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SEC Fines Wall Street's Top Banks Over Fraudulent Muni Deals.

The U.S. Securities and Exchange Commission alleged that 36 underwriters, including Wall Street's biggest banks, sold bonds for municipalities that failed to make adequate financial disclosures to investors.

Bank of America Corp.'s Merrill Lynch unit, Citigroup Inc., Goldman Sachs Group Inc., JPMorgan Chase & Co. and Morgan Stanley settled with the SEC and will each pay $500,000, according to a statement released Thursday. The SEC said they were negligent because the offering documents for deals they sold contained false information or material omissions about borrowers' compliance with the law.

The $9.3 million of penalties are the first against underwriters to result from an offer of leniency the agency extended to banks and localities that self-reported running afoul of securities rules. It's part of a years-long push to crack down on borrowers in the $3.6 trillion municipal-bond market that fail to provide key information to investors.

The initiative "has already resulted in significant improvements to the municipal securities market, including heightened awareness of issuers' disclosure obligations," SEC Chair Mary Jo White said in the statement. It "will continue to bring lasting changes to the municipal securities markets for the benefit of investors."

Enforcement Ability

The SEC stepped up its municipal-market enforcement in 2010, after officials bemoaned lax disclosure as states and cities were reeling from the recession. It established a unit to police such fraud five years ago.

Unlike with corporations, the SEC doesn't have direct authority to force states and cities to file updated financial statements and other documents because of exemptions that have been in place since the 1970s. It enforces the rules indirectly through its power over underwriters, requiring them to receive agreements from municipalities that they'll provide investors with annual financial reports and other information that could affect the value of the bonds.

Some underwriters failed to realize that their clients had provided no continuing disclosure after the bonds were sold, LeeAnn Gaunt, the head of the SEC's municipal-enforcement unit, said in a conference call with reporters.

The regulator has also targeted remiss localities. The SEC first fined a municipal issuer in November 2013. Before that, it had settled with states including Illinois and New Jersey without imposing a financial penalty.

Market Share

The SEC settled charges in July 2014 with a California school district, the first case to be resolved through the leniency program.

The underwriters, under the same initiative, didn't admit or deny the findings, the SEC said. The penalties were capped based on the size of the firm and were dependent on how many fraudulent offerings were identified.

Together, the firms have underwritten more than 70 percent of all municipal debt issued in the past four years, Andrew Ceresney, the SEC's enforcement director, said on the conference call. As part of the settlement, the underwriters must retain an independent consultant to review policies and procedures, he said.

Spokespeople for Bank of America, Goldman Sachs, JPMorgan and Morgan Stanley declined to comment. Citigroup spokesman Scott Helfman said the company is "pleased to have the matter resolved."

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