

Bond Case Briefs

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UBS Fined \$750,000 for Misstating Tax-Exempt Bond Interest.

A unit of UBS AG was fined \$750,000 for misstating that tax-exempt interest paid to customers was taxable, according to the Financial Industry Regulatory Authority.

As a result of inadequate procedures to address short positions in municipal bonds, UBS told about 4,370 customers that about \$1.2 million in interest the firm paid them was exempt from taxes, Finra said. In fact, UBS didn't hold the bonds on behalf of the customers and the interest the firm paid them was taxable as ordinary income. The error resulted in the underpayment of about \$282,000 in federal taxes, the regulator said. Only interest that is received from a municipal issuer is exempt from federal income tax.

"The firm failed to consider — and its automated system that calculated the interest owed to customers did not take into account — whether the interest it paid to customers should be coded as non-taxable when the interest was paid by the firm rather than the municipal issuer," Finra said.

UBS violated Municipal Security Rulemaking Board rules related to supervision and fair dealing, according to Finra.

UBS accepted Finra's decision without admitting or denying the findings.

By Martin Z. Braun

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