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Many U.S. Muni Bond Issuers, Underwriters Report Rule Violations - SEC.

Nov 21 (Reuters) – A large number of U.S. municipalities and bond underwriters have reported through a federal program that they violated securities disclosures law, with many revealing they failed to give investors material information, a top securities cop said on Friday.

Issuers face a Dec. 1 deadline to report disclosure violations to the Securities and Exchange Commission in the regulator's latest stab at strengthening regulation of the $3.7 trillion municipal market.

In the last two years, the SEC has charged cities, school districts and even a state with failing to disclose required information. Last March it launched an initiative, called MCDC, where issuers and underwriters could self-report inaccurate statements in bond documents and receive favorable settlement terms. Underwriters had until September to come forward.

A large number have reported, said SEC Enforcement Director Andrew Ceresney on the sidelines of an American Bar Association meeting. He declined to give an exact count. Next year the SEC plans on "bringing cases under our MCDC initiative," he told the meeting.

He bristled when an audience member said MCDC cases appear to involve "immaterial footfalls," and not serious violations.

"Our sense so far is that there are material violations, many material violations," Ceresney said.

Next week, smaller issuers could flood the SEC with completed questionnaires showing they made misstatements in sale documents.

Then, the SEC will likely review submissions and issue cease-and-desist orders, said Bill Daly, federal liaison for the National Association of Bond Lawyers.

"We're only about halfway through," he said.

By law, issuers must describe in bond sale documents when they did not comply with federal disclosure requirements within the previous five years

Some question the initiative's value.

It requires issuers to scour for documents that were posted before the Municipal Securities Rulemaking Board centralized disclosures on a single web platform, said Dustin McDonald, director of the Government Finance Officers Association's federal center. Before 2009, issuers mailed paper filings to about a dozen disparate storage centers.

Issuers must also find out if underwriters disclosed violations, and track down underwriters that may be out of business.

Smaller issuers with fewer resources are struggling to figure out if they even have any violations to report, McDonald added. That could be tricky when it comes to timely disclosures.

“If I had to hazard a guess I would say it would be the small issuers (that would report),” said Gregory Serbe, president of Lebenthal Asset Management’s municipal division.

BY LISA LAMBERT

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(Additional reporting by Megan Davies; Editing by David Gregorio)