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FINRA: Citi To Pay Investors $6.4M

By Lorie Konish
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A Financial Industry Regulatory Authority panel has ordered two parts of Citigroup Inc. to pay $6.4 million to make up for investment losses tied to a group of troubled municipal arbitrage trust funds.

The $6.4 million award is about half of the compensatory damages requested by the claimants, led by investment banking executive D. Theodore Berghorst, who sought no less than $12 million for costs, attorneys' fees, rescission and other expenses.

"It's the largest award to date," said Ross B. Intelisano, a partner at Rich & Intelisano LLP, a New York law firm handling other cases involving Citigroup's proprietary MAT and Falcon hedge funds. "I think it's because of the size of the claim. It's also the largest in size that's been tried all the way to a full award."

FINRA's decision caps off a string of awards in the last few months related to those Citigroup funds, Intelisano said, while the 29 hearing sessions for this case was longer than most.

The respondents in the cased include Citigroup Global Markets Inc., operating under the name Smith Barney, and Citigroup Alternative Investments LLC. The claim is related to a group of funds, MAT Finance LLC, short for municipal arbitrage trust.

Those funds, which underwent severe losses during the financial downturn, have also come under investigation by the Securities and Exchange Commission after investors charged that the brokers selling them did not fully disclose their risks, The Wall Street Journal reported in November. The MAT funds were modeled to reap gains by investing in long-term bonds, but reportedly suffered around 80% in losses around 2008.

"We neither confirm nor deny the existence or non-existence of investigations,"

SEC Spokesman Kevin Callahan said regarding the reported investigation of the funds.

The claimants in the case, which was first filed in November 2008, alleged fraud, fraudulent misrepresentations, negligent misrepresentation, breach of fiduciary duty, negligence, breach of contract, and violation of the Florida Securities and Investor Protection Act, among other rules.

The list of claimants include D. Theodore Berghorst, chairman and chief executive of Vector Securities LLC, a health care-focused merchant and investment banking firm; Berghorst Snowbird LLC; Berghorst 1998 Dynamic Trust and Vector Managed Holdings.

With the award decision, Citigroup will pay $6.4 million excluding interest to the claimants. Of that sum, Citigroup Global Markets will pay 75%, while Citigroup Alternative Investments will be responsible for the remaining 25%. The FINRA panel denied the claims related to the Florida statues, citing a lack of proof.

“We disagree with the decision,” Citi Spokesman Alexander Samuelson said.

Berghorst was not available for comment by press time.
