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US Lawyer Calls for SP Sale Freeze

By Lori Pizzani

Sales of retail structured notes should cease until disclosures to investors are changed and made much clearer and easier to understand, said New York attorney Jacob Zamansky.

The call follows his claim on behalf of a client that a UBS broker misrepresented the riskiness of two Lehman Brothers-issued structured notes at the same time Bear Stearns was close to failure and rumours were circulating about Lehman instability. The Financial Industry Regulatory Authority (Finra) awarded the South Carolina investor \$200,000.

"I would recommend that there be an immediate halt on selling these [structured notes] products and that a summit be convened between regulators, lawyers and the industry to develop a plain English disclosure document for use with sales," Zamansky told SRP. "The industry needs to re-evaluate the method of selling these to investors. I think there are a lot of sales practice issues," he said, adding that he has even had several brokers contact him lamenting that they did not really understand the risks of what they were selling.

The woman invested \$225,000 into a 100% principal-protected note issued by

Lehman, as well as another \$75,000 into a Lehman-issued, non-principal-protected 'return optimisation note'. The three-person Finra arbitration panel that heard the case determined in favour of the investor and decided, without articulating its specific reasons, that UBS should pay \$200,000 to compensate the investor. The investor's investment was made with money from her individual retirement account (IRA).

In a statement released to SRP, a UBS spokesperson said the bank is disappointed that the arbitration panel in this case awarded the claimant any damages, even if it was only half of the compensatory losses she was seeking. UBS maintains that any client losses were the direct result of the unexpected and unprecedented failure of Lehman Brothers, which affected all Lehman bondholders.

While this is the first Finra arbitration case that Zamansky has thus far seen to completion, he is representing investors in 15 similar cases involving Lehman Brothers-issued notes and both UBS and other distributing broker/dealers. Other attorneys have filed similar Finra arbitration claims that have not yet been heard.