
Edward Jones Quits Negotiated Muni Bond Business.

CHICAGO – St. Louis-based retail stalwart Edward Jones will drop its negotiated public finance underwriting business at the end of the year, a decision the firm says is not linked to recent regulatory action on its primary pricing of bonds.

The financial services firm will continue to place competitive bids, said Jim Krekeler, general partner and head of a public finance banking team that includes seven investment bankers and seven analysts and support staff.

The move, announced internally about two weeks ago, comes two months after Edward Jones was the target of the Securities and Exchange Commission's first enforcement case on primary market municipal bond pricing. The SEC ordered the firm to pay more than $20 million for overcharging retail customers.

"This is a long-term strategic decision for the firm and it's not based on a regulatory settlement," Krekeler said. "Over time our investment banking operations have provided a much smaller percentage of firm's bond supply. Our trading systems have advanced and the firm is able to generate supply in other places," through competitive bids and the secondary market.

"We decided to focus our capital and resources elsewhere," he added in an interview Friday as word began to spread of the firm's decision, which was not yet publicly announced.

The firm's leaders caught members of its public finance group off-guard when they delivered the news about two weeks ago, according to sources. "It's a small part of the company's overall business" but it one that was profitable and supported its overall operations by originating paper for sale to retail clients, one public finance source said.

Krekeler said the public finance originations have produced an annual profit for the firm, but its revenues of $5 million to $10 million annually make up a small piece of the firm's overall $6.3 billion of net revenues.

The firm will honor its participation on deals for assignments already established that close before the end of the year and won't seek new business. "We will honor our commitments," Krekeler said.

The firm will also drop its smaller corporate investment banking originations business.

The public finance team being cut includes professionals at the managing director, director and analyst levels in its St. Louis headquarters and offices in Illinois, California, Michigan, and Texas. Krekeler, who has been with the firm for 28 years and has led the group for the last five, said his focus will be on helping those "talented" professionals land elsewhere.

The firm's banking group expanded about six years ago. At the time, the firm said the expansion was driven by demand for more product by the swelling number of local retail brokers, who are known as financial advisors.

The firm ranked 58th nationally as a senior manager on 26 issues valued at $279 million and was 61st to date this year working on 28 issues valued at $304 million, according to data from Thomson Reuters. The firm ranked 39th in the Midwest last year on 17 deals valued at $175 million and ranks 35th so far this year on 22 deals valued at $241 million.

The firm was founded in 1922 by Edward D. Jones Sr. Its focus has long been on individual investors, growing to more than 11,500 offices throughout the country and Canada with 14,000 advisors.

“There’s not a lot of other firms out there like Edward Jones,” said one banker who has worked at the firm. “That’s the firm’s pitch. It’s a true mom and pop retail shop.”

In its enforcement action, the commission found that instead of selling new bonds to customers at the initial offering price as required, Edward Jones, acting as a co-underwriter, and the former head of its syndicate desk took bonds into the firm’s own inventory and then improperly sold them to customers at higher prices. In some cases, the firm failed entirely to underwrite and offer the new bonds to investors until secondary market trading began and did not monitor the reasonableness of its markups in certain secondary market trades.

It marked the commission’s first case against an underwriter for pricing-related fraud in the primary market for municipal securities. The overcharges in this case occurred through the offer and sale of 156 different bonds in 75 negotiated offerings in which Edward Jones served as a co-manager between February 2009 and December 2012.

The SEC offered a stinging rebuke at the time.

“Edward Jones undermined the integrity of the bond underwriting process by overcharging retail customers by at least $4.6 million and by misleading municipal issuers,” Andrew Ceresney, director of the SEC’s enforcement division, said in an Aug. 13 release.

The enforcement prompted an industry debate over whether Edward Jones’ actions were an aberration or a systemic problem and whether changes are needed in industry practices on the pricing of new bonds.

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