

Award
FINRA Office of Dispute Resolution

In the Matter of the Arbitration Between:

Claimants

Luis R. Romero Lopez, Individually and on Behalf of
his Pledged Collateral Account and Special Account

Case Number: 13-03520

vs.

Respondents

UBS Financial Services Inc.
UBS Financial Services Incorporated of Puerto Rico

Hearing Site: San Juan, Puerto Rico

Nature of the Dispute: Customers vs. Members

This case was decided by an all-public panel.

REPRESENTATION OF PARTIES

For Claimants Luis R. Romero Lopez, Individually (“Romero”) and on Behalf of his Pledged Collateral Account and Special Account: Samuel B. Edwards, Esq., Kirk G. Smith, Esq. and Luis J. Acevedo-Bengoechea, Esq., Shepherd, Smith, Edwards & Kantas, LLP, Houston, Texas.

For Respondent UBS Financial Services Inc. (“UBS”): A. Inge Selden, Esq., Gregg McCormick, Esq. and Donald F. Winningham, Esq., Bressler, Amery & Ross, P.C., Birmingham, Alabama.

For Respondent UBS Financial Services Incorporated of Puerto Rico (“UBSPR”): Roberto C. Quinones-Rivera, Esq., McConnell Valdes LLC, Hato Rey, Puerto Rico.

CASE INFORMATION

Statement of Claim filed on or about: November 29, 2013.

Luis R. Romero Lopez, Individually and on Behalf of his Pledged Collateral Account and Special Account, signed the Submission Agreement: November 23, 2013.

Statement of Answer filed by Respondents and Counterstatement of Claim filed by Respondent UBSPR on or about: February 26, 2014.

UBS Financial Services Inc. signed the Submission Agreement: December 16, 2013.

UBS Financial Services Incorporated of Puerto Rico signed the Submission Agreement: April 9, 2014.

Statement of Answer to Respondent UBSPR’s Counterclaim filed by Claimants on or about: April 1, 2014.

Motion in Limine to Exclude Regulatory Settlements filed by Respondents on or about: September 21, 2016.

Response to Motion in Limine filed by Claimants on or about: September 30, 2016.

CASE SUMMARY

Claimants asserted the following causes of action: breach of contract, warranties, and promissory estoppel; violations of securities statutes; violations of fault/negligence statutes; violations of fiduciary/officious manager statutes; violations of fraud, misrepresentation and omission statutes; and claims under common law. The causes of action relate to Claimants' investments in Puerto Rican municipal bonds and closed-end bond funds.

Unless specifically admitted in the Statement of Answer and Counterstatement of Claim, Respondents denied the allegations made in the Statement of Claim and asserted various affirmative defenses. In its Counterstatement of Claim, Respondent UBSPR asserted the following causes of action: breach of contract; unjust enrichment; and account stated. The causes of action relate to Claimants' alleged failure to repay sums due Respondent UBSPR pursuant to a Credit Line Agreement.

Unless specifically admitted in the Answer to Respondent UBSPR's Counterclaim, Claimants denied the allegations made in the Statement of Answer and Counterstatement of Claim and asserted various affirmative defenses.

RELIEF REQUESTED

In the Statement of Claim, Claimants requested: compensatory damages in an amount exceeding \$10,000,000.00; direct and consequential damages; all sums lost in the accounts on any or all transactions made or not made; all lost opportunities incurred; rescission; statutory damages; punitive damages; pre-award and pre-judgment interest on all sums invested from the date deposited until the date of the award and until such sums are paid, at the highest rate allowed by law; costs; attorneys' fees; and any and all other relief, in law or equity, which may be granted by the Panel.

In the Statement of Answer and Counterstatement of Claim, Respondents requested: that Claimants take nothing by their claims and the Panel dismiss Claimants' claims in their entirety, with prejudice; expungement of this arbitration from the Central Registration Depository ("CRD") records of the affected individual Respondents; assessment of all FINRA fees and costs against Claimants; and such other and further relief as deemed just and equitable by the Panel. Additionally, Respondent UBSPR requested damages in excess of \$2,900,000.00 for breach of the Credit Line Agreement.

In the Answer to Respondent UBSPR's Counterclaim, Claimants requested that the Panel render an award in favor of Claimants and find that Respondent UBSPR take nothing from their Counterclaim, that Respondent UBSPR pay all costs associated with its Counterclaim and that the Panel award Claimants all additional relief deemed just under the circumstances.

OTHER ISSUES CONSIDERED AND DECIDED

The Arbitrators acknowledge that they have each read the pleadings and other materials filed by the parties.

In their Motion in Limine to Exclude Regulatory Settlements, Respondents asserted that, among other things, the settlements brought by governmental regulatory authorities are not admissions of the underlying allegations and charges and cannot be considered as evidence in other proceedings and entry of the regulatory settlements into evidence would be unfairly prejudicial. In their Response, Claimants asserted, among other things that the evidence is admissible and is not unfairly prejudicial to Respondents. After hearing oral argument from the parties at the outset of the evidentiary hearing, the Panel denied the Motion and admitted the regulatory settlements for whatever weight the Panel determined they deserve.

The parties agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered.

AWARD

After considering the pleadings, the testimony and evidence presented at the hearing, and the post-hearing submissions (if any), the Panel has decided in full and final resolution of the issues submitted for determination as follows:

1. Respondents UBS and UBSPR are jointly and severally liable for and shall pay to Claimants the sum of \$9,000,000.00 in compensatory damages.
2. Claimants are jointly and severally liable for and shall pay to Respondent UBSPR the sum of \$1,016,770.00 in compensatory damages.
3. The compensatory damage amounts stated above are offset. Therefore, Respondents UBS and UBSPR are jointly and severally liable for and shall pay to Claimants compensatory damages in the amount of \$7,983,230.00, plus interest at the rate of 6% per annum accruing from 10 days following the date of service of this Award through the date of satisfaction of this Award.
4. Respondent UBS is liable for and shall pay to Claimants the sum of \$1,000,000.00 in punitive damages plus interest thereon at the rate of 6% per annum accruing from 10 days following the date of service of this Award through the date of satisfaction of this Award. Punitive damages are awarded for Respondent UBS' intentional and willful provision of a "non-purpose" loan which was either knowingly encouraged to be "recycled" to buy more securities in violation of Regulation U or provided with a reckless indifference to the consequences of the loan recycling which caused additional excessive leverage so that when there was a downturn in the market, Claimants lost more money than they would have had they been suitably invested with less leverage. Respondent UBS's exercised extreme recklessness and indifference to the consequences of loan recycling by failing to utilize a supervisory system which would have alerted upper management that Claimant Romero had taken \$8,000,000.00 from his non-purpose loan account on one day and re-

deposited the exact same amount less than two weeks later to buy securities. Moreover Respondent UBS managers in New York were informed and denied that loans were being recycled in Puerto Rico and used to buy securities. The closed end funds which comprised a majority of Claimants' investments with Respondent UBS, were not marginable and thus Respondent UBS benefited from the loan recycling.

An arbitration panel has the authority to award punitive damages pursuant to Mastrobuono v. Shearson Lehman Hutton, Inc., 514 U.S. 52 (1995). Additionally, pursuant to Exxon Shipping Company v. Baker, 554 U.S. 471, 493-494 (2008):

The prevailing rule in American courts also limits punitive damages to cases of what the Court in Day, supra, at 371, spoke of as "enormity," where a defendant's conduct is "outrageous," 4 Restatement § 908(2), owing to "gross negligence," "willful, wanton, and reckless indifference for the rights of others," or behavior even more deplorable, 1 Schlueter § 9.3(A).

5. Claimants' request for attorneys' fees is denied.
6. Other than forum fees which are specified below, the parties shall each bear their own costs and expenses incurred in this matter.
7. The Panel determined that since Respondents UBS and UBSPR did not pursue their request for expungement of affected individual Respondents, the Panel deemed the expungement request to be withdrawn.
8. Any and all relief not specifically addressed herein is denied.
9. Any explanation of the Panel's decision in this Award is for the information of the parties only and is not precedential in nature.

FEES

Pursuant to the Code of Arbitration Procedure, the following fees are assessed:

Filing Fees

FINRA Office of Dispute Resolution assessed a filing fee* for each claim:

Initial Claim Filing Fee	= \$ 1,800.00
Counterclaim Filing Fee	= \$ 3,200.00

**The filing fee is made up of a non-refundable and a refundable portion.*

Member Fees

Member fees are assessed to each member firm that is a party in these proceedings or to the member firm(s) that employed the associated person(s) at the time of the event(s) giving rise to the dispute. Accordingly, as parties, Respondents UBS and UBSPR are assessed the following:

UBS	= \$ 3,750.00
Member Surcharge	
Pre-Hearing Processing Fee	= \$ 750.00
Hearing Processing Fee	= \$ 5,500.00
 UBSPR	
Member Surcharge	= \$ 3,750.00
Pre-Hearing Processing Fee	= \$ 750.00
Hearing Processing Fee	= \$ 5,500.00

Adjournment Fees

Adjournments granted during these proceedings for which fees were assessed:

October 26-October 30, 2015, adjournment by the parties WAIVED

Total Adjournment Fees WAIVED

Hearing Session Fees and Assessments

The Panel has assessed hearing session fees for each session conducted. A session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with the arbitrator(s) that lasts four (4) hours or less. Fees associated with these proceedings are:

Two (2) pre-hearing sessions with a single arbitrator @ \$450.00/session = \$ 900.00
 Pre-hearing conferences: March 25, 2015 1 session
 July 28, 2015 1 session

Two (2) pre-hearing sessions with the Panel @ \$1,200.00/session = \$ 2,400.00
 Pre-hearing conferences: July 7, 2014 1 session
 November 24, 2015 1 session

Twenty-Four (24) hearing sessions @ \$1,200.00/session = \$28,800.00
 Hearing Dates: October 11, 2016 2 sessions
 October 12, 2016 2 sessions
 October 13, 2016 2 sessions
 October 14, 2016 1 session
 October 17, 2016 2 sessions
 October 18, 2016 2 sessions
 October 19, 2016 2 sessions
 October 20, 2016 2 sessions
 October 21, 2016 1 session
 January 15, 2017 2 sessions
 January 16, 2017 2 sessions
 January 17, 2017 2 sessions
 January 18, 2017 2 sessions

Total Hearing Session Fees = \$32,100.00

The Panel has assessed \$15,825.00 of the hearing session fees jointly and severally to Claimants.

The Panel has assessed \$16,275.00 of the hearing session fees jointly and severally to Respondents, which includes the entire fee for the hearing session conducted on July 28, 2015.

All balances are payable to FINRA Office of Dispute Resolution and are due upon receipt.

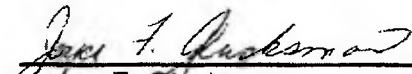
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ARBITRATION PANEL

Joyce F. Glucksman	-	Public Arbitrator, Presiding Chairperson
Reinaldo Royo, Jr.	-	Public Arbitrator
Robert J. Buchner	-	Public Arbitrator

I, the undersigned Arbitrator, do hereby affirm that I am the individual described herein and who executed this instrument which is my award.

Concurring Arbitrators' Signatures



 Joyce F. Glucksman
 Public Arbitrator, Presiding Chairperson

2/16/17

 Signature Date

 Reinaldo Royo, Jr.
 Public Arbitrator

 Signature Date

 Robert J. Buchner
 Public Arbitrator

 Signature Date

2/17/17

 Date of Service (For FINRA Office of Dispute Resolution office use only)

FINRA Office of Dispute Resolution
Arbitration No. 13-03520
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Public Arbitrator, Presiding Chairperson

Signature Date

Reinaldo Royo, Jr.

Reinaldo Royo, Jr.
Public Arbitrator

FEB 17, 2017

Signature Date

RA

Robert J. Buchner
Public Arbitrator

Signature Date

2/17/17

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Reinaldo Royo, Jr.
Public Arbitrator

Signature Date



Robert J. Buchner
Public Arbitrator

FEB. 16, 2007
Signature Date

2/17/17

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