



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

March 14, 2008

Leslie M. Norwood
Managing Director and
Associate General Counsel
SIFMA
360 Madison Avenue
New York, NY 10017-7111

Anne Phillips Ogilby
Ropes & Gray
One International Place
Boston, MA 02110-2624

Re: Municipal Auction Rate Securities

Dear Ms. Norwood and Ms. Ogilby:

Thank you for your letters dated February 21, 2008, in which you outline some concerns about the recent turmoil in the market for municipal auction rate securities. The mission of the Commission is to protect investors, maintain fair and orderly securities markets, and facilitate capital formation. This statutory mission extends to the market for auction rate municipal securities.

I. Background

Municipal auction rate securities are municipal bonds with interest rates that are periodically re-set through auctions, typically every 7, 14, 28, or 35 days. Municipal auction rate securities are usually issued with maturities of 30 years, but the maturities can range from five years to perpetuity. Municipal auction-rate securities are auctioned at par so the return on the investment to the investor and the cost of financing to the issuer between auction dates is determined by the interest rate set through the auctions. The interest rate is set through a process in which bids with successively higher rates are accepted until all of the securities in the auction are sold. The final rate at which all of the securities are sold is the "clearing rate" that applies to all of the securities of an offering until the next auction occurs. If there are not enough bids to cover the securities for sale, then the auction "fails," the issuer pays a predetermined rate that is generally well above-market rates, and the current holders continue to hold the securities. Hundreds of auctions for municipal auction-rate securities recently have failed to obtain sufficient bids to establish a clearing rate.

