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WSJ: Muni Advisers Face Tougher SEC Rules.

Regulators are set to finalize long-delayed rules to rein in advisers who help states and localities raise cash in the $3.7 trillion municipal-bond market, a move aimed at protecting taxpayers from the types of complex transactions that soured during the financial crisis.

The Securities and Exchange Commission is expected this month to finalize rules that would require the federal registration and oversight of municipal financial advisers, according to people familiar with the matter. Such advisers are firms, often affiliated with banks, hired to work with states and localities to time, market and price municipal-bond transactions.

The rules come as the SEC grapples with a host of problems in the muni market, including what it sees as lackluster disclosures for investors. The SEC has cracked down on municipalities for failing to keep investors apprised of their financial health and the agency has turned to Congress to boost its limited authority in the market. Muni issuers currently are exempt from the disclosures corporations must make when they sell securities.

As part of the 2010 Dodd-Frank law municipal advisers must register with the SEC, adhere to a series of forthcoming rules from the Municipal Securities Rulemaking Board and adhere to a fiduciary duty to put their clients' interests ahead of their own. Only bank-affiliated advisers were previously subject to any federal oversight.

Lawmakers pushed to increase oversight of municipal advisers in the wake of financial debacles in localities like Jefferson County, Ala., where officials and Wall Street firms repeatedly used complex payment arrangements known as interest-rate swaps as a vehicle for kickbacks and other types of fraud.

The new rules seek to prevent similar occurrences by ensuring municipalities have competent financial advisers.

SEC officials have settled on a plan to scale back the agency's original December 2010 proposal, a concession to lawmakers and other critics who said the initial draft was too broad and would have ensnared too many individuals who work in public finance, according to people familiar with the matter.

The agency now is expected to exempt individuals appointed by governors and other elected state officials to serve on the governing boards of thousands of bond-issuing authorities throughout the country, including university systems, public power utilities and housing finance agencies. Such individuals don't typically provide advice on the structure of deals but vote to approve bond transactions and usually adhere to state fiduciary duty requirements.

SEC officials originally planned to include these individuals over concerns that, unlike elected officials, they were unaccountable to taxpayers and should be regulated at the federal level if they played a significant role in deciding how and when to issue bonds.

That proposal triggered pushback from Congress. More than two dozen lawmakers urged the SEC to limit the definition of “financial advisers” to paid, external professionals, saying subjecting appointed officials to extensive regulations and federal paperwork goes beyond the intent of Dodd-Frank and would make it difficult for states to recruit individuals to serve.

SEC Chairman Mary Jo White, at a congressional hearing in May, said the agency would scale back the rules in response to more than 1,000 comment letters. “The staff is developing a recommendation for final rules that we anticipate will address these concerns,” she said. The agency also plans to clarify the rules’ impact on banks offering traditional banking products and services to municipalities as well as the handling of municipal investments unrelated to muni bonds.

Thomas Gleason, executive director of the Massachusetts Housing Finance Agency, said Dodd-Frank’s intent was to regulate “true third-party advisers.”

“It just seems like common sense to exclude board members of municipal-bond issuers from the definition of municipal advisors,” Mr. Gleason said.