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UBS Hit With Second $18M Ruling Over Puerto Rican Munis.

Wednesday's ruling includes $4 million in punitive damages, while the prior award is being challenged in court

A month after a regulatory panel awarded over $18 million to two clients of UBS over sales of Puerto Rican municipal bonds and closed-end funds tied to these securities, a separate panel issued a similar award to three other clients — including $4 million in punitive damages.

But while UBS is challenging the December award in a U.S. district court with claims that arbitrators failed to disclose key material facts before the case began, attorneys representing the three clients set to benefit from the latest award believe this award will not be challenged.

UBS accepted the Financial Industry Regulatory Authority panel, which included three arbitrators, says attorney Lloyd R. Schwed of Schwed Kahle & Kress in Palm Beach Gardens, Florida, and raised no objections to it.

The panel issued its $18.2 million decision on Wednesday, ruling that the Gomez family — well known on the island for their car businesses and charitable activities — should receive $9.63 million in compensatory damages, $4 million in punitive damages, nearly $4.5 million in attorneys' fees, and $86,550 in other costs.

The three members of the Gomez family (parents Victor and Socorro, along with daughter Madeline), argued that they had been subjected to securities fraud, elder abuse and other violations of the law.

According to their attorneys, this arbitration decision appears to be the first entailing the imposition of punitive damages on UBS in connection with its sales of Puerto Rico municipal bonds and closed-end bond funds; the $70 billion market for these investments collapsed in 2013 and resulted in more than $1.5 billion in customer claims.

The $18.2 million award is among the 20 largest securities arbitration awards given to public clients in the past decade, the attorneys say.

"We are so grateful that these three [FINRA] arbitrators had the courage and integrity to punish UBS for its wrongful conduct that literally destroyed the life savings of the Gomez family and hundreds of other Puerto Rico citizens," said Schwed, in a statement. "In this case, the system worked: A Wall Street giant was made to pay for its reckless disregard for the rights of its customers."

It came after nine days of hearings and testimony which took place in San Juan, Puerto Rico, in November and December; the arbitrators then had up to 30 business days to deliberate and issue their decision after the hearings wrapped up on Dec. 9.

(The separate case now being challenged by UBS involves former clients Rafael Vizcarrondo, an attorney and businessman, and his wire Mercedes Imbert de Jesus.)

A 'Whopper'

The Gomez family alleged that former UBS Vice President Jose "Whopper" Ramirez violated both federal and state securities laws and committed fraud through the sale of some $50 million in Puerto Rican closed-end funds and municipal bonds to the family, which lost over $25 million through these investments in 2013, their attorneys say.

FINRA records state that Ramirez was fired by the company and barred from the securities industry by both the Securities and Exchange Commission and FINRA.

In addition, the clients say UBS failed to properly supervise Ramirez and was "reckless" in allowing him to concentrate so much of family's savings in "unsuitably risky" Puerto Rico closed-end bond funds underwritten, managed and marketed by UBS.

"Although the arbitrators awarded less than the full damages claimants requested, UBS is disappointed and strongly disagrees with the decision to award any damages," UBS said in a statement.

"Mr. Gomez was an experienced investor who made a fully informed decision to leverage his investments and concentrate his portfolio in UBS Puerto Rico closed end funds because of their long history of providing excellent returns and substantial tax advantages. UBS is considering its options to overturn the award," it explained.

UBS has stated in financial documents that investor claims seek some $1.5 billion in damages tied to these and related products. The bank agreed to pay $34 million to regulators in 2015.

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