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DCBS settles with brokerage firms over auction-rate securities

Settlements net additional \$1.4 million, bringing total to more than \$3 million

(Salem) — The Oregon Department of Consumer and Business Services has reached settlements totaling more than \$1.4 million with two national brokerage firms for dishonest and unethical business practices relating to auction-rate securities. Including these two new settlements, DCBS has fined brokerage firms more than \$3 million for auction-rate securities violations since 2009.

In one of the current cases, DCBS fined UBS Securities LLC and UBS Financial Services Inc. more than \$1.23 million. In a separate case, Morgan Stanley & Co. Inc. paid more than \$256,000. As part of the settlements, both companies also agreed to buy back securities or reimburse eligible investors who lost money.

The majority of the settlement proceeds will be transferred to Oregon's General Fund, with approximately 5 percent being set aside to help inform Oregon investors about financial services and identify and avoid fraud.

Auction-rate securities are debt instruments with long-term maturities, such as bonds or notes, issued by municipalities or student-loan agencies that have interest rates reset by auction every seven to 35 days. An auction-rate securities auction fails if there is not a buyer available for every auction-rate security being offered for sale at the auction. If that happens, the investors who were unable to sell their auction-rate securities would continue to hold the security and wait until the next successful auction.

The settlements resulted from a multi-state investigation that found UBS, Morgan Stanley, and other prominent brokerage firms misrepresented auction-rate securities to investors as safe, cash-equivalent products, even though the products faced increasing liquidity risk.

“When dealing with complex products like auction-rate securities, it is important to fully understand the risks before deciding to invest,” said Cory Streisinger, director of DCBS. “Brokers have a responsibility to provide consumers with accurate and complete information; when they do not, they will be held accountable.”

Auction-rate securities had been promoted in recent years as being similar to cash deposits or money market accounts. However, because of tight credit markets stemming from the subprime mortgage crisis, many auctions where auction-rate securities are traded began to fail. As a result, investors found that they were unable to access their money – contrary to what they were told when they bought the product. After the market for auction-rate securities essentially froze in early 2008, Oregon investors held more than \$458.2 million in auction-rate securities with UBS and more than \$14.4 million with Morgan Stanley.

In 2008, state securities regulators began receiving hundreds of complaints from investors. As a result, in April 2008, the North American Securities Administrators Association (NASAA) announced the formation of a multi-state task force, comprised of securities regulators in 12 states, to investigate whether the nation's prominent securities firms had systematically misled investors when placing them in auction-rate securities.

DCBS has reached settlements with several other brokers totaling more than \$1.6 million, including Wachovia Securities, LLC, and Wachovia Capital Markets, LLC; Citigroup Global Markets Inc.; Banc of America Securities LLC, and Banc of America Investment Services, Inc.; Merrill Lynch, Pierce, Fenner & Smith, Inc.; RBC Capital Markets Corporation; Deutsche Bank Securities Inc.; and Credit Suisse Securities (USA) LLC. Oregonians with questions about their investments in auction-rate securities are encouraged to call the Division of Finance and Corporate Securities at 1-866-814-9710 or in Salem at 503-378-4140.

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The Department of Consumer and Business Services is Oregon's largest business regulatory and consumer protection agency. For more information, go to www.dcbs.oregon.gov.