

Bond Case Briefs

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SEC Settles First Muni Advisor Action Under Provisions of Dodd-Frank Act.

Investing.com — The U.S. Securities and Exchange Commission agreed to settle charges with two California-based municipal advisory firms on charges they used deceptive practices while soliciting business opportunities from five California school districts.

The enforcement action marks the first of its kind under the municipal advisor antifraud provisions of the Dodd-Frank Act. Under the enforcement action, the SEC found that School Business Consulting, Inc., a general consulting services company, advised several school districts about their hiring process for a financial advisory company, while it was retained by Keygent, LLC, an ElSegundo, California management consultant. At the same time, Keygent allegedly sought municipal advisory business from the same school districts associated with the consulting company. School Business Consulting, according to the SEC, allegedly shared confidential information with Keygent, including the fees charged by their competitors' proposals and potential questions likely to arise at interviews during the hiring process. Ultimately, Keygent benefited from the confidential information by winning the municipal advisory contracts.

Without admitting or denying the SEC's findings, School Business Consulting agreed to pay a \$30,000, while the company's president Terrance Bradley accepted a ban from acting as a municipal advisor. Bradley also agreed to pay a \$20,000 penalty. Keygent agreed to pay a \$100,000 fine, while two of its principals, Anthony Hsieh and Chet Wang, agreed to fines of \$30,000 and \$20,000 respectively.

"This unauthorized exchange of confidential client information could have given Keygent an improper advantage over other municipal advisors that were candidates for the same business," said Andrew Ceresney, Director of the SEC Enforcement Division. "The Dodd-Frank Act prohibits this type of deceptive behavior by advisors when dealing with municipal issuers."

School Business Consulting engaged in the "solicitation of a municipal entity," since it received direct compensation from Keygent, the SEC said in an administrative order. Consequently, SBCI should have registered as a municipal advisor as soon as it started soliciting for Keygent, the SEC added. Section 975 of the Dodd-Frank Act prohibits municipal advisors from engaging in any course of business that is not consistent with their fiduciary duty.

"These laws apply not only to municipal advisors, but also those who solicit business on behalf of municipal advisors," said LeeAnn Ghazil Gaunt, Chief of the SEC Enforcement Division's Public Finance Abuse Unit. "Municipal entities should be able to trust that their selection of a municipal advisor is untainted by any breach of fiduciary duty."

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