

Firms, Not Brokers, Faulted on Auction-Rates

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Wall Street Journal – Despite the anger harbored by Main Street investors toward brokers who sold them auction-rate securities, some of the people trying to protect consumers say individual brokers may not be to blame. Instead, some regulators and investors' lawyers argue, brokerage firms are responsible. The firms had a bird's-eye view of the now-frozen auction-rate securities market and should have foreseen the failure, they believe.

Also, some say, it is reasonable to expect brokers to rely on their firms' descriptions of products; they aren't obligated to research an investment if their firms had explained it to them.

"The brokerage firms bear the responsibility, and they know it," says Phil Aidikoff, a Beverly Hills, Calif., lawyer who is former president of the Public Investors Arbitration Bar Association. "I don't think the industry representatives understood the risk. I think [they] simply told customers what they were told by the firm."

Even if brokers are legally blameless, their reputations may be tarnished. As the business attempts to shift to a more-relationship-based model, many investors are disappointed that their financial advisers were caught off guard by the collapse of the auction market.

The market was estimated at \$330 billion, held by individuals and institutions, when it collapsed in February. Many individual investors say they received no disclosure of risks when they purchased these products. Brokers never gave them prospectuses to read, they say, and they were never told auctions could fail.