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SEC Official to Muni Underwriters: "Don’t Get Cute."

Peter Chan, assistant regional director in the Securities and Exchange Commission’s division of enforcement, had some advice Thursday for municipal-bond underwriters when dealing with regulators: “Don’t get cute.”

“Stuff like, ‘Oh, we don’t keep due diligence files,’ stuff like, ‘It’s privileged,’ and so forth, it doesn’t stop us,” said Mr. Chan, at a conference in Chicago put on by Bond Dealers of America. “It actually gets us more curious.”

Mr. Chan also said that if underwriting firms see their competitors winning business by unscrupulous methods, broker-dealers should not seek to emulate the potentially illegal behavior. Instead, he said, they should contact the SEC.

“Don’t get mad,” he said. “Call the SEC.”

“Don’t even get close the line,” he added. “Criminal authorities get very, very interested in this area.”

In general, municipal securities regulations prohibit broker-dealers from giving gifts to public officials in excess of $100 a year. There is an exception to the $100 limit for “normal business dealings,” such as occasional tickets to events if representatives of the broker-dealer are also in attendance.

Mr. Chan highlighted a recent case against West Clark Community Schools, in Indiana, which was charged with falsely stating to bond investors that it was providing annual financial information, as it agreed to do in connection with previous bond sales.

The SEC said in July that it was the first time a municipality was charged with falsely claiming in bond offering documents that it was providing financial updates to investors. The school district settled the case, agreeing to adopting written policies for providing updated figures.

The underwriter on its bond sale, City Securities Corp. in Indianapolis, was also charged and agreed to pay nearly $580,000, according to the SEC.

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