

Auction Rate Securities (ARS) Overview



There are two varieties of Auction Rate Securities ("ARS"): long-term bonds that earn variable, short-term coupon payments, and perpetual preferred stock that pays variable, short-term dividends. ARS rates are determined through a periodic auction process. Municipal entities may issue tax-exempt or taxable auction rate bonds for municipal purposes. Auction rate preferreds are typically issued by corporations and may offer specific tax benefits to corporate purchasers. Auction rate preferred shares are primarily issued by investment management companies which may issue either tax-exempt or taxable ARS depending on the unique characteristics of the investments made by the investment company.

ARS help issuers diversify their funding structure because they pay at variable, short-term rates while traditional bond issues pay a fixed, long-term rate. ARS rates are typically reset every seven, 28, 35 days or longer depending on the issue. While municipalities or corporations issuing ARS may use the proceeds to fund specific projects or for general purposes, investment companies use the proceeds from the sale of ARS to invest in other securities to be held by a closed-end mutual fund, as described in the fund's prospectus. As long as the closed-end fund's rates of return on the investments purchased with the proceeds from the sale of ARS exceed the rates the fund pays on the ARS, the fund earns the difference, or "yield spread" between the two rates. The yield spread may be passed on by the investment company to its shareholders in the form of higher dividends.

Please review Wells Fargo Securities' [Auction Rate Securities Procedures](#) for a discussion of the firm's auction procedures.

Understanding the typical terms and descriptions of the auction practices we use is crucial when you invest in ARS through Wells Fargo Securities, but because each security is different, investors should review the disclosures of the auction agent and other broker-dealers participating in the auction for a specific ARS in which they wish to invest. Printed copies of offering documents, Wells Fargo Securities' ARS disclosures and those of other auction participants, and other general educational information concerning ARS can be obtained from your investment representative.

Certain Municipal Issuers or Conduit Borrowers have decided to participate in the auction of their own auction rate securities pursuant to recent guidance from the U.S. Securities & Exchange Commission. These Issuers/Conduit Borrowers are required to provide a notice of their intent to participate in the auction and the interest rate and amounts that they will bid for and certain other detailed bidding information. This information will be available to you at www.dacbond.com.

For more information about Auction Rate Securities (ARS)

- [ARS Procedures](#)
- [ARS Settlement](#)

¹ Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Securities, LLC, member NYSE, FINRA and SIPC.

Investments: NOT FDIC Insured • May Lose Value • No Bank Guarantee