

Bond Case Briefs

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Municipal Bond Underwriters Settle SEC Charges for "Limited Offering" Disclosure Violations.

Three municipal bond underwriters settled SEC charges for failing to provide sufficient disclosure to investors in connection with the sale of municipal securities (see, [here](#), [here](#) and [here](#)). The SEC also filed a Complaint against a fourth municipal bond underwriter in the United States District Court for the Southern District of New York based on the same alleged violations. The SEC [stated](#), “these are the first SEC actions addressing underwriters who fail to meet the legal requirements that would exempt them from obtaining disclosures for investors in certain offerings of municipal bonds.”

According to the separate Orders, the underwriters relied on a “limited offering” disclosure exemption in paragraph (d)(1)(i) of SEA Rule 15c2-12 (“Municipal securities disclosure”), which requires that the securities are sold to no more than 35 persons having “such knowledge and experience in financial and business matters” that they are able to understand the product, and were not purchasing for redistribution. The SEC found that the underwriters did not determine if the broker-dealer and investment advisers purchased the securities for investment purposes, nor did the underwriters know for whom the securities were purchased. As a result, the SEC found that the underwriters were unable to reasonably believe that the securities were purchased for investors that fully understood the product. Further, the SEC found that the underwriters failed to adopt supervisory policies.

As a result, the SEC determined that the underwriters violated SEA Rule 15c-12, SEA Section 15B(c)(1) (“Municipal securities”) and MSRB Rule G-27 (“Supervision”).

To settle the charges, the underwriters agreed to (i) cease and desist, (ii) accept a censure and (iii) pay civil monetary penalties plus disgorgement with prejudgment interest. Separately, the SEC charged a fourth municipal bond underwriter with similar violations, also alleging that the fourth underwriter also made materially deceptive statements to investors regarding the securities, in violation of MSRB Rule G-17 (“Conduct of Municipal Securities and Municipal Advisory Activities”).

The Complaint against the fourth underwriter also includes charges for deceptive statements to issuers in violation of Rule G-17 and “seeks permanent injunctions, disgorgement plus prejudgment interest, and a civil money penalty.”

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