

PRESENTED AT

3rd Annual Government Enforcement Institute

September 29-30, 2016

Houston, Texas

SEC Priorities: The Year Past, The Year Ahead

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Press Release

SEC Charges 71 Municipal Issuers in Muni Bond Disclosure Initiative

FOR IMMEDIATE RELEASE

2016-166

Washington D.C., Aug. 24, 2016 — The Securities and Exchange Commission today announced enforcement actions against 71 municipal issuers and other obligated persons for violations in municipal bond offerings.

The actions were brought under the Municipalities Continuing Disclosure Cooperation (MCDC) Initiative, a voluntary self-reporting program targeting material misstatements and omissions in municipal bond offering documents. The initiative offered favorable settlement terms to municipal bond underwriters, issuers, and obligated persons that self-reported certain violations of the federal securities laws. Obligated persons are typically nonprofit entities such as hospitals and colleges that borrow the proceeds of bond issuances and are obligated to pay principal and interest on the bonds.

The SEC found that from 2011 to 2014, the 71 issuers and obligated persons sold municipal bonds using offering documents that contained materially false statements or omissions about their compliance with continuing disclosure obligations. Continuing disclosure provides municipal bond investors with important information, including annual financial reports, on an ongoing basis. The SEC's 2012 Municipal Market Report identified issuers' failure to comply with their continuing disclosure obligations as a major challenge for investors seeking information about their municipal bond holdings.

"The diversity among the 71 entities in these actions demonstrates that continuing disclosure failures were a widespread and pervasive problem in the municipal bond market," said Andrew Ceresney, Director of the SEC Enforcement Division. "The MCDC Initiative has brought attention to this important issue and resulted in increased compliance by municipal issuers and underwriters."

The parties settled the actions without admitting or denying the findings and agreed to cease and desist from future violations. Pursuant to the terms of the initiative, they also agreed to undertake to establish appropriate policies, procedures, and training regarding continuing disclosure obligations; comply with existing continuing disclosure undertakings, including updating past delinquent filings, disclose the settlement in future offering documents, and cooperate with any subsequent investigations by the SEC.

"The terms of the settlements reflect the credit these issuers earned for their cooperation in self-reporting pursuant to the MCDC initiative," said LeeAnn Ghazil Gaunt, Chief of the SEC Enforcement Division's Public Finance Abuse Unit. "Because the issuers also voluntarily agreed to take steps to prevent future violations, both they and their investors have benefited from the initiative."

The SEC has now filed a total of 143 actions against 144 respondents as part of the MCDC Initiative. Today's actions are the first against municipal issuers since the first action under the initiative was announced in July 2014 against a California school district. The SEC filed actions under the initiative against a total of 72 municipal underwriting firms, comprising 96 percent of the market share for municipal underwritings, in June 2015, in September 2015, and in February 2016.

The MCDC Initiative is being led by Kevin Guerrero of the Enforcement Division's Public Finance Abuse Unit. The cases announced today were investigated by members of the unit, including Michael Adler, Joseph Chimienti, Kevin Currid, Susan Curtin, Peter Diskin, Brian Fagel, Natalie Garner, Warren Greth, Sally J. Hewitt, Jason Howard, Jason Lee, Robbie Mayer, Heidi Mitza, William Salzman, Cori Shepherd, Ivonia K. Slade, Steven Varholik, Jonathan Wilcox, Monique C. Winkler, and Deputy Chief Mark R. Zehner with assistance from Peter Moores and Ellen Moynihan of the Boston Regional Office, Howard Kaplan of the Enforcement Division's Center for Risk and Quantitative Analytics, and Rebecca Olsen, Hillary Phelps, and Adam Wendell of the Office of Municipal Securities.

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First appeared as part of the conference materials for the

3rd Annual Government Enforcement Institute session

"SEC Priorities: The Year Past, The Year Ahead"