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U.S. Municipal Advisers get Guidance, but not Delay, on Regulation.

Jan 10 (Reuters) - The Securities and Exchange Commission on Friday closed potential loopholes in its new regulation on the financial advisers to U.S. states and cities and resisted calls to slow down creating oversight of a group that has long escaped government scrutiny.

The securities industry had asked the SEC for a one-month delay in enacting its full definition of exactly who counts as a municipal advisor, which is set to go into full effect on Jan. 13.

The Securities Industry and Financial Markets Association said firms did not have time to digest the final rule, which spans more than 700 pages and was approved last September.

The SEC released guidance late Friday that held firm on next week's effective date. From there, regulators will build up an extensive regulatory regimen encompassing advisers' fiduciary duties, compensation and qualifications.

"We continue to encourage the SEC to delay the Jan. 13 effective date...to give the industry sufficient time to incorporate this guidance into compliance programs and employee training," SIFMA President Kenneth Bentsen said in a statement.

The Dodd-Frank Act signed in 2010 requires those who consult with municipalities about selling debt or buying derivatives to register with the SEC, putting them under the same regulation as brokers and dealers, and also requires them to carry out fiduciary duties involving putting clients' interests first.

Determining exactly who is an adviser has been key to carrying out the law. The SEC largely looks at a firm or individual's activities to make the classification.

In detailed question-and-answer form, the guidance addressed scenarios where someone may not be sure about qualifying as an adviser, where someone may unintentionally fall subject to the regulation, or where someone may want to give up the adviser role.

The guidance drove home the point that a broker-dealer cannot switch from the role of adviser to underwriter once an issuer decides to go ahead with a deal.

"It owes a fiduciary duty to the municipal entity with respect to that issue and must not take any action inconsistent with its fiduciary duty to the municipal entity," according to the guidance.

Also, issuers must state they have selected a broker-dealer as an underwriter on a bond sale, confirming they know the firm does not have an adviser's fiduciary responsibility.

The SEC drew a distinction between general information and advice, saying that an underwriter could include facts in business pitches without having to register as an adviser, but could not make recommendations.

In the same light an underwriter may discuss omissions from offering documents and lapses in past disclosure filings without being considered an adviser, and may meet with clients without having an adviser present.

The SEC initially laid out the parameters of who counts as an adviser nearly three years ago, but had to pull that definition after it was universally criticized as too broad.

Now that the final, more narrow definition is in place, the Municipal Securities Rulemaking Board, a self-regulatory organization that writes the rules the SEC enforces, is racing to create a regimen on carrying out the Dodd-Frank provision.

More than 1,100 firms have registered as advisers since 2010, mostly under a temporary placeholder rule. The pace has picked up since the final definition was approved - with 41 firms and individuals registering since Sept. 19.

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