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SEC Probing Muni Market, California Treasurer's Office Says.

- **Regulator looking at 'certain market practices' in muni deals**
- **Treasurer's office isn't subject of inquiry, office said**

The U.S. Securities and Exchange Commission is investigating "certain market practices" by participants in municipal securities transactions, according to the California treasurer's office, which received a request for information from the federal agency.

"The inquiry relates to a confidential investigation the SEC is conducting into certain market practices engaged in by participants in municipal securities transactions, and was not directed at any conduct of the treasurer's office," the treasurer's office said in a statement.

The disclosure was made in response to a public-records request. The treasurer's office declined to give further detail, saying that it didn't want to interfere with SEC enforcement proceedings. It is unclear if the inquiry is an industrywide probe or an investigation of just certain participants.

Bill Lockyer, who was California treasurer from 2007 until 2015 and attorney general before that, said his office didn't receive such an inquiry during his tenure. The SEC request could mean "they were asking to understand how some of the bond issuances were done and the role of the different participants" such as bond lawyers and financial advisers, Lockyer said in a telephone call Thursday.

Current Treasurer John Chiang's office received the first inquiry last April, said general counsel Mark Paxson.

Increased Scrutiny

Government officials from New York, Florida, Illinois, Arizona and Texas all said their states had not received any similar requests for information. Officials from New Jersey, Wisconsin, Oregon and Washington did not immediately respond to calls asking if they had received such requests from the SEC.

John Nester, a spokesman for the SEC, declined to comment.

The SEC, whose mission is to protect investors, over the past several years has stepped up scrutiny of the $3.8 trillion municipal bond market, a haven of buy-and-hold investors. Its Municipalities Continuing Disclosure Cooperation Initiative, which sought to prod governments into honoring their legal obligations to provide timely financial updates to investors, led to a wave of settlements since it started in 2014. The agency has also settled with governments such as New Jersey and Illinois for misleading statements in bond-offering documents.

The municipal bond market's regulator — the Municipal Securities Rulemaking Board — last year warned state and local government officials against disclosing material financial information to only a limited audience, such as bondholders or analysts.

While state and local government issuers are exempt from U.S. Securities and Exchange Commission rules prohibiting selective disclosure, they are subject to anti-fraud laws. Municipalities could face federal fraud liability if known material information is omitted from public disclosures, the MSRB said, and if an investor acts on improperly disclosed information it could amount to insider trading.

Last year, the Port Authority of New York and New Jersey agreed to pay U.S. regulators $400,000 for failing to disclose risks to investors in $2.3 billion of bonds that helped finance New Jersey roadway projects. In 2016, the SEC reached settlements with 71 state and local borrowers for lying to investors about their compliance with disclosure requirements when they sold bonds, as part of an SEC initiative to crack down on disclosure failures.

Enforcement actions often are targeted at individual market participants, such as a town on Long Island last year that was sued for failing to disclose that the municipality guaranteed loans for a local restaurant owner who allegedly lavished officials with cash, trips and other bribes.

The actions also can broad, such as the settlement by 14 underwriting firms in 2016 over disclosure practices. And in June 2015, the SEC alleged that 36 underwriters, including Wall Street's biggest banks such as Citigroup Inc., Goldman Sachs Group Inc., JPMorgan Chase & Co., sold bonds for municipalities that failed to make adequate financial disclosures to investors.

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