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WSJ: Regulators Are Concerned About Municipal-Bond Deals.

U.S. regulators are probing whether securities firms are circumventing rules implemented in the wake of the financial crisis to protect municipalities against potentially biased investment advice, according to people familiar with regulators' efforts.

At issue is whether banks are attempting to skirt postcrisis rules, including those restricting firms that provide financial advice to municipalities from underwriting certain municipal-bond transactions. Lawmakers and regulators implemented the changes to avoid situations similar to those leading up to the crisis in which some municipalities were steered into risky and complex deals municipal officials didn't fully understand.

The 2010 Dodd-Frank law stipulates banks hired as financial advisers act as fiduciaries, or in their clients' best interests. Regulators have also restricted banks from underwriting a municipal-bond transaction if they were initially hired to advise on the deal. Yet the Securities and Exchange Commission is concerned banks may be mischaracterizing their role in order to preserve their ability to underwrite bonds, according to the people familiar with regulators' efforts.

The SEC is investigating several municipal contracts entered into by banks, including Goldman Sachs Group Inc., Piper Jaffray Cos., Robert W. Baird & Co. and Stifel Financial Corp. Spokesmen for Piper and Stifel declined to comment. A spokeswoman for Baird didn't respond to requests for comment.

The SEC is scrutinizing a February contract between Goldman and a St. Louis stadium authority, according to the people familiar with regulators' efforts. Worried about losing the St. Louis Rams, the city's National Football League franchise, local officials hired Goldman to analyze a range of financing options to upgrade the Edward Jones Dome and keep the team in the 18-year-old stadium. The options include a bond deal to finance contractually required upgrades.

Goldman's $20,000-a-month contract as "financial advisor" to the St. Louis Regional Convention and Sports Complex Authority says the bank isn't providing "advice" – just information to senior officials at the authority. The bank says it may seek to underwrite the authority's bonds should the agency issue debt in the future.

James Shrewsbury, chairman of the stadium authority, said the agency hired Goldman at the request of Missouri Gov. Jay Nixon, who can appoint five of the authority's 11 members, including its chairman. Mr. Shrewsbury said the stadium authority is trying to get the best advice on how to keep the Rams in the dome. The team's contract to play in the stadium expires in 2015. "Right now, they are not underwriting any bonds," he said of Goldman.

A spokesman for Gov. Nixon wasn't immediately available for comment on the contract.

A person familiar with the contract said the firm was hired on a broad assignment that is still in its early stages, and that there is currently no plan to sell municipal bonds for the stadium. Still, regulators are concerned the firm is calling itself an adviser and then disclaiming responsibility to act as a fiduciary, according to the two people familiar with regulators' efforts. Regulators are also concerned, according to these people, that the firm would have a say in how to structure a bond deal while setting itself up to underwrite the bonds, which is the type of role-switching regulators have tried to quash.

Previously, banks serving as financial advisers could switch roles provided they obtained their client's consent and after disclosing that conflicts may exist. Regulators began to crack down on "role switching" in the $4 trillion municipal-bond market in 2010 at the behest of former SEC Chairman Mary Schapiro, who described the practice as a "classic example of a conflict of interest." Unlike financial advisers, who act in the best interests of their clients, underwriters enter into an "arm's length" relationship when they underwrite municipal debt. Supporters of the ban warn many municipal borrowers aren't sophisticated enough to understand the distinction. Ms. Schapiro pushed the Municipal Securities Rulemaking Board, which sets the role-switching rule, to tighten the measure.

John Cross, director of the SEC's municipal-securities office, said in a statement that the agency is generally concerned about investment banks' compliance with role-switching restrictions and that municipalities receive conflict-free advice. He declined to comment on a specific company or its services.

Regulators also are scrutinizing "general consulting services" agreements, in which brokerage firms seek to sidestep the role-switching restrictions by providing "general" financial advice that isn't tied to a specific bond transaction. In one such agreement between Monroe County, Wis., and regional bank Robert W. Baird, the firm said it will provide advice based on the county's financing needs but warns it isn't working in the capacity of a financial adviser or underwriter. Still, the firm leaves the door open to being hired in those roles in the future.