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SEC Charges Municipal Underwriters With Making False Statements.

The Securities and Exchange Commission charged 36 municipal underwriting firms, including units of Bank of America Corp., Citigroup Inc. and J.P. Morgan Chase & Co., with making false statements or omissions in bond documents, the first penalties for underwriters under the agency's voluntary self-reporting program targeting inaccuracies in those documents.

Between 2010 and 2014, the firms violated federal law by selling municipal bonds with offering documents that "contained materially false statements or omissions about the bond issuers' compliance with continuing disclosure obligations," the SEC said in a news release Thursday. The firms also failed to conduct due diligence to identify those inaccurate statements or omissions before selling the bonds, the agency said.

The 36 firms settled the cases for a combined total of around \$9 million, without admitting or denying the findings, and agreed to cease and desist from such actions in the future, the SEC said. Under the terms of the Municipal Continuing Disclosure Cooperation Initiative, the largest firms will pay civil penalties up to \$500,000, and smaller firms will pay up to \$100,000, based on the number and size of the offerings. They also agreed to retain an independent consultant to review policies and procedures for underwriting municipal bonds.

"The MCDC initiative has already resulted in significant improvements to the municipal securities market, including heightened awareness of issuers' disclosure obligations and enhanced disclosure policies and procedures," said Mary Jo White, chairman of the SEC, said in the release. "This ongoing enforcement initiative will continue to bring lasting changes to the municipal securities markets for the benefit of investors."

The program began in 2014, offering favorable settlement terms to underwriter and issuers who voluntarily reported disclosure problems tied to bond sales. Those included such issues as failing to disclose missed filings of financial reports or filing them late.

Andrew Ceresney, director of the SEC's enforcement division, said the settlements reflected the firms' cooperation and self-reporting of possible violations, which he said had already improved disclosure practices in the \$3.7 trillion market for debt sold by U.S. state and local governments. Those involved underwrote about 70% of the dollar value of all municipal bonds issued in the U.S. in the past four fiscal years, he said.

"Municipal investors are the big winners here," he said in a call with reporters.

Spokespeople for J.P. Morgan and Bank of America declined to comment, and a Citi spokesman said they are "pleased to have the matter resolved." All three firms paid the maximum \$500,000.

Matt Fabian, partner at Concord, Mass., research firm Municipal Market Analytics, said it remains to be seen what the SEC will do with government entities that also made misstatements or omissions in bond documents. The program has made both issuers and underwriters more aware of the

importance of disclosure, which will be helpful to investors, he said.

“Any time you have that kind of impact, even if it’s small individually, it’s a big deal for the market,” he said.

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