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UBS Ordered to Pay Retiree \$1 Million Over Puerto Rican Bond Losses.

UBS AG's U.S. wealth-management has been ordered to pay a Puerto Rican retiree \$1 million in compensation for unrealized losses in the island's municipal-bond funds.

A Financial Industry Regulatory Authority arbitration panel ruled that the closed-end bond funds UBS brokers recommended for their client Juan Burgos were unsuitable.

Mr. Burgos was 66 years old when he invested in the funds that were popular on the island because of their favorable tax status. He had no experience in buying securities.

"The account was grossly overconcentrated...any proper UBS branch office or other review should have detected such obvious unsuitability," the panel said in its award document posted on Finra's website Wednesday.

Mr. Burgos opened his brokerage account at UBS in 2011, and over the next two years UBS persuaded him to invest more than \$1 million—his entire savings—in the municipal bond funds, the arbitration panel said.

At that time, Puerto Rico had already been in a recession. But two years later, its government's troubled fiscal situation began to worry bondholders, and the market for the funds dried up and their value started to decline.

Mr. Burgos as well "was greatly concerned," but was reassured by UBS. A UBS branch manager "explained that even a skinny cow could give milk," according to the panel.

"While he knew that he did not have what he had thought, he reasonably did not know or understand what he in fact had," the panel said.

The value of Mr. Burgos's fund holdings ultimately fell by \$737,000, and he held on to the investments because selling them would have generated even more losses, the panel said.

Mr. Burgos had sought more than \$2 million in compensation and punitive damages from UBS. His lawyer, Harold Vicente, said the award "gives justice" to Mr. Burgos. "We consider it to be a triumph for all the investors on the island."

Mr. Vicente also said he has filed municipal bond arbitration cases for more than 150 clients, mainly against UBS.

A spokesman for UBS said the firm "is disappointed with the decision, with which we respectfully disagree."

Mr. Burgos's case is the second win by a UBS client within a week. Last week, a Finra arbitration panel ordered UBS to pay Yolanda Bauza \$200,000 in compensation for her poorly performing

closed-end bond fund investments. She had sought between \$357,000 and \$625,000 in damages.

Unlike court rulings, arbitration decisions aren't precedent-setting for other panels. However, UBS and other brokerage firms in Puerto Rico currently face hundreds of arbitration claims from clients who invested in such closed-end funds, which are largely stacked with bonds issued by the Puerto Rican government and its agencies.

Some executives in the Puerto Rican brokerage industry have said it was difficult to persuade clients to diversify because the tax advantage, and in many cases the tax-exemption, of such funds had long made their returns difficult to replicate with other investments.

In its ruling Monday, the panel acknowledged that UBS brokers were under pressure to sell the funds, as the firm underwrote many of them.

The UBS spokesman said investors in Puerto Rican municipal bonds and closed-end funds "received excellent returns that frequently exceeded the returns available through investments in other bonds or bond funds" over the past 20 years.

"The funds have continued to pay a monthly dividend," he added.

THE WALL STREET JOURNAL

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May 20, 2015

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