Bond Case Briefs

Municipal Finance Law Since 1971

Finra Fines Santander Unit Over Puerto Rico Bond Sales.

A unit of Spain's Banco Santander SA agreed to pay roughly $6.4 million in a settlement with Wall Street's self-regulator regarding supervisory failings tied to the sale of Puerto Rican municipal bonds, which have plunged in value in recent years.

The Financial Industry Regulatory Authority on Tuesday said Santander Securities LLC would pay a $2 million fine for supervisory failures related to sales of individual Puerto Rico bonds and closed-end funds, and for failing to reasonably supervise employee trading at the firm's Puerto Rico branch.

In addition, Santander agreed to pay about $4.3 million in restitution to certain customers, as well as $121,000 in restitution and an offer to buy back the securities sold to certain customers who were affected by the firm's failure to supervise employee trading, Finra said.

The securities industry's self-regulator found that for a 10-month period starting in December 2012, Santander didn't accurately reflect the dangers associated with the Puerto Rican paper in its risk-classification tool and failed to adequately supervise its customers' use of margin and concentrated positions in their accounts.

Finra added that Santander didn't revise the risk-tool classifications following Moody's Investors Service's downgrade of some of the island's municipal bonds to a notch above junk territory in December 2012. The day after the move, Santander allegedly stopped buying Puerto Rican municipal bonds being sold by customers and accelerated efforts to dump its inventory.

As is customary, Santander neither admitted nor denied the regulator's findings, according to the Finra disciplinary document, posted on the regulator's website.

A Santander spokeswoman said the firm "is pleased to resolve this matter and will comply with the terms of the Finra letter," adding that "the firm has taken steps to enhance its controls in connection with the activities described in the Finra letter."

Tuesday's development comes as Puerto Rico's financial crisis continues to draw scrutiny from U.S. lawmakers and regulators. Last month, a measure to establish more robust federal oversight over Puerto Rico's mutual-fund industry was introduced in Congress, and a Senate committee held a hearing on Puerto Rico's financial problems.

In addition, a unit of UBS Group AG in September agreed to pay roughly $34 million in settlements with U.S. regulators for issues tied to the sale of Puerto Rico bond funds. That included $15 million to settle charges from the Securities and Exchange Commission, which said the unit failed to supervise a former broker who had customers invest borrowed money in the bond funds, and $18.5 million for a Finra fine and investor restitution.

The funds and municipal bonds sold by UBS and other brokerages were popular among island residents in part due to generous tax advantages.

But Puerto Rico has been facing a sluggish economy and high unemployment for years, and officials have been seeking to restructure the island’s $72 billion debt load. Gov. Alejandro García Padilla has called the island’s debt unpayable, and many Puerto Rico bonds are trading well below face value.

THE WALL STREET JOURNAL

By ANNA PRIOR And EZEQUIEL MINAYA

Updated Oct. 13, 2015 12:58 p.m. ET

Write to Anna Prior at anna.prior@wsj.com and Ezequiel Minaya at ezequiel.minaya@wsj.com