



ARIZONA CORPORATION COMMISSION

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Commission Orders Wachovia to Pay Fine for Auction-Rate Securities Sales Arizona to Receive \$642,280

PHOENIX, AZ—The Arizona Corporation Commission today approved a consent order that requires Wachovia Securities, LLC and Wachovia Capital Markets, LLC to pay a \$642,280 fine as a result of the dealers' auction-rate securities sales in Arizona. The agreement marks the first settlement of an auction-rate securities case in Arizona since the widespread market failure last year. Auction rate securities are long-term investment instruments with interest or dividend rates that reset through auctions held at predetermined intervals, typically intervals of seven to 42 days. Auction rate securities include auction rate municipal bonds, auction rate preferred shares of closed-end mutual funds, and asset-backed bonds.

The fine amount represents Arizona's pro-rata share of a \$50 million settlement negotiated by a multistate task force of state regulators formed by the North American Securities Administrators Association (NASAA) that included participation by the Commission's Securities Division. During the investigation, regulators discovered that both of the Wachovia securities dealers failed to adequately inform customers and train employees on the risks associated with buying auction-rate securities.

Among the principal components of the settlement, Wachovia Securities and Wachovia Capital Markets agreed to buy back the auction-rate securities at par value from owners who purchased them from Wachovia Securities or Wachovia Capital Markets on or before February 13, 2008. In Arizona, Wachovia purchased \$69.9 million worth of auction-rate securities from 402 investors.

To each investor who sold auction rate securities below par after February 13, 2008, but before August 15, 2008, both securities dealers agreed to reimburse any investor who sold at a financial loss. Additionally, Wachovia Securities and Wachovia Capital Markets agreed to refund refinancing fees from specified municipal auction rate issues, establish and maintain a dedicated telephone assistance line and arbitrate any claim for consequential damages. Any investors who purchased auction-rate securities from Wachovia during this time frame, but have not received notice from them, can call 1 (866) 283-7943 or the Commission's Securities Division at (602) 542-4242 to request repurchase from the company.

Although marketed and sold to investors as safe, liquid, and cash-like investments, auction-rate securities are actually long-term investments subject to a complex auction process that, upon failure, can lead to illiquidity and lower interest rates. The Commission found that Wachovia Securities fostered misconceptions about the liquidity of auction-rate securities by providing customers with account portfolio summaries that listed auction-rate securities as "cash equivalents."

In settling this matter, Wachovia Securities and Wachovia Capital Markets neither admitted or denied the Commission findings, but agreed to the entry of the consent order. Settlements or payments arising from securities law violations are directed by law to the Arizona General Fund and do not remain

with the Arizona Corporation Commission. The Commission's funding is appropriated through the normal state budget process.

Commissioner Comments:

"While I applaud the great work of our Securities Division staff in negotiating the settlement and our actions of today," said **Commissioner Sandra Kennedy**. "I still have concerns that Wachovia will retain the ability to sell securities in our state. I hope Wachovia will not use any of its TARP bail out funds to pay their fines."

"The Commission will remain vigilant in protecting the interests of Arizona's investors," said **Commissioner Bob Stump**.

"I want to commend our staff, especially Matt Neubert for representing the Corporation Commission on the task force that investigated the egregious behavior of Wachovia Securities," said **Commissioner Paul Newman**. "While Arizona levied a \$642 thousand fine and investors are going to be made whole, nationally the fine of \$50 million sends a strong message to the security industry that states will not tolerate unethical and unlawful behavior from Wall Street."

"Today the Commission held Wachovia Securities accountable for engaging in unethical corporate behavior by selling these auction rate securities to Arizona investors without full disclosure of the risks involved," **Chairman Kris Mayes** said. "This decision should send a message that big firms like Wachovia had better clean up their act, or risk significant fines."

"Bad actions by major companies are particularly distressing," said **Commissioner Gary Pierce**. "In this case, we are fortunate that the company is solvent enough to make good on the refunds and penalties we required in today's order."

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