

## DOW JONES NEWSWIRE

August 27, 2008

### Broker's World: Citi Readies Brokers For Client Settlements

By Evelyn Juan

Financial advisors at Citigroup Inc. (C), the first Wall Street company to settle on auction-rate securities, are now gearing up to face clients about the nitty-gritty of redeeming their auction-rate securities.

Over the coming weeks, Citigroup's retail brokerage unit, Smith Barney, will start sending letters that will initially offer customers a loan to provide liquidity on their immediate financial needs, before making a one-time offer to buy back auction-rate securities that were purchased from Smith Barney.

Citigroup will offer to buy at par around \$7.3 billion of auction-rate securities that it issued or sold to retail customers by Nov. 5. Those who sold their securities at less than par prior to the settlement will have a chance to recover the difference under the program. But those who borrowed against their securities won't be re-imbursed for interest they paid, Citigroup told brokers in a memo reviewed by Dow Jones Newswires.

Financial advisors, particularly those who moved to Citigroup from another firm, were also advised by some managers to no longer transfer auction-rate securities that were purchased from other companies to Citi since transferees won't be covered by the repurchase program. However, securities that were sold by Citi will be covered even if they were transferred to another firm.

Some of these moves are expected. Citigroup early this month settled with the office of New York Attorney General Andrew Cuomo, the Securities and Exchange Commissions, and other state regulatory agencies. But the memo spells out brokers' responsibility to walk their clients through the process of obtaining liquidity following failed auctions of their auction-rate securities.

"It's unfortunate that they are now in a hard position dealing with customers because of the firm's misconduct," said **Jacob Zamansky**, a securities lawyer who represents some clients who sued firms over auction-rate securities. In helping clients deal with the settlement, he urged financial advisors to focus on a simple goal: "The brokers should try and get the redemption into their clients as soon as possible."

A Citigroup spokesman declined to comment on the company's moves. The company didn't admit or deny allegations of wrongdoing on marketing and selling auction-rate securities.

Auction-rate securities are long-term bonds that behave like short-term debt in that their rates are periodically reset at auction. Until the periodic auctions of these securities failed earlier this year, the securities had long been marketed by financial advisors as liquid, super-safe investments.

Auctions failed because major investment banks such as UBS AG (UBS), Merrill Lynch & Co. (MER), Citigroup, Goldman Sachs Group Inc. (GS) and Wachovia Corp. (WB) shied away from supporting the auctions by buying unsold securities. But these companies, including Morgan Stanley (MS), JPMorgan Chase & Co. (JPM), and Deutsche Bank AG (DB), have in the past weeks agreed with state and securities regulators to buy back billions of dollars in auction-rate securities they sold to retail clients.

All the banks have offered to purchase auction-rate securities at the price investors paid, but details and timings of their settlements aren't identical.

Morgan Stanley, for instance, will, like Citi, allow those who sold their securities below par to recover the difference. But unlike Citi, Morgan Stanley will reimburse the interest on clients' loans. The company will inform clients of the repurchase offer no later than Sept. 30, but the offer will remain open until January 2009. Morgan Stanley is expected to buy back approximately \$4.5 billion of worth of auction-rate securities that it sold to retail investors prior to Feb. 13.

UBS, the second company to settle and the only one to mark down the value of auction-rate securities on clients' statements, will reimburse clients for losses incurred from auction-rate securities holdings that were sold between Feb. 13 and Aug. 8. The Swiss banking giant has announced concrete plans to redeem institutional and corporate client holders of auction-rate securities, in addition to retail investors.

But while companies have settled with state and securities regulators by paying fines and buying back auction-rate securities, arbitration claims could continue to mar brokers' regulatory records.

Any customer complaint that is reported stays on a broker's record for 24 months. If nothing happens with the complaint - say, for instance, there is no settlement or no arbitration award - it falls into the broker's archive file.

If a settlement of \$5,000 or more occurs for written complaints - or \$10,000 or more for oral complaints - or if there is an arbitration that is resolved with an award to the customer - then complaints remain in the broker's regulatory record.

"The payment of damages does not bring the complaint to \$0 - it just means that there is no balance due," said Brendan Intindola, a spokesman at the Financial Industry Regulatory Authority. Complaints must be reported, he said, as do subsequent conforming settlements and arbitration awards.

The consequence could be tough for advisors whose regulatory records have been tarnished by complaints about auction-rate securities, said Christopher Moyon, a Chicago-based securities lawyer who has dealt with some financial advisors in that situation.

Recruiters and managers generally understand that the auction-rate securities fiasco wasn't necessarily the brokers' fault. But customers looking for a financial advisor could be concerned about a regulatory flag on auction-rate securities.

Some clients could take the settlement and look for another broker at another firm, according to Moyon. "The problem is," he said, "the investors may not likely find another firm that wasn't involved in this."