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UBS Investors Dealt Setback Over Puerto Rico Fund Losses.

Judge bars investor class action over closed-end fund losses

Investors who lost money on UBS Group AG mutual funds stuffed with Puerto Rico government bonds can't sue as a group, a federal judge said Monday, a setback in their efforts to collect from the Swiss financial services giant.

The ruling by Judge Sidney H. Stein of the U.S. District Court in New York means that investors in closed-end mutual funds managed by UBS Financial Services of Puerto Rico Inc. must pursue their claims individually through arbitration, a more difficult path to recouping damages, rather than proceeding as a single, certified class.

Investors have claimed that UBS brokers told them their mutual funds were safe when in fact their assets were heavily concentrated in just a few Puerto Rican municipal bonds and the funds had used leverage to improve returns.

Judge Stein said the plaintiffs' circumstances and their decisions to buy and sell were so dissimilar that their claims needed to be adjudicated case-by-case. Attorneys for the plaintiffs didn't respond to a request for comment.

A decline in Puerto Rico bond prices starting in 2013, when the U.S. territory's fiscal crisis came into focus, drained value from the mutual funds and sparked hundreds of claims against UBS. Prices on some securities have declined further since Puerto Rico embarked on a court-supervised restructuring of its \$73 billion debt load last year.

UBS said in its second-quarter report that mutual-fund customers had claimed \$2.6 billion in damages through arbitration complaints arising from the downturn in Puerto Rican bonds. Of those complaints, \$1.6 billion worth have been resolved through settlements, some of which were for millions of dollars, according to the regulatory filing.

Investors said UBS failed to structure the mutual funds to preserve capital as advertised and reaped millions of dollars in fees by selling and trading mutual-fund shares. UBS largely controlled the market for those shares, making them illiquid and prone to outsize price swings, according to investor complaints.

UBS has said investors received excellent returns for years that often exceeded the broader bond market.

UBS paid roughly \$34 million in 2015 to settle accusations of failing to supervise a former broker who had customers invest borrowed money into the bond funds. The U.S. Securities and Exchange Commission separately sued the former broker, Jose Ramirez Jr., in federal court. He was fired by UBS in early 2014.

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By Andrew Scurria

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