

MEMO# 22408

April 9, 2008

FINRA Focuses on Investors in Auction Rate Securities

[22408]

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TO: MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 18-08
CLOSED-END INVESTMENT COMPANY MEMBERS No. 11-08 RE: FINRA FOCUSES ON
INVESTORS IN AUCTION RATE SECURITIES

The Financial Industry Regulatory Authority (“FINRA”) recently issued guidance to investors holding illiquid auction rate securities (“ARS”) due to failed auctions. [\[1\]](#) After providing a brief primer on ARS and the intersection between recent developments in the credit market and ARS, the guidance highlights three options for ARS investors who cannot liquidate their holdings. It explains that investors may: (1) continue to hold the ARS until the next auction; (2) sell the ARS in the secondary market; or, (3) borrow from their brokerage firms on margin to help meet the investors’ cash flow needs. The guidance sets out some of the advantages and disadvantages that surround each option.

FINRA also issued a Regulatory Notice regarding reporting customer complaints related to ARS. [\[2\]](#) FINRA member firms are required to submit quarterly statistical reports categorizing customer complaints. The Regulatory Notice states that three new product categories have been developed for use by FINRA member firms to capture reporting of ARS related complaints: ARS-municipal debt, ARS-corporate debt, and ARS-closed-end funds.

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endnotes

[1] See FINRA Investor Alert, Auction Rate Securities: What Happens When Auctions Fail?, March 31, 2008. The Alert is available at:
<http://www.finra.org/InvestorInformation/InvestorAlerts/TradingSecurities/AuctionRateSecuritiesWhatHappensWhenAuctionsFail/P038207>.

[2] See FINRA Regulatory Notice 08-17, Customer Complaint Reporting, April 2008. The Regulatory Notice is available at:
http://www.finra.org/web/groups/rules_regs/documents/notice_to_members/p038275.pdf.

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