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Court orders Wells Fargo Securities to Pay Over \$800,000 for Bond Offering Disclosure Failures.

The penalty stems Wells Fargo Securities's disclosure failures associated with a municipal bond offering it underwrote to finance startup video game company 38 Studios.

A federal court has ordered Wells Fargo Securities to pay more than \$800,000 in civil penalties for disclosure failures associated with a municipal bond offering it underwrote to finance startup video game company 38 Studios. The relevant [announcement](#) was made by the United States Securities and Exchange Commission (SEC) earlier today.

The Securities and Exchange Commission [charged Wells Fargo](#) in 2016.

According to the SEC's complaint filed in federal district court in Providence, the Rhode Island Economic Development Corporation (RIEDC), aka the Rhode Island Commerce Corporation, loaned \$50 million in bond proceeds to 38 Studios. Remaining proceeds were used to pay related bond offering expenses and establish a reserve fund and a capitalized interest fund. The bond offering document produced by the RIEDC and Wells Fargo failed to disclose to investors that 38 Studios had conveyed it needed at least \$75 million in funding to produce a particular video game.

Therefore, investors were not fully informed when deciding to purchase the bonds that 38 Studios faced a funding shortfall even with the loan proceeds and could not develop the video game without additional sources of financing. When 38 Studios was later unable to obtain additional financing, the video game did not materialize and the company defaulted on the loan.

The SEC's complaint alleged, among other things, that Wells Fargo, which served as the placement agent for the 38 Studios bond offering, failed to disclose that the project being financed by the bonds, the development of a video game, could not be completed with the financing the bonds would provide. The SEC also alleged that the defendants did not disclose that even with the proceeds of the loan financed by the 38 Studios Bonds, 38 Studios faced a known shortfall in funding. Further, the SEC alleged that Wells Fargo and its lead banker on the deal, Peter M. Cannava, failed to disclose to bond purchasers that Wells Fargo was receiving additional compensation from 38 Studios, totaling \$400,000, that was directly tied to the issuance of the municipal bonds.

The final judgment against Wells Fargo, entered on March 20, 2019 by the Honorable John J. McConnell, Jr. in federal court in Rhode Island, enjoins Wells Fargo from violating provisions of the federal securities laws that require disclosure of material information and fair dealing in municipal bond transactions, specifically Section 17(a)(2) of the Securities Act of 1933, Section 15B(c)(1) of the Securities Exchange Act of 1934 and Rule G-17 promulgated by the Municipal Securities Rulemaking Board. Wells Fargo is also ordered to pay a \$812,500 civil penalty.

Wells Fargo consented to the entry of the judgment without admitting or denying the allegations.

The SEC's litigation against Cannava continues.

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