

Bond Case Briefs

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SEC Alleges Firms Conspired in 'Flipping' Deal With Muni Bonds.

- **Two investment firms, 18 people charged in bond trading case**
- **Related SEC case targets former employee of underwriting firm**

The U.S. Securities and Exchange Commission said two investment firms and an underwriter settled charges of conspiring to make quick profits by trading newly issued municipal bonds, a practice known as flipping.

The agency Tuesday said that Core Performance Management LLC, based in Boca Raton, Florida, and Chula Vista, California-based RMR Asset Management Co. used fictitious business names and posed as individual investors to get newly offered securities that were then immediately resold at higher prices. The SEC said the former head of municipal underwriting for NW Capital Markets purchased securities from Core Performance at above-market prices in exchange for a cut of the profits.

"More than a dozen of the individuals charged today are alleged to have engaged in plainly deceptive conduct," said Stephanie Avakian, co-director of the enforcement division. "We are committed to investigating and charging individuals, especially where, as here, the alleged misconduct by many of these industry professionals harmed retail investors."

The case provides a window into how professional investors may seek to game the \$3.8 trillion state and local-government bond market to make short term profits, not unlike those that can be reaped by getting in on initial stock offerings. It is part of a broader push by the SEC to crack down on fraud in the state and local government debt market and marks a departure from recent cases that largely focused on misleading disclosures by borrowers.

The SEC said the investigation is ongoing, indicating that it may bring more cases.

"We are continuing our investigation to determine whether other market professionals had a role in these improper practices," said LeeAnn Gaunt, the head of the agency's Public Finance Abuse Unit.

While prices of municipal bonds are far less volatile than newly issued stocks, the debt offerings can be heavily sought after because many governments seek to ensure that some of them are sold to individuals, rather than just investment firms. Those small buyers are often given special priority.

The SEC said that Core Performance and RMR posed as so-called retail investors to purchase the newly issued bonds that were then resold to other firms at a profit.

They did that by using fictitious business names, falsely linking their orders to zip codes in the area where the bonds were being issued and dividing up its orders among dozens of accounts. Once the bonds were purchased, they were typically resold to dealers at a pre-arranged price, according to the SEC. The agency said 18 individuals were involved.

Core Performance and managing director James Scherr, RMR and its president, Ralph Riccardi, and 13 of their associates settled the SEC's charges without admitting or denying the allegations, the SEC said in a statement. NW Capital and its former underwriting head, Charles Kerry Morris, also settled without admitting or denying the charges.

A phone number listed for Core Performance in Boca Raton was disconnected. Loren Washburn, a lawyer for RMR, said the firm fully cooperated with the SEC and is glad to have resolved the matter. A message left with NW Capital's James Fagan, who supervised Morris and agreed to the settlement, wasn't immediately returned.

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