

Bond Case Briefs

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Firm Settles SEC Charges For Prioritizing "Flippers" In Municipal Offerings: Cadwalader

In separate Orders, a municipal securities firm, the head of the firm's sales, trading and syndication group, and the head of the firm's syndicate desk settled SEC charges (see [here](#), [here](#), and [here](#), respectively) for inappropriately allocating municipal bonds to "flippers" (i.e., unregistered brokers that buy and sell bonds at a profit).

The SEC found that between January 2014 and December 2017 the firm failed to follow its "standard methodology" when serving as a sole underwriter or senior syndicate manager in negotiated offerings in which it allocated bonds. The SEC stated that the firm's methodology required it to prioritize the fulfillment of customer, dealer, syndicate member and other broker-dealer orders over flipper orders.

The SEC found that:

- on 41 separate occasions, the firm did not prioritize institutional customer or dealer orders over flipper orders, even when it had more orders than available bonds;
- on three separate occasions, the firm knowingly did not allocate bonds per issuer instructions, offering them to flippers before retail customers; and
- in instances in which the firm did not act as a participating underwriter, it caused flippers to act as unregistered broker-dealers by acquiring new issue municipal bonds from the flippers and compensating them on the basis of the transactions.

In addition, the SEC determined that both the head of the firm's sales desk and the head of the syndicate desk were aware of the improper conduct.

The SEC found that the respondents violated MSRB Rules G-11(k) ("Retail Order Period Representations and Required Disclosures") and G-17 ("Conduct of Municipal Securities and Municipal Advisory Activities") and Section 15B(c)(1) ("Discipline of municipal securities dealers; censure; suspension or revocation of registration; other sanctions; investigations") of the Exchange Act. In addition, the SEC found that the firm violated MSRB Rule G-27 ("Supervision") and caused violations of SEA Section 15(a)(1) ("Registration of all persons utilizing exchange facilities to effect transactions; exemptions").

To settle the charges, respondents agreed to (i) a censure, (ii) cease and desist from future violations, and (iii) \$150,000, \$30,000 and \$25,000 civil money penalties, respectively, of which a portion will be sent to the MSRB. The firm also agreed to pay \$713,327 in disgorgement and prejudgment interest.

by Cadwalader, Wickersham & Taft LLP

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