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SEC Wants Muni Underwriters to Stay on Top of Disclosure.

Oct 10 (Reuters) – A U.S. Securities and Exchange Commission official warned municipal bond underwriters on Thursday that they must make sure their issuer clients keep up with their disclosure obligations.

Throughout 2013, the commission has cracked down on cities, states, schools and other issuers in the \$3.7 trillion municipal market to ensure they provide bond buyers with accurate and timely information. Its landmark fraud charges against Harrisburg, Pennsylvania, were based in part on the city's failure to make required annual disclosures.

But Peter Chan, assistant regional director in the SEC's enforcement division, said the regulators also hold underwriters who price the bonds responsible.

"Don't get cute," Chan said at the Bond Dealers of America National Fixed Income Conference, adding that the absence of due diligence files will only make the SEC "more curious."

Underwriters should have procedures and documentation in place to prove due diligence in terms of researching that an issuer is compliant on disclosing its financial reports and other material information, he said.

The federal government has greater authority over banks, financial institutions and broker-dealers than over state and local governments, and some of the recent rash of municipal bond charges have involved underwriters.

In July, the SEC hit an Indiana school district and its bond underwriter with charges after official documents for a 2007 bond sale falsely claimed the district had complied with disclosure obligations. A few months earlier it accused the underwriters of a Victorville, California, airport deal of misleading investors about the value of property used to secure the bonds.

Chan, who works on enforcement cases in the Midwest, said public corruption is also an area of concern for the regulator, noting that the SEC brought civil charges last year against former Detroit Mayor Kwame Kilpatrick and others over an alleged gift exchange meant to influence city pension fund investments.

Kilpatrick, who was convicted on federal criminal corruption charges in March, was sentenced on Thursday to 28 years in prison.

Chan said underwriters should not "cross the line" in their attempts to get business from public debt issuers, warning that the SEC has "no problem" getting cooperation from the U.S. Attorney and other law enforcement authorities.

"Don't even get close to the line," he said, adding that if they observe one of their competitors relying on gifts, charitable contributions or other enticements to get business, they should contact the SEC.

