Bond Case Briefs

Municipal Finance Law Since 1971

SEC Brings Charges Against Ex-UBS Financial Adviser and Senior Vice President Chris D. Rosenthal.

The SEC finds that Rosenthal engaged in fraudulent trading practices that helped unregistered brokers, known in the industry as “flippers”.

The United States Securities and Exchange Commission (SEC) today announces that it instituted settled proceedings against Chris D. Rosenthal. From February 1999 to September 2016, Rosenthal, served as a financial adviser and Senior Vice President at UBS, buying and selling securities for his brokerage customers’ accounts.

The SEC’s order finds that Rosenthal engaged in fraudulent trading practices that helped unregistered brokers, known in the industry as “flippers,” deceptively posing as retail investors to obtain municipal bonds in primary offerings.

According to the SEC’s order, from 2012 to 2016, Rosenthal engaged in deceptive practices designed to circumvent the priority that is given to retail investors in new issue municipal bond offerings. For instance, the SEC’s order found that, when placing orders for unregistered brokers in new issue municipal bond offerings distributed by UBS, Rosenthal falsified zip codes associated with the brokers’ accounts. This made it appear as though the orders had been placed by retail clients.

Furthermore, the SEC’s order finds that Rosenthal helped UBS municipal bond traders obtain new issue municipal bonds by placing dealer stock orders – which would ordinarily get lower priority in a new issue allocation – through the unregistered brokers, giving the impression that the orders were for customers rather than for UBS’s trading inventory. Also, the SEC’s order finds that Rosenthal engaged in a parking scheme with the unregistered brokers by arranging for them to purchase new issue bonds in offerings distributed by UBS, with the agreement that they would sell them back to UBS at a prearranged price. The parking scheme made it more likely that UBS traders could obtain new issue bonds for UBS’s trading inventory.

Rosenthal has been found to have willfully violated the antifraud provisions of Sections 17(a)(1) and (3) of the Securities Act of 1933, Section 10(b) of the Exchange Act of 1934 and Rule 10b-5 thereunder, as well as disclosure and fair dealing provisions of Rules G-11(b), G-11(k) and G-17 of the Municipal Securities Rulemaking Board. The order also found that he caused the unregistered brokers’ violations of Section 15(a)(1) of the Exchange Act.

Rosenthal did not admit or deny the SEC’s findings. However, he consented to a cease-and-desist order barring him from association with various regulated entities with the right to apply for reentry after five years. The order also imposes payments of $284,080 in disgorgement, $15,128 in prejudgment interest, and a $75,000 civil penalty.