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Ex-UBS Muni Derivative Desk Head Ghavami Gets 18 Months.

Former UBS AG (UBSN) managing director Peter Ghavami was sentenced to 18 months in prison for rigging what should have been competitive bids for municipal bond investment deals.

Ghavami, 45, and former UBS colleagues Gary Heinz and Michael Welty were sentenced today in Manhattan by U.S. District Judge Kimba Wood for their roles in the scheme. Heinz, 40, was sentenced to 27 months in prison as the judge weighed failed charges against him of witness tampering. Welty, 49, received a 16-month sentence.

“The offenses for which these three are being sentenced are very serious,” Wood said today in court. “They were part of a corrupt corporate culture that spanned years.”

The case stemmed from a five-year federal antitrust probe into the $3.7 trillion municipal bond market. Zurich-based UBS, Bank of America Corp. and other banks have paid more than $700 million to settle U.S. claims over the scheme.

Prosecutors alleged that the three men conspired with competitors and brokers to manipulate bidding for dozens of deals from about 2001 to 2004, costing municipalities, school districts and other bond issuers, as well as the U.S. Treasury, millions of dollars in losses.

Community Service

In addition to their prison sentences, Heinz and Welty were each ordered to serve 500 hours of community service and to pay fines of $400,000 and $300,000, respectively. Ghavami, who was accused of leading the scheme, was ordered to pay $1 million.

“They casually violated the regulations expecting that they would never be caught,” Kalina Tulley, an attorney with the Justice Department’s antitrust division, argued at the sentencing hearing.

The government sought far stiffer punishments than Wood imposed, requesting a combined total of at least 48 years for all three men. Wood found that prosecutors’ financial loss calculations, which formed much of the basis of their sentencing requests, were “theoretical.” She opted not to use most of them in making her decision.

The judge also said she took factors into account such as the defendants’ charitable efforts and Ghavami’s success overcoming of an abusive family life.

Ghavami, a Belgian citizen, will probably be deported after he finishes his sentence.

‘Constant Cruelty’

The former executive “suffered a childhood marked by almost unbearable, constant cruelty that would have crushed a weaker person,” Wood said. His “admirable history and character argue for

some leniency," she said.

All three were convicted by a jury in August of wire-fraud conspiracy for rigging bids. Ghavami and Heinz were also found guilty of wire fraud.

Issuers of tax-exempt municipal bonds must use competitive bidding when selecting firms to handle deals to invest the proceeds of a bond sale, according to the government. Rather than submitting competitive offers, Ghavami and co-conspirators reached out to other financial firms and engineered bids that were most beneficial to their companies, prosecutors alleged.

"They got to name their price," Tulley said today.

While working for the bank's municipal bond reinvestment and derivatives desk in New York, the defendants handled as many as 38 investment deals where they rigged bids, prosecutors alleged.

Bond Proceeds

The deals involved proceeds of bond offerings by entities such as Puerto Rico, Massachusetts, the Mississippi Development Bank and the New Mexico Educational Assistance Foundation, according to court documents.

Prosecutors had sought a sentence of at least 17 1/2 years for Ghavami, 19 1/2 years for Heinz and at least 11 1/4 years for Welty.

"We are thankful that the court forcefully rejected the government's over-the-top, draconian sentencing request," Marc Mukasey, a lawyer for Heinz, said in an e-mail after the hearing.

Lawyers for Ghavami, Charles Stillman and James Mitchell, said outside the courtroom that their client's sentence was fair.

"We are very pleased at the outcome today and we feel that justice was done," Stillman said.

The case is U.S. v. Ghavami, 10-cr-1217, U.S. District Court, Southern District of New York (Manhattan).

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