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UBS and Auction Rate Securities (C)

HBS Case No. 209-135

Harvard Business School Finance Unit

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Daniel Bergstresser (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=4486602)

affiliation not provided to SSRN

Shawn Allen Cole (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=430452)

Harvard Business School

Siddharth Bhaskar Shenai (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1297427)

Harvard Business School

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Abstract

UBS, a global financial services company, must decide whether to continue to support the market for Auction Rate Securities in the face of a growing financial crisis. These instruments, underwritten by UBS, were marketed to clients as highly liquid and safe alternatives to cash. UBS' decision becomes urgent when Citigroup, another leading underwriter of ARS, decides to let their auctions fail, leaving clients with illiquid assets of uncertain value. The case explores theoretical and practical aspects of liquidity risk, and challenges students to evaluate the benefits of honoring implicit commitments to customers against the costs of acquiring billions of dollars in illiquid assets. The (B) and (C) cases consider the implications of UBS decision.

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