

# **Bond Case Briefs**

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## **White: SEC Focused on Possible Puerto Rico Bond-Related Violations.**

WASHINGTON — The Securities and Exchange Commission is “very focused” on examining whether there were any securities law violations involving Puerto Rico bonds as the commonwealth’s fiscal situation deteriorated over the last few years, SEC chair Mary Jo White told the Senate Banking Committee on Tuesday.

She made her comments after Sen. Bob Menendez, D-N.J., pressed her on the topic during a committee hearing. After the hearing, Menendez and six other senators sent White a letter asking the SEC to investigate potential fraud and illegal conduct that may have contributed to Puerto Rico’s debt and fiscal crisis.

“The people of Puerto Rico deserve to know whether illegal activity by advisors to Puerto Rico and its municipal entities contributed to the current debt crisis,” Menendez said during the hearing.

The letter from the seven senators urged the SEC to “immediately commence an investigation into the acts, actions and activities in connection with the underwriting, sale, distribution and trading of Puerto Rico debt in the years leading up to the present crisis.”

The commonwealth is currently struggling with roughly \$70 billion in debt and \$46 billion in unfunded pension liabilities.

The Senate lawmakers also asked White to update them on the recommendations listed in the 2012 Report on the Municipal Securities Market and “whether the SEC needs new authorities to better protect municipal entities in Puerto Rico and elsewhere.”

Sens. Elizabeth Warren, D-Mass., Chuck Schumer, D-N.Y., Kirsten Gillibrand, D-N.Y., Jeff Merkley, D-Ore., Richard Blumenthal, D-Conn., and Bernie Sanders, I-Vt. co-signed the letter. White said during the hearing that the SEC has been involved in these issues, with its enforcement division releasing several actions related to Puerto Rico bonds over the last few years and its division of investment management issuing guidance for investors assessing Puerto Rico bonds.

“I can’t comment on specifics [of] ongoing [actions] ... but I think we can say that we are very focused on the issues you have raised,” she told Menendez.

Legislation designed to help the commonwealth deal with its debt crisis has also passed the House and is now waiting for consideration in the Senate. One amendment that was added to the House bill before it was approved would provide discretionary authority to a seven-person oversight board to investigate whether brokers and investment advisers either failed to disclose or misrepresented the risks of Puerto Rico securities sold to retail investors.

The SEC, along with the Financial Industry Regulatory Authority, settled with UBS Financial Services, Inc. of Puerto Rico for \$34 million in September 2015 after the regulators found the firm failed to supervise the suitability of transactions in Puerto Rican closed-end fund shares. The

commission also charged a former broker with fraud after he had customers invest in the CEFs using money borrowed from an affiliated bank.

The action against the former broker, Jose G. Ramirez, Jr., is ongoing in Puerto Rico district court.

UBS did not admit or deny the SEC's findings that between Jan. 1, 2009 and July 31, 2013 UBSPR allowed 165 customer accounts with conservative investment objectives and \$2 million or less in assets to be more than 75% concentrated in highly leveraged CEF shares. By mid-August 2013, Puerto Rico's bond market had declined considerably and most CEF shares and Puerto Rico munis lost between 20% and 50% of their value.

The SEC also brought two cases in 2014 and 2015 that led to settlements with 14 firms that the SEC found had sold bonds in amounts below the minimum denomination set by the issuer.

The minimum denomination for a bond is the lowest amount of the bond that can be bought or sold, as determined by the issuer in the official statement. Issuers sometimes set minimum denominations on bonds that are risky to discourage retail investors from buying them.

## **The Bond Buyer**

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