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Many Underwriters Reported Deals by MCDC Deadline.

WASHINGTON — A large number of dealer firms have voluntarily reported to the Securities and Exchange Commission deals they underwrote where issuers failed to disclose noncompliance with their continuing disclosure agreements, the SEC's top cop said Wednesday.

The deadline for dealers to participate in the Municipalities Continuing Disclosure Cooperation Initiative was Sept. 10, though issuers will still have until Dec. 1 to report any deals during the last five to 10 years in which official statements were misleading about past continuing disclosure compliance.

Under the terms of the initiative, the SEC's enforcement division will recommend to the commission favorable settlement terms for both underwriters and issuers who self-report.

"The enforcement staff is currently reviewing the large number of self-reports we have received from municipal securities underwriters under the MCDC initiative," said enforcement division director Andrew Ceresney. "This marks an important milestone in the success of the initiative, which we believe will improve the quality of information in the municipal securities market for the benefit of the investing public."

Market participants also said they believed there was broad participation by underwriter firms. Most muni underwriters probably reported at least some deals under the initiative, but it is unclear how many firms reported enough transactions to hit the civil penalty cap, said one source who asked not to be identified.

Underwriter penalties under the MCDC are capped at $500,000 for firms that reported total revenue of more than $100 million for fiscal 2013 on their annual audited report; $250,000 if they reported fiscal 2013 revenue of between $20 million and $100 million; and $100,000 if they reported fiscal 2013 revenues of less than $20 million. If the caps are not met, underwriters will have to pay $20,000 per offering of $30 million or less with continuing disclosure failures and $60,000 for offerings of more than $30 million with such failures.

Michael Decker, co-head of municipal securities at the Securities Industry and Financial Markets Association, said dealers who think they will pay the max cap, have little reason not to be very inclusive in the deals they self-report.

"There is an incentive for underwriters, once they hit their civil penalty cap, to be more inclusive," Decker said. He predicted that because issuers have more time to investigate those deals than underwriters did, it is likely that new information will come to light that will cast doubt on whether some of those transactions should have been reported at all.

Bond Dealers of America senior counsel and senior vice president for federal regulatory policy Jessica Giroux said her group was disappointed that the SEC did not extend the underwriter deadline or base the penalty caps strictly on muni business revenues.

“Ultimately, this was a costly and burdensome exercise for our member firms,” she said.

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