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WSJ: Citi To Sell New Muni Bonds Through UBS Brokers.

Citigroup Inc., which no longer owns a retail brokerage through which it can sell new issues of municipal bonds, is opening a new sales channel through Swiss banking giant UBS AG.

The two banks plan to announce Tuesday that muni bonds underwritten by Citi will be offered to clients of the roughly 7,000 advisers in the UBS Wealth Management Americas brokerage, which is ending a similar arrangement it had with J.P. Morgan Chase & Co.

The deal provides Citi's municipal underwriting business with the liquidity it lost following the sale of its Smith Barney brokerage business to Morgan Stanley. The sale was completed earlier this year.

Citi and UBS already have an agreement for bond trades in the secondary market. The new deal will take effect on Jan. 16.

UBS itself stopped underwriting U.S. municipal bond issues years ago. Brokers for firms that don't underwrite bonds need exclusive arrangements with underwriters to gain access to primary offerings. UBS has a distribution agreement with Loop Capital Holdings LLC of Chicago and with J.P. Morgan Chase.

J.P. Morgan and Citi are the second- and third-largest U.S. municipal bond underwriters, respectively, with about 12% market share each, according to Thomson Reuters. Bank of America Corp. (BAC) is the largest, with about 14%, and Morgan Stanley ranks fourth, with a market share of nearly 7%.

UBS didn't say why it decided to switch to Citi from J.P. Morgan. A spokesman for J.P. Morgan declined to comment.

Tom Troy, head of capital markets and sales for UBS Wealth Management Americas, said in a statement that expanding the strategic partnership with Citi "further differentiates our municipal bond offering and enhances our capabilities as a leading provider of municipal securities products to our private clients." The firm declined to discuss the matter further.

Citi has a distribution agreement with TMC Bonds LLC, an electronic trading platform, and won't look for more distributors. Citi wants to make sure UBS brokers get sufficient access to the bonds they need to fulfill client orders, the bank said.

"The UBS system provides us with the market access we need to make sure we can get significant retail access," said David Brownstein, co-head of Citi's public-finance business.

The market for municipal bonds has been roiled in recent years by fiscal troubles in some cities, counties and states, including the bankruptcy of Detroit and Jefferson County, Ala., as well as by Puerto Rico's struggle to shrink a big deficit.

Mr. Brownstein said Citi believes bonds remain a good investment, particularly given the recent decline in prices. "What we are seeing in the market is demand from retail [investors] that we hadn't seen for some time," he said.

"The defaults and bankruptcies we have seen are very unique in nature. When you look at the municipal market overall, the historical default rates have been low compared to corporates," Mr. Brownstein said.

By Matthias Reiker

Write to Matthias Rieker at matthias.rieker@wsj.com