

# **Bond Case Briefs**

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## **Puerto Rico Investors Win Relief From UBS.**

Mom-and-pop investors facing steep losses in Puerto Rico municipal-bond funds are starting to get some money back, following legal victories against the unit of UBS Group AG that sold the funds.

Investors scored their latest win on Tuesday. UBS was ordered to pay about \$2.5 million to a San Juan couple who bought Puerto Rico bond funds that plummeted in value as the island commonwealth's financial crisis deepened, according to law firms Sonn & Erez PLC and Aldarondo & Lopez-Bras PSC, which represented the plaintiffs. The investors had requested up to \$6 million in damages.

Earlier this year, UBS was ordered to pay nearly \$1.5 million, out of about \$5.8 million requested, to investors in three other cases regarding the Puerto Rico bond funds. The cases were decided by arbitrators from the Financial Industry Regulatory Authority, which resolves disputes between brokers and their clients.

The Swiss bank said it faces more than \$1.1 billion in damages tied to its Puerto Rico activities. Roughly 900 cases have already been filed with Finra, and lawyers are preparing to file more in the wake of Puerto Rico's first-ever municipal-bond default this month. More investor losses are likely as the island commonwealth seeks to restructure a debt load that Gov. Alejandro García Padilla has said is unpayable.

UBS said investors in the funds received excellent returns for years, which often exceeded the broader bond market. It said that a roughly \$250,000 award in a recent case was only a small portion of what was sought and doesn't indicate how future cases will be decided.

Each dispute is "based on the facts and circumstances particular to the individual claimant," UBS said. A UBS broker won one Finra case in which an investor had requested about \$9,000 in damages. That investor didn't have legal representation.

"Before it's over, UBS is going to pay hundreds of millions of dollars, maybe more than a billion dollars, over what happened in Puerto Rico," said Craig McCann, president of Securities Litigation & Consulting Group, which is working for individual investors in some of the cases against UBS. "You would think at some point, either the individuals or the corporate entities would see that they have to be more careful about what they're selling investors."

Investors say UBS brokers told them that the Puerto Rico bond funds were safe, when in fact they were heavily invested in just a few Puerto Rico bond issues, and had used leverage, a risky strategy, to improve returns. They also say UBS reaped millions of dollars in fees by selling and trading the funds and that investors didn't know that UBS largely controlled the market for the funds, making them illiquid and prone to outsize price swings.

The risks of the funds became apparent in mid-2013, when worries about Puerto Rico's finances caused prices on the island's bonds to fall, according to the investor claims. In 2013, roughly \$3 billion of the funds' market value was wiped out, according to an analysis from Mr. McCann's firm.

UBS has disclosed that federal regulators are investigating whether one broker improperly encouraged investors to take out loans so they could buy more shares in the funds. UBS has said it is cooperating with the inquiry.

One UBS broker, Jose Ramirez, has been fired and is the focus of a criminal investigation by the Justice Department, The Wall Street Journal previously reported. At the time, an attorney for Mr. Ramirez said it was “sheer speculation” who was the subject of the probe.

The Securities and Exchange Commission also recommended bringing an action against a current UBS broker, Ramiro Colon, for failure to supervise, according to broker records. Mr. Colon intends to “vigorously defend” against the allegations, the records show.

UBS declined to comment on Mr. Ramirez and Mr. Colon. The SEC and Justice Department declined to comment.

Some of the cases filed by individual investors have been settled, at times for millions of dollars. For those that go to a hearing, the Finra-trained arbitrators who preside aren’t required to write opinions explaining their decisions. But they issued an opinion in May, when they awarded Juan Burgos Rosado \$1 million to compensate him for his losses.

The arbitrators said Mr. Rosado was “at age 66 essentially a first-time senior investor with no experience” and “that a proper effort to know her customer would have revealed that to his broker.”

For many investors, “their life savings are invested in these kinds of funds,” said W. Scott Greco, a lawyer at Greco & Greco PC whose client won an award against UBS. “However small that may be to UBS, it’s a very large amount for them.”

In a case decided last month, one of the plaintiffs, Francisco Ramis, was a business executive in an aluminum door and window business and was looking for a safe investment that would provide funds for him and his wife after he retired, according to legal documents. He knew Mr. Ramirez, the ex-broker scrutinized by the Justice Department, since childhood.

A lawyer for Mr. Ramirez, Guillermo Ramos-Luiña, said the award was exclusively against UBS. “We have contested all the allegations,” he said.

Mr. Ramis initially asked for approximately \$3.1 million, an amount that included punitive damages, and received about \$250,000. Mr. Ramis and his wife are happy they won a damage award, said Francisco Pujol, an attorney in San Juan who represented the couple.

“He really trusted the broker completely because of their friendship,” Mr. Pujol said.

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