

THE WALL STREET JOURNAL.

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MARKETS

BNP Ordered to Pay Investor Almost \$17 Million in Compensation

Investor's claim said an investment that tracked hedge funds was unsuitable for her risk profile

By **MATTHIAS RIEKER**

June 30, 2015 7:24 p.m. ET

An arbitration panel ordered the U.S. securities unit of BNP Paribas to pay an investor couple almost \$17 million in compensation for hedge-fund investment losses.

Margaret Eringer, a British citizen living in Malta and London, and her American husband James, approached BNP's New York derivative desk in 2007, asking the French bank to invest about \$14.3 million of Ms. Eringer's wealth. BNP put the money into an option product that tracked the performance of illiquid and highly leveraged hedge funds, including a about \$3 million stake in a Bernard Madoff feeder fund, according to the claim filed with a Financial Industry Regulatory Authority arbitration panel.

According to the claim, the investment was highly unsuitable for Ms. Eringer's risk profile, and she lost the entire investment, which was about 60% of her net worth. She paid BNP more than \$2.3 million in fees for the investment, the claim said.

The arbitration panel awarded Ms. Eringer \$16.1 million in compensation, and ordered BNP to pay her a \$500,000 penalty because the bank failed to comply with the panel's

discovery orders, according to the award posted on Finra's website. Finra arbitration panels typically don't explain their rulings.

"We disagree with and are deeply disappointed by the arbitrators' decision," a BNP spokeswoman said. The firm "takes its responsibilities to its clients seriously and believes that it conducted itself professionally and appropriately."

Ms. Eringer isn't a sophisticated investor, her lawyer Barry Lax of Lax & Neville LLP in New York said. She had sold her dessert company in 1988 for about \$8 million and, with the help of her husband, started to invest in hedge funds in the mid-1990s, according to the claim.

BNP suggested an option product that was designed for institutional investors, and encouraged the Eringers to create an investment company so they would qualify, according to the claim. BNP asked Mr. Eringer to sign an investment-advisor agreement, though neither Mr. Eringer nor Ms. Eringer were aware of the risk they were taking, according to the claim.

The BNP investment set Ms. Eringer on a much different course than her previous hedge-fund investments, Mr. Lax said. "It's the difference between driving a car and driving a race car," he said. "The Eringers should have never been sold the investment."

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