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UBS Fined for Repeated Client-Reporting Inaccuracies on Munis.

The Financial Industry Regulatory Authority on Wednesday fined UBS Financial Services \$2 million for inaccurately representing to customers the tax status of municipal bond interest payments, and ordered it to pay any additional taxes they may owe because of the errors.

Regulators four years ago censured and fined UBS \$750,000 for similar supervisory violations.

In an acceptance, waiver and consent letter the broker-dealer signed, Finra said it considered UBS's "recidivism" in determining the fine.

The issue centered on "substitute interest" that UBS paid muni bond investors when it was short the actual muni bonds it sold. Such interest is taxable, unlike interest paid directly by muni issuers, but UBS on account statements and 1099 forms represented it as tax-exempt, the consent letter said.

It attributed the problem to UBS's [repeated failures](#) to have supervisory systems and written procedures to identify and manage reporting of the short positions, and to reasonably guide brokers in addressing them.

"[I]t is critical that member firms convey accurate information to customers regarding their account holdings," Jessica Hopper, Finra's acting head of enforcement said in a prepared statement. "In addition, member firms are expected to take prompt corrective action after being sanctioned and avoid repeat violations."

UBS agreed to the sanctions without admitting or denying Finra's findings.

"We are pleased to have resolved the matter," a UBS spokesman said.

The firm mischaracterized as non-taxable about \$567,812 of interest on 4,689 muni positions in at least 3,800 customer accounts from January 2014 through the end of 2017, according to the consent letter. (The errors occurred, in part, because UBS recharacterized the short substitute interest in corrective statements as taxable only if a position were still open on the record date for the semi-annual bond coupon payment.)

In addition to the \$2 million fine, UBS agreed to directly pay the IRS any additional tax customers may owe for tax years 2014-2017, relieving the customers of "the burden of filing amended federal tax returns and paying additional federal income tax," the consent letter said.

UBS also agreed to compensate customers for any increased state tax liabilities incurred because of characterizing actual tax-exempt interest in some customer statements as substitute interest, the consent letter said.

Finra said that it is allocating \$1.75 million of the \$2.0 million fine to the Municipal Securities Rulemaking Board.

AdvisorHub

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