

THE BOND BUYER

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Enforcement

14 Underwriters Pay \$4.58M to Settle Disclosure Violations Under MCDC

by [Lynn Hume](#)

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The SEC's action completes its sweep of underwriters under the voluntary enforcement program and tees up the commission's first round of issuer settlements.

The Securities Industry and Financial Markets Association provided a tepid response to the announcement.

"Now that the SEC has completed its MCDC Initiative settlements with municipal securities underwriters, the underwriting community can work with regulators and industry members to focus on ways to improve the disclosure paradigm," said Leslie Norwood, a managing director and co-head of munis at SIFMA. "We believe that when nearly 100 percent of a regulated community self-reports and settles with the SEC with respect to a particular enforcement issue, the problem may be more with underlying rules and practices than with nearly every participating underwriter in the industry."

The SEC found that between 2011 and 2014, the 14 underwriting firms sold municipal bonds using offering documents that contained materially false statements or omissions about the issuers' compliance with their continuing disclosure obligations.

The SEC also found that the underwriting firms failed to conduct adequate due diligence to identify the misstatements and omissions before offering and

selling the bonds to their customers.

The 14 firms, which did not admit or deny the findings, agreed to cease and desist from such violations in the future. They paid civil penalties of up to \$500,000. The firms each agreed to retain an independent consultant to review its policies and procedures on due diligence for municipal securities underwriting.

This is the third wave of settlements with underwriters under the MCDC initiative. In all, 72 underwriters have been charged under the voluntary self-reporting program targeting material misstatements and omissions in municipal bond offering documents.

"The settlements obtained under the MCDC initiative have brought much-needed attention to disclosure obligations in municipal bond offerings," said Andrew J. Ceresney, Director of the SEC's Enforcement Division. "As part of the settlements, 72 underwriting firms – comprising approximately 96% of the market share for municipal underwritings – have agreed to improve their due diligence procedures and we expect that investors will benefit from those improvements."

The MCDC Initiative, announced in March 2014, offered lenient settlement terms to municipal bond underwriters and issuers that self-reported violations. The first enforcement actions against underwriters under the initiative were brought in June 2015 against 36 municipal underwriting firms. An additional 22 underwriting firms were charged in September 2015.

The MCDC Initiative is being coordinated by Kevin Guerrero of the Enforcement Division's Municipal Securities and Public Pensions Unit. The cases announced today were investigated by members of the unit, including Michael Adler, Robert Barry, Joseph Chimienti, Kevin Currid, Peter Diskin, Robbie Mayer, Heidi Mitza, William Salzmann, Ivonia K. Slade, Jonathan Wilcox, Monique C. Winkler, and Deputy Unit Chief Mark R. Zehner, with assistance from Ellen Moynihan of the Boston Regional Office.

The SEC's orders and penalty amounts are:

- [Barclays Capital Inc.](#) – \$500,000
- [Boening & Scattergood Inc.](#) – \$250,000
- [D.A. Davidson & Co.](#) – \$500,000
- [First Midstate Inc.](#) – \$100,000
- [Hilltop Securities Inc.](#) – \$360,000

- [Janney Montgomery Scott LLC](#) – \$500,000
- [Jefferies LLC](#) – \$500,000
- [KeyBanc Capital Markets Inc.](#) – \$440,000
- [Mitsubishi UFJ Securities \(USA\) Inc.](#) – \$20,000
- [Municipal Capital Markets Group Inc.](#) – \$60,000
- [Roosevelt & Cross Inc.](#) – \$250,000
- [TD Securities \(USA\) LLC](#) – \$500,000
- [United Bankers' Bank](#) – \$160,000
- [Wells Fargo Bank N.A. Municipal Products Group](#) – \$440,000



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