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SEC Charges Municipal Underwriters With Making False Statements.

WASHINGTON — The Securities and Exchange Commission charged and fined 22 municipal-bond underwriting firms, including units of UBS Group AG and PNC Financial Services Group Inc., for giving investors inaccurate information. It was the second batch of penalties this year for such firms under the U.S. agency's voluntary self-reporting program.

Regulators said Wednesday that the firms paid a total of about $4.1 million for violating federal securities laws between 2010 and 2014, by selling municipal debt using offering documents that contained "materially false statements or omissions" about the borrowers' compliance with disclosure obligations.

The SEC, in a news release, also said the firms failed to conduct adequate due diligence to identify the problems before selling the bonds on behalf of states and localities.

The agency launched the crackdown—dubbed the "Municipal Continuing Disclosure Cooperation Initiative," or MCDC—last year in a bid to pressure underwriting firms and state and local borrowers to admit voluntarily to lapses in investor disclosures in exchange for favorable settlement terms. The lapses include such issues as failing to disclose missed filings of annual financial reports or credit-rating changes.

Investors and analysts cite the missing disclosures as a factor curtailing the ability to trade securities in the vast, nearly $4 trillion municipal-debt market.

The program stems from a 2013 settlement with a southern Indiana school district and its underwriter for falsely stating to bond investors that the district had been providing investors with annual financial information and required disclosure notices. Without admitting or denying the charges, the West Clark Community Schools agreed not to repeat the violations and the district's underwriter, City Securities Corp., agreed to a $300,000 penalty.

Wednesday's announcement comes after the agency charged and fined 36 large and medium-size banks a total of about $9 million over similar violations in June. The earlier charges involved units of Bank of America Corp. and Citigroup Inc.

In the latest enforcement round, 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 firms settled without admitting or denying the findings, and agreed to cease and desist from such actions in the future, the SEC said.

A spokeswoman for PNC, which paid the maximum $500,000, declined to comment. A spokeswoman for UBS, which paid $480,000, said in a written statement it is pleased to have resolved the matter.

“The MCDC Initiative has revealed that in recent years, a large number of municipal bond underwriters failed to conduct adequate due diligence before selling municipal bonds to their customers,” Andrew Ceresney, director of the SEC’s enforcement division, said in a statement. “In addition to effectively addressing this past misconduct, we believe the initiative has been effective in improving underwriter due diligence in municipal securities offerings on a going forward basis.”

Robert Doty, president and proprietor of AGFS, a litigation consulting firm specializing in municipal-bond cases in Annapolis, Md., said the SEC’s program is successfully motivating banks to avoid underwriting municipal bonds unless the issuers have complied with disclosure promises in prior offerings.

“The mind-set in the market has changed,” Mr. Doty said.

In future enforcement actions under the MCDC, the SEC also is expected to expand the scope and bring charges against state and local borrowers, according to people familiar with the SEC’s thinking.

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