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SEC Fines UBS \$10m Over Alleged Adviser 'Misdirection' of Investments.

The US Securities and Exchange Commission today (20 July) fined UBS Financial Services Inc more than \$10m over charges that its financial advisers misdirected certain exchange-traded products to retail investors.

According to the SEC's order, over a four-year period, UBS improperly allocated bonds intended for retail customers to parties known in the industry as "flippers," who then immediately resold or "flipped" the bonds to other broker-dealers at a profit.

The order found that UBS registered representatives knew or should have known that flippers were not eligible for retail priority.

In addition, the order finds that UBS registered representatives facilitated over 2,000 trades with flippers, which allowed UBS to obtain bonds for its own inventory, thereby circumventing the priority of orders set by the issuers and improperly obtaining a higher priority in the bond allocation process.

"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 Division of Enforcement's Public Finance Abuse Unit.

The SEC previously brought charges of municipal bond offering "flipping" and retail order period abuses in August 2018, in December 2018, in September 2019, and in April 2020.

Without admitting or denying the findings, UBS consented to a cease-and-desist order that finds it violated the disclosure, fair dealing, and supervisory provisions of Municipal Securities Rulemaking Board Rules G-11(k), G-17, and G-27, and also failed reasonably to supervise within the meaning of Section 15(b)(4)(E) of the Securities Exchange Act of 1934.

The order imposed a \$1.75m penalty, \$6.74m in disgorgement of ill-gotten gains plus over \$1.5m in prejudgment interest, and a censure.

In related actions, the SEC instituted settled proceedings today against UBS registered representatives William S. Costas and John J. Marvin.

The SEC's order found that Costas and Marvin negligently submitted retail orders for municipal bonds on behalf of their flipper customers and that Costas also helped UBS bond traders improperly obtain bonds for UBS's own inventory through his flipper customer.

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by Mark Battersby

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