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Morgan Stanley Paid New Jersey Widow Over Puerto Rico Losses.

Morgan Stanley paid a New Jersey widow \$95,632 to compensate for her losses on Puerto Rico securities, in what may be the first case of its kind involving mainland investors and commonwealth debt.

A Financial Industry Regulatory Authority arbitration panel decided in October that the bank must pay Morrisa Schiffman for compensatory damages. She asked for \$157,267.17 for unsuitable recommendations, failure to disclose and negligent supervision, according to the case document. Seth Lipner, a lawyer at Deutsch & Lipner in Garden City, New York, who represented Schiffman, said that he knows of no other case where a mainland investor won compensation for Puerto Rico bond losses.

"She's a widow who was using the income to supplement her retirement," Lipner said in a telephone interview Thursday. "I do anticipate seeing more people complaining as they come to realize that these bonds are not coming back to par."

Commonwealth securities, which attracted investors because they're tax-exempt in all U.S. states, lost about 19 percent since the start of 2013, while the broader municipal-bond market gained nearly 11 percent, according to S&P Dow Jones Indices. Puerto Rico bonds fell in value and began trading at distressed levels in 2013 on investor concern that the island wouldn't be able to repay all of its obligations on time and in full. The commonwealth and its agencies racked up \$70 billion by borrowing for years to fix budget shortfalls.

UBS Settlement

"Morgan Stanley is disappointed with the panel's decision, but has paid the award," Christy Jockle, a spokeswoman at the bank, said in a statement. "The firm believes it has made appropriate disclosures regarding Puerto Rico. The arbitration involved a bond purchased in 2008."

UBS Group AG agreed in September to pay about \$34 million to settle regulatory claims that a Puerto Rico unit allowed a broker to sell risky municipal bond investments to conservative customers.

Ray Pellecchia, a Finra spokesman, was unable to confirm if the Schiffman case is the first of its kind.

Lipner said that he has filed for arbitration in three more cases of individual investors who've lost money on their Puerto Rico securities and involving Bank of America Merrill Lynch, Stifel Nicolaus & Co. and Hennion & Walsh Inc.

Restructuring Talks

Bill Halldin, a spokesman at Bank of America Merrill Lynch, declined to comment. Anne Hveem, a spokeswoman at Hennion & Walsh, didn't have an immediate comment. Sarah Anderson, a

spokeswoman at Stifel, didn't immediately respond to an e-mail and phone message.

"People didn't need the investments that they were put into," Lipner said. "Representatives need to know what they're recommending. And what we're finding across the board in the states is that they didn't."

Puerto Rico is seeking to lower its debt stack by asking investors to accept less than the full value on their holdings or waiting longer to be repaid. The commonwealth is expected to present Friday its first debt-restructuring proposal to advisers and lawyers for creditors.

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by Michelle Kaske

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