

N.A.S.D. AWARD

NATIONAL ASSOCIATION OF SECURITIES DEALERS

In the Matter of the Arbitration Between

Name of Claimant

Interep Capital Markets, LTD

95-01622

Name of Respondent

CS First Boston

REPRESENTATION

For Claimant Interep Capital Markets, Ltd. ("Claimant"), Leslie K. Case, Esq. of the law firm Gersten, Savage, Kaplowitz & Curtin, located in New York, New York.

For Respondent CS First Boston ("Respondent"), Andrew Houston, Esq. of the law firm Wachtell, Lipton, Rosen & Katz, located in New York, New York.

CASE INFORMATION

Statement of Claim filed on March 31, 1995.

Claimant's Submission Agreement signed on December 2, 1994.

Statement of Answer filed by Respondent on August 23, 1995.

Respondent's Submission Agreement signed on August 21, 1995.

Claimant's Reply to Counterclaim filed on September 22, 1995.

HEARING INFORMATION

Hearing Dates/Sessions:	April 1, 1996	-	2 Sessions
	April 4, 1996	-	1 Session
	May 16, 1996	-	2 Sessions
	June 13, 1996	-	2 Sessions

The hearings were held at the offices of the National Association of Securities Dealers, Inc., located in New York, New York.

CASE SUMMARY

Claimant alleged that in or about April of 1994, Peter Clinton ("Clinton"), a representative of Respondent, contacted it regarding investments. Claimant contended that it advised Clinton that it was seeking a conservative investment vehicle that could be easily liquidated. Claimant further contended that it anticipated a rise in interest rates and therefore told Clinton it wanted to invest in a security that would appreciate in value with a rise in interest rates.

Claimant asserted that, based upon its investment objectives, Clinton recommended an investment in a US Department VA Vendee Mortgage-backed derivative security and a repurchase agreement in connection therewith (the "Security"). Claimant alleged that Clinton made fraudulent and negligent statements and omissions of material facts regarding the high risk, illiquid and speculative nature of the Security, which caused Claimant to invest in the Security. Specifically, Claimant alleged that Clinton told its representatives that the Security was conservative, the Security would perform well if interest rates were to go up, and the Security was a liquid investment.

Claimant contended that in May of 1994, as interest rates were rising, Respondent's employees and agents in Hong Kong advised Claimant that the value of the Security was also rising. Claimant alleged that when it attempted to sell the Security, Respondent's New York office quoted a price significantly below the purchase price paid, completely contrary to the performance that Respondent's employee Clinton had projected, and significantly below the price quoted by Respondent's representatives in Hong Kong. Claimant further alleged that it was at this time that it discovered that Respondent was the only effective market maker for the Security, that it was illiquid, and that Respondent was the only broker-dealer quoting a price for the Security.

Respondent maintained that in November of 1992, Claimant sent a letter to Respondent requesting to set up a cash account. Respondent further maintained that Claimant represented itself to be a sophisticated financial institution providing services to a number of Philippine and other international financial intermediaries seeking its expertise. Respondent contended that Claimant claimed to have trading relationships with at least a dozen securities houses in major money market centers in Japan, Europe, and the United States and described its own primary activities as trading in international securities and derivatives.

Respondent maintained that Claimant had a history of making very sophisticated transactions with Respondent including repos, options, and spread trading. Respondent contended that Claimant initiated discussions aimed at the purchase of Collateralized Mortgage Obligations ("CMOs") on a leveraged basis in order to achieve substantially higher yields than were available on more conservative investments. Respondent maintained that Claimant was specifically interested in IOs, interest-only tranches of mortgage pools. Respondent maintained that an inverse correlation between the level of interest rates and prepayment spreads ordinarily cause IOs to increase in value as interest rates rise, though this depends on whether prepayments decrease.

Respondent maintained that Claimant had the capability of understanding IO instruments as

evidenced by its previous purchase of an IO two months before this transaction. Respondent further maintained that Claimant was shown a variety of IOs to choose from and selected the Security at issue.

Respondent contended that Claimant sought to purchase this instrument as a long-term investment. Respondent maintained that Claimant financed the investment using a Reverse Repo. Respondent further maintained that contrary to Claimant's expressed intention, less than one month after making its investment, Claimant expressed an interest in selling its interest in the security. Respondent contended that it made a number of bids including a bid that would have allowed Claimant to sell the Security at a few percent below the original purchase price, despite difficult market conditions. Respondent further contended that Claimant turned down the bid and thereafter became obligated to provide additional funds to Respondent with respect to the Reverse Repo.

Respondent maintained that Claimant failed to provide the necessary funds and therefore, pursuant to the Master Repurchase Agreement, Respondent liquidated Claimant's position and terminated the Reverse Repo. Respondent contended that Claimant owes in excess of \$200,000.00 to cover the loss incurred by Respondent on the liquidation.

RELIEF REQUESTED

Claimant requested:

1. compensatory damages in the amount of \$882,636.88 plus interest;
2. consequential damages in an amount to be determined at the hearing, but in no event less than \$10,000,000.00; and
3. punitive damages in an amount to be assessed by the Arbitration Panel.

Respondent requested:

1. the Statement of Claim be dismissed in its entirety; and
2. the Claimant be required to satisfy the remaining unpaid amount under the Master Repurchase Agreement, amounting to \$201,497.00 plus interest.

OTHER ISSUES CONSIDERED & DECIDED

The parties have agreed that the Award in this matter may be executed in counterpart copies or that a handwritten, signed Award may be entered. In either case, the parties have agreed to receive conformed copies of the Award while the originals remain on file with the NASD.

AWARD

After considering the pleadings, the testimony and the evidence presented at the hearing, the undersigned arbitrators have decided in full and final resolution of the issues submitted for determination as follows:

1. Respondent CS First Boston be and hereby is liable and shall pay to Claimant Interep Capital Markets, Ltd. the sum of \$360,000.00.
2. All other claims be and hereby are denied.
3. Each party shall bear their own costs, including attorneys' fees.

FORUM FEES

Pursuant to Section 43c of the Code of Arbitration Procedure, the arbitrators have determined that the NASD shall retain the \$250.00 non-refundable filing fee previously deposited by Claimant and have assessed the following forum fees:

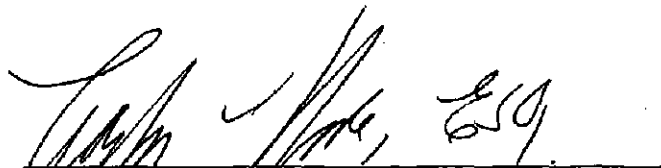
7 Sessions x \$1000.00 = \$7000.00

Claimant be and hereby is liable for the sum of \$1000.00 representing the initial hearing session deposit. Claimant previously deposited \$1000.00 with the NASD. Therefore, nothing is owed to the NASD by the Claimant.

Respondent be and hereby is liable for the sum of \$6000.00 representing the outstanding amount of forum fees assessed. Therefore, Respondent shall pay \$6000.00 to the NASD.

Fees are payable to the National Association of Securities Dealers, Inc.

ARBITRATORS' SIGNATURES



Carolyn E. Wade, Esq.
Public Chairperson

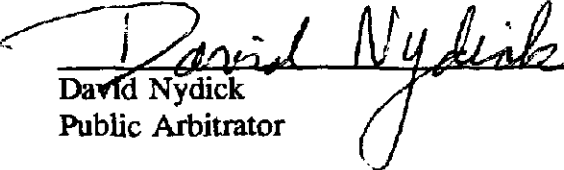
David Nydick
Public Arbitrator

Joseph F. Keenan, Esq.
Industry Arbitrator

Date of Decision: July 31, 1996

ARBITRATORS' SIGNATURES

Carolyn E. Wade, Esq.
Public Chairperson


David Nydick
Public Arbitrator

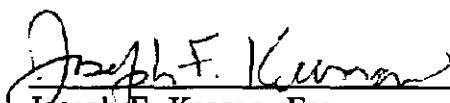
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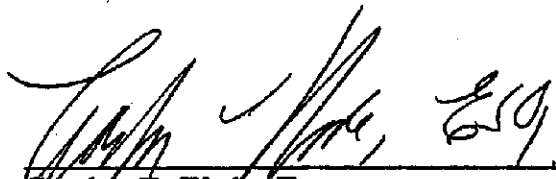
I, Joseph F. Keenan, do hereby affirm that this is my decision in the above-captioned matter.

Joseph F. Keenan

I, David Nydick, do hereby affirm that this is my decision in the above-captioned matter.

David Nydick

I, Carolyn E. Wade, do hereby affirm that this is my decision in the above-captioned matter.



Carolyn E. Wade, Esq.
Public Chairperson