right, the floating rate, the bonds are marked below the index.*

104. Despite acknowledging that the prices of the AAA bonds in ABN1 were priced far too high, Defendant Serageldin did not adjust those prices to ensure that the year-end P&L would be accurate. To the contrary, on approximately January 7, 2008, Serageldin signed off on his year-end P&L without revising the false prices of the bonds in ABN1.

105. During another telephone call on January 9, 2008, Serageldin reminded Higgs that senior management was expecting his books to generate substantial revenue: *"People are expecting us to make money. [The head of Credit Suisse Group's investment bank] knows what our positions are. Today, we have to be up at least 10 bucks [million]."*

106. In the same call, Serageldin also conceded that his and Higgs' effort to find positive P&L was complicated by a legacy of mismarked positions: *"I know it's hard when you've got things that aren't necessarily quite marked where they need to get marked."*

107. Although the AAA bonds were written down by approximately \$35 million in the first half of January 2008, they remained at a very aggressive price levels vis-à-vis the ABX Index.

108. Later in the month, Higgs directed that the prices on the AAA bonds be raised to slightly *above* their year-end levels. There was no justifiable basis for raising the prices given the negative market conditions at the time.

I. Credit Suisse Group Restates Its Earnings.

109. On February 12, 2008, Credit Suisse Group issued a press release announcing that the bank “had contained the impact of the credit market dislocation in Investment Banking and increased revenues from the previous quarter.” On the same day, the bank reported net income in 2007 of CHF 8.55 (\$7.12) billion, with fourth quarter earnings of CHF 1.3 (\$1.16) billion. The next day, on February 13, Credit Suisse announced a \$2 billion debt offering, which was scheduled to close on February 19, 2008.

110. On February 15, 2008, Credit Suisse furnished to the Commission a Form 6-K containing the company’s reported results of net income in 2007 of CHF 8.55 (\$7.12) billion and fourth quarter earnings of CHF 1.3 (\$1.16) billion. On February 19, 2008, Credit Suisse issued a press release stating that the results it had announced just one week earlier were incorrect. The bank estimated that the fair value of certain positions held by Credit Suisse would have to be reduced by about \$2.85 billion, lowering previously announced net income by \$1.0 billion. That day, the price of Credit Suisse’s ADRs dropped 5.23% to \$48.22 from its previous day’s close of \$50.88. Following the February 19 announcement, the coupon and the spread of the bond offering were adjusted by 25 basis points and settlement was postponed to February 20, 2008.

111. On March 20, 2008, Credit Suisse issued another press release, announcing the completion of its internal review and stating that the fair value reduction was about \$2.65 billion (about \$200 million less than previously estimated). The bank reduced net income for the fourth quarter of 2007 from CHF 1.3 (\$1.16) billion to CHF 540 (\$471) million. Credit Suisse also reduced its previously reported net income for the full year 2007 by CHF 789 (\$657) million to CHF 7.76 (\$6.47) billion.

J. The ABN1 Book

112. The largest portion of write-downs occurred in the ABN1 trading book, in which Credit Suisse recognized a write-down of approximately \$1.3 billion. The write-down was approximately \$648 million for the fourth quarter of 2007, and the remainder was attributed to the first quarter of 2008.

113. Of the \$648 million write-down in ABN1 for the fourth quarter of 2007, approximately \$539 million was related to ABS cash bond positions and approximately \$109 million was related to cash CDO positions.

114. The inflated values for the cash bonds in the ABN1 trading book overstated the bank's income before taxes by approximately 33 percent for the fourth quarter and by approximately 4 percent for the year.

115. Credit Suisse announced on March 20, 2008 that it had terminated or suspended the traders responsible for the mispricing.

FIRST CLAIM FOR RELIEF

**Violations of Section 10(b) of the
Exchange Act and Rule 10b-5**

116. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 115.

117. Defendants, directly or indirectly, singly or in concert, by the use of the means or instrumentalities of interstate commerce or of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of securities, knowingly or recklessly, have employed devices, schemes and artifices to defraud and/or engaged in acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchases of securities or upon other persons.

118. Defendants each knew, or were reckless in not knowing, that each of their activities as described above was part of an overall scheme and course of conduct that was improper.

119. By reason of the foregoing, Defendants, singly or in concert, directly or indirectly, violated Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5].

SECOND CLAIM FOR RELIEF

Aiding and Abetting Violations of Section 10(b) and Rule 10b-5

120. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 119.

121. Non-Defendant Credit Suisse Group violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, in that, in connection with the purchase and sale of securities, directly and indirectly, by the use of the means and instrumentalities of interstate commerce or of the mails, knowingly or recklessly, it (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and have omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; (c) and/or engaged in acts, practices and courses of business which operate as a fraud and deceit upon investors.

122. Through the conduct alleged herein, Defendants knowingly or recklessly provided substantial assistance to non-Defendant Credit Suisse Group in the commission of these violations.

123. By reason of the activities described above, Defendants aided and abetted non-Defendant Credit Suisse Group's violations of Section 10(b) of the Exchange Act [15 U.S.C. §§78j(b)] and Rule 10b-5 thereunder [17 C.F.R. §240.10b-5].

THIRD CLAIM FOR RELIEF

Violations of Section 13(b)(5) of the Exchange Act and Rule 13b2-1

124. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 123.

125. As described above, by among, other things, falsifying or causing others to falsify the valuation records that Credit Suisse used in its financial reporting, and by circumventing the process by which Credit Suisse sought to verify the validity of its securities' fair value prices, Defendants knowingly circumvented or knowingly failed to implement a system of internal accounting controls and knowingly falsified, directly or indirectly, or caused to be falsified books, records and accounts of non-Defendant Credit Suisse Group that were subject to 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)].

126. By reason of the foregoing, Defendants violated Section 13(b)(5) of the Exchange Act [15 U.S.C. § 78m(b)(5)] and Rule 13b2-1 thereunder [17 C.F.R. § 240.13b2-1].

FOURTH CLAIM FOR RELIEF

Aiding and Abetting Violations of Section 13(a) of the Exchange Act and Rules 12b-20 and 13a-16

127. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 126.

128. Non-Defendant Credit Suisse Group failed to furnish to the Commission, in accordance with the rules and regulations prescribed by the Commission, such financial reports

as the Commission has prescribed, and Credit Suisse Group failed to include, in addition to the information expressly required to be stated in such reports, such further material information as was necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading, in violation of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20 and 13a-16 thereunder [17 C.F.R. §§ 240.12b-20 and 240.13a-16].

129. Defendants knew or recklessly disregarded Credit Suisse Group's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20 and 13a-16 thereunder [17 C.F.R. §§ 240.12b-20 and 240.13a-16] and substantially assisted the primary violations.

130. By reason of the foregoing and pursuant to Section 20(e) of the Exchange Act, Defendants aided and abetted Credit Suisse Group's violations of Section 13(a) of the Exchange Act [15 U.S.C. § 78m(a)] and Rules 12b-20 and 13a-16 thereunder [17 C.F.R. §§ 240.12b-20 and 240.13a-16].

FIFTH CLAIM FOR RELIEF

Aiding and Abetting Violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act

131. The Commission realleges and incorporates by reference herein each and every allegation contained in paragraphs 1 through 130.

132. Section 13(b)(2)(A) of the Exchange Act [15 U.S.C. § 78m(b)(2)(A)] requires issuers to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of its assets. Section 13(b)(2)(B) of the Exchange Act [15 U.S.C. § 78m(b)(2)(B)] requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are fairly reflected.

133. Non-Defendant Credit Suisse Group failed to:

- a. make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflected the transactions and dispositions of its assets; and
- b. devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:
 - i. transactions were executed in accordance with management's general or specific authorization;
 - ii. transactions were recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and to maintain accountability for assets;
 - iii. access to assets was permitted only in accordance with management's general or specific authorization; and
 - iv. the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences;

in violation of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

134. Defendants knew or recklessly disregarded Credit Suisse Group's violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)] and substantially assisted such violations.

135. By reason of the foregoing, Defendants aided and abetted Credit Suisse Group's violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)], and unless enjoined, will again aid and abet violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78m(b)(2)(A) and 78m(b)(2)(B)].

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests a Final Judgment:

A. Permanently enjoining Defendants from violating, directly or indirectly, Sections 10(b) and 13(b)(5) of the Exchange Act [15 U.S.C. §§ 78j(b) and 78(m)(b)(5)] and Rules 10b-5 and 13b2-1 thereunder [17 C.F.R. §§ 240.10b-5 and 240.13b2-1], and permanently enjoining Defendants from aiding and abetting violations of Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act [15 U.S.C. §§ 78j(b) and 15 U.S.C. §§ 78m(a) and 78m(b)(2)], and Rules 10b-5, 12b-20 and 13a-16 thereunder [17 C.F.R. §§ 240.10b-5, 240.12b-20 and 240.13a-16];

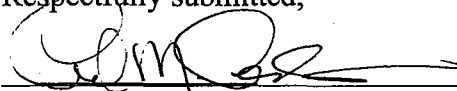
B. Ordering Defendants to disgorge all ill-gotten gains that they obtained as a result of the conduct, acts or courses of conduct described in this Complaint, and to pay prejudgment interest thereon;

C. Ordering Defendants to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)]; and

D. Granting such other and further relief as the Court may deem just and proper.

Dated: New York, New York
February 1, 2012

Respectfully submitted,



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