

# **Bond Case Briefs**

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## **FINRA Says UBS Must Pay \$9M to Puerto Rican Muni Investor.**

***The case comes just one month after an \$18 million ruling, with more regulatory decisions expected***

In the ongoing resolution of multiple claims brought against UBS for sales of Puerto Rican bonds, a regulatory panel has awarded some \$9 million to an investor.

On Friday, the Financial Industry Regulatory Authority panel awarded Luiz Romero close to \$8 million in compensatory damage plus interest, as well as \$1 million in punitive damages plus interest.

“Respondent UBS exercised extreme recklessness and indifference to the consequences of loan recycling by failing to utilize a supervisory system which would have alerted upper management that claimant Romero and taken \$8 million from his non-purpose loan account one day and redeposited the exact same amount less than two weeks later to buy securities,” the regulatory panel explained in [its decision](#).

According to the panel, it opted to fine the wirehouse over its “intentional and willful provision of a ‘non-purpose’ loan, which was either knowingly encouraged to be ‘recycled in violation of Regulation U or provided with a reckless indifference to the consequences of the loan recycling.”

The loan, the regulatory group says, led to “additional excessive leverage, so that when there was a downturn in the market, claimants lost more money than they would have had they been suitably invested with less leverage.”

Romero bought municipal bonds and closed-end bond funds from UBS. He filed his complaint against UBS in November 2013. Several pre-hearing sessions were held in 2015, followed by 24 hearings in 2016 and 2017.

The \$70 billion market for these investments collapsed in 2013 and has resulted in more than \$1.5 billion in customer claims.

“Although the arbitrators awarded significantly less than the full damages claimants requested, UBS is disappointed and disagrees with the decision to award any damages,” the firm said in a statement. “Mr. Lopez was an experienced investor who made a fully informed decision to leverage his investments and concentrate his portfolio in Puerto Rico bonds and UBS Puerto Rico closed-end funds because of their long history of providing excellent.”

### **Prior Cases**

In January, just one 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.

UBS has challenged the December award in a U.S. district court with claims that arbitrators failed to disclose key material facts before the case began.

In January, UBS accepted the FINRA 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 a \$18.2 million decision, 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 appeared 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.

In the December decision, an attorney for a claimant — Timothy J. Dennin of Northport, New York — said there may be as many as a thousand similar claims pending in Puerto Rico.

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