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UBS to Pay $10 Million for Retail Muni Bond Violations.

UBS Financial Services agreed to pay more than $10 million to resolve charges that it circumvented procedures aimed at giving retail investors priority allocations in certain municipal bond offerings, the Securities and Exchange Commission said on Monday.

UBS improperly allocated bonds intended for retail customers to so-called “flippers,” traders who immediately resold the bonds to other broker-dealers at a profit. UBS’ retail brokers who participated in the sales “knew or should have known” that flippers were not eligible for retail priority, the regulator said in a press release

The more than 2,000 trades given to flippers over four years also allowed UBS to obtain bonds for its own inventory, circumventing the priority of orders set by the issuers and improperly obtaining a higher priority in the bond allocation process, according to the settlement order.
“Retail order periods are intended to prioritize retail investors’ access to municipal bonds and we will continue to pursue violations that undermine this priority,” said LeeAnn G. Gaunt, chief of the SEC’s Public Finance Abuse enforcement unit.

Without admitting or denying the findings, UBS consented to the penalties and a cease-and-desist agreement for violating Municipal Securities Rulemaking Board rules and of failure-to-supervise provisions of the Securities Exchange Act of 1934.

It will pay a $1.75 million penalty, disgorge $6.74 million of ill-gotten gains and pay over $1.5 million in prejudgment interest, the SEC said.

“After fully cooperating with the SEC, UBS is pleased to have resolved this matter related to conduct that occurred between 2012 and 2016 in its former distribution business of negotiated new issue municipal bonds,” a company spokeswoman said. “The conduct predates the launch of UBS’s new Public Finance business in 2017 and adoption of enhanced systems and procedures.”

The regulator also announced related settlements with UBS brokers William S. Costas in Westlake Village, Calif., and John J. Marvin in Palm Beach Gardens, Fla. They “negligently submitted retail orders for municipal bonds on behalf of their flipper customers,” the SEC said.

Costas, 55, who has spent 29 years of his 32-year career with UBS, according to BrokerCheck, also helped UBS traders improperly obtain bonds for the firm’s inventory through one of his flipper customers, the SEC said. Marvin, 58, a rep for 34 years, joined UBS in February 2007 from Morgan Stanley.

Costas and Marvin agreed to settle the SEC charges without admitting or denying the findings. Costas will pay disgorgement and prejudgment interest totaling $16,585 and Marvin will disgorge $27,966. Each also agreed to pay a $25,000 penalty and consented to a 12-month limitation on trading negotiated new issue municipal securities.

The SEC in April settled charges against former UBS Executive Director Jerry E. Orellana for submitting retail orders to an underwriting syndicate from certain UBS customers who were flippers. He agreed to pay $284,080 in disgorgement, $15,128 in prejudgment interest, and a $75,000 civil penalty, and was barred for five years.

The SEC also in 2018 reached a settlement with former UBS bond salesman Chris D. Rosenthal for allegedly helping unregistered brokers posing as retail investors flip municipal bond offerings. He accepted a five-year industry bar and an order to pay $284,080 in disgorgement, $15,128 in prejudgment interest, and a $75,000 civil penalty.

The Financial Industry Regulatory Authority last year fined UBS $2 million for inaccurately representing to customers the tax status of municipal bond interest payments, and ordered it to pay any additional taxes the customers may have accrued because of the errors.

AdvisorHub

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July 20, 2020

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