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RBC to Pay More Than $863K to Settle Charges over Muni Bond Sales.

RBC Capital Markets agreed to pay more than $863,000 to resolve charges that it circumvented procedures aimed at giving institutional and retail investors priority allocations in certain municipal bond offerings over a four-year span, the Securities and Exchange Commission announced on Friday.

From January 2014 and December 2017, RBC improperly allocated bonds to "flippers," unregistered traders who then resold the bonds to other broker-dealers at a profit. In three instances, RBC also violated the issuer's instructions to give retail investors priority and instead sold them first to flippers, the SEC said. RBC used its relationship with the flipping firms to improperly obtain bonds for its own inventory in cases where it was not the underwriter, according to the order.

"RBC did not always follow the standard methodology when it did not have priority instructions from issuers, and, in 41 instances when orders exceeded the bonds available, it failed to prioritize institutional customer and/or dealer orders ahead of flipper orders," the SEC said in the order.

The SEC charged RBC with violating the order disclosure, fair dealing, and supervisory provisions of Municipal Securities Rulemaking Board Rules and the related Exchange Act provision. The settlement includes a censure, a fine of $150,000, disgorgement of $552,440, plus prejudgment interest of $160,886.

A spokesperson for RBC declined to comment. The firm settled the charges without admitting or denying the findings, the SEC said. The agency sued the so-called flipping firms, RMR Asset Management and Core Performance Management, separately in 2018.

The SEC has pursued related violations more than half a dozen times since 2018, with one of the largest resulting in a $10 million fine against UBS Financial Services in July 2020.

In its case against RBC, it also brought charges against Kenneth G. Friedrich, RBC's former head of Municipal Sales, Trading and Syndication, and Jaime L. Durando, the head of RBC's municipal syndicate desk, who agreed to pay fines of $30,000 and $25,000, according to the SEC's press release and orders. In addition, Friedrich consented to a six-month limitation on supervisory activities and a six-month prohibition on trading negotiated new issue municipal securities, the SEC said.

The SEC found that Friedrich and Durando permitted the "improper allocation and sale of new issue bonds to the flippers," and that Friedrich also allowed for the "improper purchase of new issue bonds for RBC's own inventory through the flippers," it said in a press release.

The two agreed to cease-and-desist orders, without admitting or denying the findings, the SEC said.

Friedrich did not respond to a request for comment left on social media, and Durando did not respond to a similar request, left with the spokesperson.

“We will continue to pursue those who undermine priority rules and crowd out legitimate retail or institutional customers from getting access to newly issued municipal bonds,” LeeAnn G. Gaunt, chief of the SEC’s Division of Enforcement’s Public Finance Abuse Unit, said in a statement.

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by Miriam Rozen

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