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WSJ: SEC Reviewing Municipalities' Disclosures.

Review Is Targeting Defaulted, Distressed Municipalities

BOSTON—The municipal-bond enforcement unit at the Securities and Exchange Commission is reviewing the past disclosures of defaulted and distressed municipalities to see if financial conditions were properly disclosed, the unit's top official said on Thursday.

LeeAnn Gaunt, the chief of the municipal securities and public pensions unit in the division of enforcement, said the review has been ongoing for a little more than a year and that it has resulted in some investigations. She said her unit, created in 2010, is looking at specific issuers, but declined to say which ones or how many.

The SEC is looking for instances where there is "tension between the disclosures and the subsequent announcements," Ms. Gaunt said at a National Association of Bond Lawyers conference in Boston.

The review comes as the SEC increases its attention on the municipal-bond market, which has been seen as a safe place for mom-and-pop investors, but has been rattled recently by major bankruptcies in Detroit and Jefferson County, Ala., and by financial troubles in Puerto Rico. Last year, the SEC assessed its first financial penalty against a municipal issuer and levied charges for the first time against a municipality for violating a previous cease-and-desist order.

The Wall Street Journal reported last year that the SEC had asked at least one investment firm for information relating to a largely private gathering in New York between some investors and officials from Puerto Rico. Ms. Gaunt declined to say whether the request was part of the continuing review.

Earlier this month, the SEC said municipalities and the underwriters that help sell their bonds could self-report violations relating to agreements that require municipalities to make certain disclosures after the bonds are sold. Last year, the SEC brought a case against a school district which had said in bond-offering documents that it had met all of its disclosure requirements, when in fact it had not.

The SEC is offering less severe penalties if issuers and underwriters self-report the violations before a September deadline, compared with what could happen if the SEC launches a separate enforcement action. For municipalities, there would be no financial penalty, and for underwriters, the financial penalty would be capped at $500,000.

Attorneys at Thursday's conference, many of whom work with municipalities and banks that arrange their bond deals, questioned whether a municipality that is selling bonds soon would be required to disclose to investors that it may be in discussions with the SEC about past violations. Ms. Gaunt said it would be up to the lawyers to decide whether to disclose the discussions.

She said the program was designed to create some tension between debt underwriters and issuers.

"I think of it as a modified prisoner's dilemma," Ms. Gaunt said. "You might want to report because the other guy might report. More likely people will talk with each other and come to us jointly."

In 2012, the SEC published a broad report on the municipal market that called for Congress to give it more authority so it can better improve disclosures from municipalities, among other suggestions.

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