International Municipal Lawyers Association
2015 Annual Conference
Sunday, October 4, 2016
Las Vegas, Nevada

Work Session IV: Liability for Municipal Bond Issues – The New Paradigm. How to Protect Your Local Government; How to Protect Yourself and What to Disclose

Background Materials II: SEC's Enforcement Actions

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SEC Charges Allen Park, Mich. and Two Former City Leaders in Fraudulent Muni Bond Offering for Movie Studio Project

FOR IMMEDIATE RELEASE
2014-249

Washington D.C., Nov. 6, 2014 — The Securities and Exchange Commission today announced fraud charges against the City of Allen Park, Mich., and two former city leaders in connection with a municipal bond offering to support a movie studio project within the city.

An SEC investigation found that offering documents provided to investors during the Detroit suburb's sale of $31 million in general obligation bonds contained false and misleading statements about the scope and viability of the movie studio project as well as Allen Park's overall financial condition and its ability to service the bond debt.

The city and the two officials – former mayor Gary Burtka and former city administrator Eric Waidelich – have agreed to settle the SEC's charges.

"Municipal bond disclosures must provide investors with an accurate portrayal of a project's prospects and the municipality's ability to repay those who invest," said Andrew J. Ceresney, Director of the SEC Enforcement Division. "Allen Park solicited investors with an unrealistic and untruthful pitch, and used outdated budget information in offering documents to avoid revealing its budget deficit."

The SEC alleges that Burtka was an active champion of the project and in a position to control the actions of the city and Waidelich with respect to the fraudulent bond issuances. Based on this control, the SEC charged Burtka with liability for violations committed by the city and Waidelich. This is the first time the SEC has charged a municipal official under a federal statute that provides for "control person" liability. Burtka has agreed to pay a $10,000 penalty.

"When a municipal official like Burtka controls the activities of others who engage in fraud, we won't hesitate to use every legal avenue available to us in order to hold those officials accountable," said LeeAnn Ghazil Gaunt, Chief of the SEC Enforcement Division's Municipal Securities and Public Pensions Unit.

According to the SEC's administrative order against Allen Park and its complaints against Burtka and Waidelich filed in federal court in Detroit, the city began planning the studio project in late 2008 with the belief it would bring much-needed economic development. The state of Michigan had just enacted legislation that provided significant tax credits to film studios conducting business in Michigan. The original plan detailed a $146 million facility with eight sound stages led by a Hollywood executive director, and the city initially planned to repay investors with $1.6 million in revenue from leases at the site. Allen Park issued bonds on Nov. 12, 2009, and June 16, 2010, to raise funds to help develop the site.

The SEC's order finds, however, that by the time the bonds were issued, Allen Park's plans to implement and pay for the studio project had deteriorated into merely building and operating a vocational school on the site. Yet none of these plan changes were reflected in the bond offering documents or other public statements, which continued to repeat the original plans for the movie studio project. Investors were left uninformed not only about the deterioration of the project itself, but also the substantial impact it would have on the city's ability to service the bond debt. Without

the planned revenues from the studio project, the expected annual debt payments on the bonds represented approximately 10 percent of the city's total budget. Furthermore, Allen Park used outdated budget information in the bond offering documents that did not reflect the city's budget deficit of at least $2 million for fiscal year 2010. The studio project completely collapsed within months after the second set of bonds were issued, and Michigan appointed an emergency manager for Allen Park in October 2010 while citing the failed project as a primary factor in the city's deteriorating economic condition.

The SEC's complaints allege that Waidelich as city administrator reviewed and approved the offering documents for the bonds. Waidelich's actions violated Section 17(a)(2) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5(b). Without admitting or denying the allegations, Waidelich has consented to a final judgment barring him from participating in any municipal bond offerings and enjoining him from future violations. The SEC alleges that Burtka is liable as a control person under Section 20(a) of the Exchange Act, based on his control of Waidelich and the city. Without admitting or denying the allegations, Burtka consented to a final judgment requiring him to pay the $10,000 penalty, barring him from participating in any municipal bond offerings, and enjoining him from future violations.

The SEC's order against Allen Park finds it violated Section 17(a)(2) of the Securities Act and Section 10 (b) of the Securities Exchange Act and Rule 10b-5(b). The city agreed to cease and desist from future violations of those provisions. The SEC considered certain remedial measures taken by the city, which settled the enforcement action without admitting or denying the findings.

The SEC's investigation was conducted by Sally J. Hewitt of the Municipal Securities and Public Pensions Unit with assistance from John E. Birkenheier, John E. Kustusch, and Jean M. Javorski in the SEC's Chicago Regional Office and Mark R. Zehner, Deputy Chief of the Municipal Securities and Public Pensions Unit.

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Related Materials

- SEC order against Allen Park, Mich.
- SEC complaint against Burtka
- SEC complaint against Waidelich

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9677 / November 6, 2014

SECURITIES EXCHANGE ACT OF 1934
Release No. 73539 / November 6, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16259

In the Matter of **CITY OF ALLEN PARK, MICHIGAN,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") and Section 21C of the Securities Exchange Act of 1934 ("Exchange Act") against the City of Allen Park, Michigan (the "City" or "Respondent").

II.

In anticipation of these proceedings, the City has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, the City consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order, as set forth below.

III.

On the basis of this Order and the City's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

This matter involves municipal securities issued by the City pertaining to a movie studio project ("Studio Project") that the City began planning for in 2008. The City's securities were "double barreled" bonds, with debt service to be repaid initially from revenues derived from the Studio Project, but if need be from tax revenues of the City. The Studio Project's original plan was that it would be a $146 million facility with eight sound stages, led by a Hollywood executive director, and that the City initially would repay the bond debt service with $1.6 million of revenue from leases at the site. The City planned to develop the Studio Project in part by issuing bonds, which it ultimately did on November 12, 2009 and June 16, 2010 (collectively "Bonds"). By the time the City issued the Bonds, however, the plans to implement and pay for the Studio Project had deteriorated significantly. None of these changes, however, were reflected in the Bond offering documents nor in any of the City's other public statements. Instead, the Bond offering documents continued to repeat the original plans. In fact, by the time the Bonds were issued, the Studio Project had deteriorated to the point where it was a much smaller project, consisting of building and operating a vocational school. The deterioration put the City's ability to service the debt for the Bond offering at substantial risk. Without revenues from the Studio Project, the expected annual debt payments on the Bonds represented approximately 10% of the City's total budget. In addition, in connection with the Bond offerings, the City included outdated budget information which did not reflect the City Administrator's knowledge that the City had a projected deficit for Fiscal 2010 of at least $2 million, or over 8.4% of its total budgeted revenue for Fiscal 2010.

Background

1. In April 2008 the State of Michigan enacted legislation that provided significant tax credits to film studios conducting business in Michigan. In August 2008 the City was approached by an owner and operator of a California film and post-production sound studio ("Producer") who inquired about building a Studio Project in the City.

2. The City believed that the Studio Project would bring much-needed economic development to the City. To support the Project, it therefore agreed to offer what ultimately became a total of $28.275 million of general obligation limited tax bonds issued on November 12, 2009 ("2009 Bonds") and another $2.725 million of general obligation limited tax bonds issued on June 16, 2010 ("2010 Bonds").

The Public Private Partnership

3. The City and the Producer planned that the Studio Project would be financed and built through a Public Private Partnership ("PPP"), consisting of a limited liability corporation with the City, the Producer and a private developer ("Developer") as members. The City would use the municipal bond proceeds to buy land which it then would donate to the PPP to use for the Studio Project. The Developer would finance and build structures while the Producer would manage the Project and find investors to fund the film production.

4. In April 2009 the City issued a press release that included relevant plans about the Studio Project that were available at that point. These plans, which the City then maintained on its website through at least June 2010, were that the Studio Project would be a full-service film and media production facility that would employ thousands of skilled workers, be located on 104 acres, include 750,000 feet of facilities and have eight sound stages, and would be led by a Hollywood production executive at a cost of $146 million.

5. In May 2009, as the City was preparing its Fiscal 2010 budget, it faced a deficit of approximately $2 million. The Producer offered to provide up to $2 million to remove the deficit. Although the City Administrator originally understood the $2 million would be a "financial gift," the Producer sent the City Administrator a letter on May 14, 2009, stating that the $2 million was a "capital repayment" contingent on the City's contribution of land to the PPP.

6. In early June 2009, the Producer, the City, and the Developer signed an agreement for the PPP, pursuant to which the Developer committed $20 million for the Project's first phase.

The Collapse of the PPP and the City's $2 Million Budget Shortfall

7. In July 2009 the City's bond counsel advised the City that bond proceeds could not be used to purchase land that then would be donated to the PPP.

8. Because the City could not donate assets purchased with bond proceeds, it could not meet the contribution requirements necessary for membership in the PPP. The collapse of the PPP meant that the Developer, who had pledged to contribute $20 million, no longer had any obligations to the Studio Project.

9. The collapse of the PPP also meant that the City's Fiscal 2010 budget now had a $2 million shortfall because the Producer no longer had any obligation to pay the $2 million. Although the City Administrator knew this, he took steps to create the false impression that the City would still receive this money and did not have a $2 million deficit. The $2 million purported "donation" represented 8.4% of the City's budgeted $22 million in Fiscal 2010 revenue and was instrumental in creating the false appearance that the City's budget for Fiscal 2010 had no deficit.

10. In addition, the Producer's proposal to attract investors, media producers and tenants for the Studio Project had been based on the assumption that he would manage and control the entire Project. When the PPP collapsed, however, the City decided to own and manage the property itself. By August 2009, the plan was that the Producer was only going to lease 100,000 square feet and to operate a vocational school to train potential workers in the movie production business.

11. Thus, the City's plan for the Studio Project deteriorated significantly between April 2009, when the City issued its first press release, and November 12, 2009, when the City issued the 2009 Bonds. By the time the 2009 Bonds were issued, the City no longer had any private investor money in place to build or develop the Studio Project and the Producer no longer had the ability to lead the development or attract investors. In addition, the amount of funding

that the City initially believed that Wayne County, Michigan would provide had decreased significantly.

The 2009 Bonds Did Not Disclose Material Negative Information

12. The City, however, did not disclose any of these adverse facts in the offering documents for the bonds it issued on November 12, 2009.

13. Instead, the offering documents for the 2009 Bonds included a "Development" section that continued to describe the Studio Project by repeating substantially all of the same information that had been contained in the City's initial April 2009 press release announcing the Project.

14. In addition, the offering documents for the 2009 Bonds stated that the City intended initially to repay the 2009 Bonds by leasing facilities at the Studio Project and using the lease revenues towards payment of the 2009 Bonds. This representation was highly relevant to the City's ability to service its debt since the expected annual debt service otherwise would have constituted approximately 10% of the City's annual budget. The Official Statement for the 2009 Bonds also said that the City had existing leases "under contract" totaling $1.6 million (in annual revenues) for 48% of available space and that additional lease arrangements, representing 27% of available space, were currently in negotiation.

15. At the time the 2009 Bonds were issued, however, the projected $1.6 million annual revenues included at least $300,000 from the Producer which the City's Administrator knew to be unreliable. The City's Administrator also was aware that there were no existing negotiations regarding 27% of available space.

16. Finally, the City attached its Fiscal Year 2010 budget as an appendix to the Official Statements for both its 2009 and its 2010 Bonds. The budget, which reflected the City's expectation that it would have a general fund surplus at the end of Fiscal Year 2010, appeared to be balanced because it was based on the assumption that the Producer would donate $2 million to the City. The City Administrator, however, knew this $2 million would not be forthcoming because it had depended on the existence of the PPP. The budget attached to the 2009 Official Statements thus was materially inaccurate because the City had a projected $2 million deficit for Fiscal 2010.

The Bonds were rated "A" and Issued in November 2009

17. On October 20, 2009 Standard & Poor ("S&P") assigned the 2009 Bonds an "A" rating. S&P's write-up noted that the FY 2010 budget was balanced only because of the $2 million donation, and pointed out that the City would have to address this structural imbalance.

18. Several investors who purchased the 2009 Bonds would not have done so had the 2009 Bonds not been rated "A."

Additional Adverse Developments Occurred Before the City Issued its June 2010 Bonds

19. After the 2009 Bonds were issued, the City retained a company to manage the Studio Project site. On February 12, 2010, the management company advised that the City's net cash flow from lease revenue at the site would decrease significantly, at least for the first three years.

20. On May 6, 2010 the City served the Producer with an eviction notice, on the grounds that the Producer had not paid his rent on time. The parties later negotiated an amended lease for only one-half the amount of space at one-half the rent – with rent payments to begin in August 2010.

21. Despite these additional significant negative developments affecting the Studio Project, the City prepared to and did issue the second set of Bonds it had planned for the Project on June 16, 2010. Although two weeks before the 2010 Bonds were issued, the City Council had adopted a budget for Fiscal Year 2011 which acknowledged the $2 million budget shortfall, the Official Statement for the 2010 Bonds again incorporated the City's Fiscal 2010 budget figures which omitted the $2 million shortfall.

22. The 2010 Bond offering documents misleadingly also continued to list tenants at the Studio Property with purported "total leases under contract represent[ing] approximately $1.6 million of annual revenue" with total annual debt service accurately estimated at $2.6 million.

23. Finally, notwithstanding that the Producer by this time had reduced his presence at the Studio Project by half, the offering documents falsely continued describing the Studio Project as a "$146 million, full-service movie, television and new media production studio" that would include 750,000 square feet, eight sound stages, employ thousands of unionized skilled workers and be led by the Producer.

24. On September 29, 2010 the Producer advised the City that he was terminating his lease at the Studio Property and vacated the site on October 4, 2010. The City Administrator resigned on February 27, 2011 and the Mayor resigned on May 24, 2011.

The Effect of the Studio Project Collapse on the City

25. The collapse of the Studio Project had a significant impact on the City's financial condition. The City filed a notice on the Electronic Municipal Market Access system ("EMMA") on December 29, 2010 that it was not filing an annual report for fiscal year 2010.

26. On March 8, 2011 S&P downgraded the City's unlimited tax bonds to BB+ and its limited tax GO bonds to BB+.

27. The City did not file any continuing disclosure until January 4, 2012, at which time it announced it had received a going concern emphasis of matter paragraph from its auditor. On June 21, 2012 the Michigan State Treasurer began a Preliminary Review of the City, pursuant to State law, and issued a Final Report on August 8, 2012 recommending the appointment of an Emergency Manager. The Studio Project was listed as a primary factor in the

City's deteriorating economic condition. An Emergency Manager was appointed in October 2012 and governed for two years. The City is currently transitioning to a Receivership Transition Advisory Board who will oversee the City's transition to home rule and governance by an elected City Council again.

28. The City's most recent annual audit report, dated December 16, 2013, for Fiscal 2013, again includes a going concern emphasis of matter paragraph because of the City's general fund deficit of $694,185 and its Studio Project fund deficit of $10,370,611.

Remedial Measures

29. The City has agreed to implement certain remedial measures including:

a. the adoption of written policies and procedures drafted by disclosure counsel, a copy of which will be provided to the Commission staff, to facilitate the City's the City's compliance with its obligations under federal securities law when issuing municipal bonds;

b. for any securities offering conducted by the City within two years from the entry of a cease-and-desist order, a designated individual will certify, upon consultation with disclosure counsel, that the offering documents do not contain any untrue statements of material fact or omit to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. The terms of the Order will be disclosed in offering documents the City issues for two years from the date of the Order; and

c. the designation of disclosure counsel responsible for training all personnel involved in the City's bond offering and disclosure process. Training shall include a complete review of the Policies and Procedures and the City's obligations under the federal securities laws. When complete, the individual will send to the Commission staff certification that the training took place and the titles of the attendees.

Legal Discussion

30. Issuers of municipal securities are responsible for the accuracy of their disclosure documents. Proper disclosure allows investors to understand and evaluate the financial risk of the security in which they are investing. The omission of material facts can render statements and disclosures, which are made, materially misleading.

31. Section 17(a)(2) of the Securities Act prohibits any person from, directly or indirectly, "obtain[ing] money or property by means of any untrue statement of a material fact" or misleading omissions. Section 17(a)(2) of the Securities Act can be violated by negligent conduct. In the Matter of Credit Suisse Securities (USA LLC, Securities Act Release No. 9368, 2012 SEC LEXIS 3569, *18 (Nov. 16, 2012). Section 10(b) and Rule 10b-5(b) of the Exchange Act prohibit the making of: (a) a false statement or omission; (b) of material fact; (c) with scienter; (d) in connection with the purchase or sale of any security. *See* SEC v. George, 426 F.3d 786, 792 (6th Cir. 2005). A fact is material if there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision. *See* Basic Inc. v. Levinson, 485 U.S. 224, 231 (1988). The Supreme Court previously has defined scienter as "a mental state embracing intent to deceive, manipulate or defraud." *Id.* Recklessness is

sufficient to establish scienter under Section 10(b) and Rule 10b-5. Miller v. Champion Enter., Inc., 346 F.3d 660, 672 (6th Cir. 2003). For purposes of liability under Section 10(b) of the Exchange Act, "recklessness" has been defined as "highly unreasonably conduct which is an extreme departure from the standards of ordinary care. While the danger need not be known, it must at least be so obvious that any reasonable man would have known of it." Louisiana School Employees' Retirement System v. Ernst & Young, LLP, 622 F.3d 471, 479 (6th Cir. 2010).

Violations

32. As a result of the conduct described above, the City violated Section 17(a)(2) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5(b) thereunder.

Remedial Measures

33. In determining to accept the Offer, the Commission considered the remedial measures the City has agreed to conduct, as described in Paragraph 29, and the cooperation afforded the Commission staff during the investigation.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in the City's Offer.

Accordingly, it is hereby ORDERED that, pursuant to Section 21C of the Exchange Act and Section 8A of the Securities Act, the City of Allen Park, Michigan shall cease and desist from committing or causing any violations and any future violations of Sections 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act

By the Commission.

Brent J. Fields
Secretary

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

GARY J. BURTKA,

Defendant.
_____/

CIVIL ACTION No.

HON.

COMPLAINT

Plaintiff, Securities and Exchange Commission ("Commission"), alleges and states as follows:

SUMMARY

1. The Securities and Exchange Commission brings this civil action in connection with violations of the antifraud provisions of the federal securities laws by the City of Allen Park, Michigan ("the City" or "Allen Park") and the Allen Park City Administrator from approximately 2008 through at least May 2011.

2. During that period Defendant Gary J. Burtka ("Burtka") was the Mayor of Allen Park and a member of the Allen Park City Council, which governed the City. Defendant also appointed the City Administrator, who oversaw the daily operations of the City. The City Administrator reported on a daily basis to Defendant.

3. Defendant accordingly participated in the operations of, and possessed the practical ability to direct the actions of, both the City and the City Administrator while he was the Mayor of Allen Park. He therefore was a "control person" within the meaning of Section 20(a) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78t(a)].

4. Because Defendant Burtka controlled the City and the City Administrator during the period that each one violated the federal securities laws, he is liable for their violations to the same extent each one of them is liable.

5. In 2008 the City began planning an economic development project in the form of a $146 million movie studio ("Studio Project") with eight sound stages, led by a Hollywood executive director.

6. Defendant championed the Studio Project idea and made numerous public pronouncements promoting it. Defendant advocated for the Studio Project and reported that it was proceeding well in numerous meetings with other municipal officials and City residents. He did not inform residents and other City Council members about difficulties the Studio Project was encountering. Many public statements Defendant Burtka made about the status of the Studio Project were not accurate.

7. During the period that Defendant was making these public statements regarding the Studio Project, the City voted to issue municipal bonds to ensure that the Studio Project took place. In November 2009 the City issued a total of $28.275 million in municipal general obligation limited tax bonds ("2009 Bonds"). It issued another $2.725 million of such bonds in June 2010 ("2010 Bonds") (collectively "Bonds").

8. The offering documents for the Bonds stated that the Bonds were to be repaid, at least initially, from revenues the City expected to generate from leasing space to numerous media-related entities. The offering documents also described the Studio Project as a $146 million facility consisting of 750,000 square feet of space including eight sound stages, which would employ thousands of union and skilled workers, and be led by an experienced Hollywood production executive.

9. By the time the City issued the Bonds, however, the plans to implement and pay for the Studio Project had deteriorated significantly. None of these changes, however, were reflected in the Bond offering documents nor in any of the City's other public statements.

10. The Bond offering documents also included outdated City budget information which did not disclose that the City faced a budget deficit for Fiscal 2010 of at least $2 million, or over 8.4% of its total general revenue fund.

11. At the time the City offered and sold the Bonds, Defendant and other City officials knew of the deterioration in the scope and viability of the Studio Project.

12. Through the activities alleged in this Complaint, as a control person of the City and the City Administrator, Defendant Burtka is liable for violations by the City and the City Administrator of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5(b) [17 C.F.R. §240.10b-5] promulgated thereunder.

DEFENDANT

13. Defendant Gary J. Burtka, age 65, resides in the City of Allen Park, Michigan. He was a member of the City Council from 1995 to November 2007, when he was elected to be

the Mayor of Allen Park. Defendant was the Mayor of Allen Park from November 2007 until he resigned in May 2011.

JURISDICTION

14. This Court has jurisdiction over this action pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Venue is proper in this Court pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa].

15. The acts, transactions, practices, and courses of business constituting the violations alleged herein have occurred within the jurisdiction of the United States District Court fot the Eastern District of Michigan and elsewhere.

16. Defendant, directly and indirectly, made use of the means and instrumentalities of interstate commerce, the means and instruments of transportation and communication in interstate commerce, and the mails, in connection with the acts, transactions, practices and courses of business alleged herein.

FACTS

Background

17. The City of Allen Park is located 13 miles from the City of Detroit, Michigan. It previously has been governed by a City Council consisting of six elected members and the Mayor. The City is currently in receivership and governed by an Emergency Manager whose appointment expired at the end of September 2014. After the Emergency Manager departed, a Receivership Transition Advisory Board (RTAB) consisting of members appointed via a final Order of the Emergency Manager was installed to oversee the transition of the City to home rule.

The City ultimately will return to being governed by a seven-member City Council consisting of the Mayor and six elected members.

18. Allen Park operates pursuant to a City Charter which sets out the responsibilities of various City officials. According to the City Charter, the Mayor appoints a City Administrator, subject to the approval of the City Council. The City Administrator is responsible for running the City's daily operations. When Defendant was elected as the City's Mayor, he immediately appointed a City Administrator.

19. The City Administrator's responsibilities included preparing and submitting an annual budget to the City Council, and carrying out the directives of the City Council. The City Administrator also was required to report to the City Council on "any and all matters" that "may require the Council's attention and action" and to perform "such other duties as may be prescribed...by ordinance or by direction of the Council."

20. In April 2008 the State of Michigan enacted legislation that provided significant tax credits to film studios conducting business in Michigan. In August 2008 the City was approached by an owner and operator of a California film and post-production sound studio ("Producer") who inquired about building the Studio Project in the City.

21. The City Council believed that the Studio Project would bring much-needed economic development to the City. To support the Project, the City Council therefore agreed to offer what ultimately became a total of $28.275 million of general obligation limited tax bonds issued on November 12, 2009 ("2009 Bonds") and another $2.725 million of general obligation limited tax bonds issued on June 16, 2010 ("2010 Bonds").

Movie Studio Project

23. The City and the Producer planned that the Studio Project would be financed and built through a Public Private Partnership ("PPP"), consisting of a limited liability corporation with the City, the Producer and a private developer ("Developer") as members. The City would use the municipal bond proceeds to buy land which it then would donate to the PPP to use for the Studio Project. The Developer would finance and build necessary structures on the land while the Producer would manage the Project and find investors to fund the film production.

24. In April 2009, the City issued a press release about the Studio Project. The release quoted Defendant Burtka as saying the Studio Project amounted to an "economic development blockbuster" representing "job opportunities for thousands . . . who have lost their jobs" and that the City "did not need to raise taxes a penny to win this project . . . ."

25. Defendant Burtka also participated in drafting other documents that were publicly distributed with the April 2009 press release and maintained on the City's website through at least June 2010. Those documents described the Studio Project as a full-service film and media production facility that would employ thousands of unionized, skilled workers, be located on 104 acres, consist of 750,000 square feet of facilities including eight sound stages, and be led by a Hollywood production executive, at a cost of $146 million.

26. In May 2009, as the City Administrator was preparing the City's Fiscal 2010 budget, the City faced a deficit of approximately $2 million. The Producer offered to provide up to $2 million to remove the deficit. Although the City Administrator originally understood the $2 million would be a "financial gift," the Producer sent the City Administrator a letter on May

14, 2009, stating that the $2 million was a "capital repayment" contingent on the City's contribution of land to the PPP.

27. In early June 2009, the Producer, the City, and a Developer signed an agreement for the PPP, pursuant to which the Developer committed $20 million for the Project's first phase. Defendant Burtka signed the contract on behalf of the City.

The Collapse of the PPP and the City's $2 Million Budget Shortfall

27. In July 2009 the City's bond counsel advised the City that bond proceeds could not be used to purchase land that then would be donated to the PPP.

28. Because the City could not donate assets purchased with bond proceeds, it could not meet the contribution requirements necessary for membership in the PPP. As a result, the plans for the PPP collapsed. The collapse of the PPP meant that the Developer, who had pledged to contribute $20 million, no longer had any obligations to the Studio Project.

29. The collapse of the PPP also meant that the City had a projected deficit for Fiscal 2010 of $2 million, because the Producer no longer was obligated to pay the City $2 million. The City Administrator knew this but took steps to create the false impression that the City would still receive the $2 million. The $2 million purported "donation" represented 8.4% of the City's budgeted $22 million in Fiscal 2010 revenue and was instrumental in creating the false appearance that the City's budget for Fiscal 2010 had no deficit.

30. In addition, the Producer's proposal to attract investors, media producers and tenants for the Studio Project had been based on the assumption that he would manage and control the entire Project. When the PPP collapsed, however, the City decided to own and manage the property itself. By August 2009, the plan was that the Producer was only going to

lease 100,000 square feet and to operate a vocational school to train potential workers in the movie production business.

Wayne County and the City's Public Statements

32. Wayne County originally planned to support the Studio Project by issuing up to $12 million of municipal bonds and granting favorable tax status to the Studio Property. The County, however, raised numerous concerns about the viability of the Project from the start, expressing these concerns in writing and meetings with both Defendant Burtka and the City Administrator.

33. By August 2009, the County informed the City that it would not grant favorable tax status to the property.

34. The City nevertheless issued a press release on August 14, 2009 in which Defendant Burtka announced that ground breaking for construction was beginning at the Studio Project. The press release also announced that all details of the Studio Project, including financing, were complete and that the "all-encompassing film, TV and media production facility will open in October." None of these statements was true.

35. In late September 2009, the County further advised the City that it would not issue the $12 million municipal bonds without additional information. The City Administrator advised Defendant Burtka that without the County's municipal bonds, the City could incur up to $4 million of additional interest. On October 6, 2009, the County confirmed that it would not provide any municipal bond financing for the Studio Project.

36. In response to concerns raised by a resident during an October 13, 2009 public City Council meeting, Defendant Burtka stated falsely that the Producer's company would move

in shortly "creating four stages, four movie stages" and serve as an anchor for an entertainment district. Throughout the October 13, 2009 public meeting, neither Defendant Burtka nor the City Administrator discussed any of the negative developments that were impairing the Studio Project, including the fact that there were no prospects for building sound stages.

The 2009 Bonds Did Not Disclose Material Negative Information

37. The City Administrator was the primary source of information used in drafting the offering documents for the 2009 Bonds. He also received drafts of the offering documents, provided comments that were incorporated into the final versions, and certified on behalf of the City that, to its best knowledge and belief, the document was "true and correct" and did not "contain, nor omit, any material facts or info which would make the statements contained herein misleading."

38. The City, however, did not disclose any of the adverse developments in the offering documents for the 2009 Bonds. Similarly, the offering documents had no disclosure or discussions regarding any potential risks.

39. In fact, the offering documents contained a number of material misstatements. First, the offering documents repeated substantially all of the information about the Studio Project that had been contained in the City's initial April 2009 press release announcing the Project, even though the plans for the Studio Project had deteriorated significantly after April 2009.

40. In addition, the offering documents stated that the City intended initially to repay the Bonds by leasing facilities at the Studio Project and using the lease revenues towards payment of the Bonds. This representation was highly relevant to the City's ability to service its

debt since the expected annual debt service otherwise would have constituted approximately 10% of the City's budget. The offering documents also stated that the City had existing leases "under contract" totaling $1.6 million for 48% of the available space and that additional lease arrangements, representing 27% of the available space, were currently in negotiation.

41. By the time the 2009 Bonds were issued, however, the projected $1.6 million of annual lease revenue included at least $300,000 from the Producer, which the City's Administrator knew to be uncertain. The City Administrator also was aware that there were no existing negotiations regarding 27% of available space.

42. Finally, the City attached its projected Fiscal Year 2010 budget as an appendix to both its 2009 and its 2010 offering documents. The budget, which reflected the City's expectation that it would have a general fund surplus at the end of Fiscal Year 2010, appeared to be balanced because it was based on the assumption that the Producer would donate $2 million to the City. The City Administrator, however, knew that the Producer no longer intended to pay $2 million to the City. The budget attached to the 2009 offering documents thus was materially misleading. The City really faced a projected $2 million deficit for Fiscal 2010.

The Bonds were rated "A" and Issued in November 2009

43. Standard & Poor ("S&P") reviewed information provided by the City and others in order to rate the City's 2009 Bonds. The City Administrator did not inform S&P that the Producer no longer intended to pay $2 million to the City and thus misled S&P regarding the actual condition of the City's Fiscal Year 2010 budget.

44. S&P assigned the City's 2009 Bonds an "A" rating, based on its misunderstanding that the City's FY 2010 budget was balance. S&P's write-up noted, however,

that the FY 2010 budget was balanced only because of the $2 million donation, and it pointed out that the City would have to address this structural imbalance.

45. The "A" rating by S&P was material to investors who purchased the 2009 Bonds.

Additional Adverse Developments Occurred Before the City Issued its June 2010 Bonds

46. After the 2009 Bonds were issued, the City retained a company to manage the Studio Project site. On February 12, 2010, the management company advised that the City would experience a significant decrease in net cash flow at the site at least for the first three years, rather than the increase from lease revenues it had expected. This was due to hiring agents to solicit prospective tenants, management companies, providing rent forgiveness and building out properties.

47. On May 6, 2010 the City served the Producer with an eviction notice. The City and the Producer then negotiated an amended lease for only one-half the amount of space at one-half the rent, with rent payments postponed until August 2010. Defendant Burtka signed the amended lease on behalf of the City.

48. Despite these additional significant negative developments affecting the Studio Project, the City issued the 2010 Bonds on June 16, 2010. Although two weeks before the 2010 Bonds were issued, the City Council had adopted a budget for Fiscal Year 2011 which acknowledged the $2 million budget shortfall, the offering documents for the 2010 Bonds again incorporated the City's Fiscal 2010 budget figures which omitted the $2 million shortfall.

49. The 2010 Bond offering documents misleadingly continued to list tenants at the Studio Property with purported "total leases under contract represent[ing] approximately $1.6

million of annual revenue." The 2010 Bond offering documents stated that the total annual debt service was $2.6 million, an increase from the $2.2 million stated in the 2009 Bonds.

50. Finally, notwithstanding that the Producer by this time had reduced his presence at the Studio Project by half, the offering documents falsely continued describing the Studio Project as a "$146 million, full-service movie, television and new media production studio" that would include 750,000 square feet, eight sound stages, employ thousands of unionized skilled workers and be managed by the Producer.

51. The City Administrator again was the primary source of information for the 2010 Bond offering documents. He also reviewed and approved them and certified, on behalf of the City, that, to the City's best knowledge and belief, the document was "true and correct" and did not "contain, nor omit, any material facts or info which would make the statements contained herein misleading."

52. On September 29, 2010 the Producer advised the City that he was terminating his lease at the Studio Property. He vacated the site on October 4, 2010. The City Administrator resigned on February 27, 2011 and Defendant Burtka resigned on May 24, 2011.

The Effect of the Studio Project Collapse on the City

53. The collapse of the Studio Project had a significant impact on the City's financial condition. The City filed a notice on the Electronic Municipal Market Access system ("EMMA") on December 29, 2010 that it was not filing an annual report for fiscal year 2010.

54. On March 8, 2011 S&P downgraded the City's unlimited tax bonds to BB+ and its limited tax GO bonds to BB+.

55. The City did not file any continuing disclosure until January 4, 2012, at which time it announced it had received a "going concern" opinion from its auditors. On June 21, 2012 the Michigan State Treasurer began a Preliminary Review of the City, pursuant to State law, and issued a Final Report on August 8, 2012 recommending the appointment of an Emergency Manager. The Studio Project was listed as a primary factor in the City's deteriorating economic condition. An Emergency Manager was appointed in October 2012.

56. The City's most recent annual audit report, dated December 16, 2013, for Fiscal 2013, again includes a "going concern" opinion because of the City's general fund deficit of $694,185 and its Studio Project fund deficit of $10,370,611.

CLAIMS FOR RELIEF

COUNT I
Control Person Liability
Section 20(a) of the Exchange Act [15 U.S.C. Section 78t(a)]

57. Paragraphs 1 through 56 are re-alleged and incorporated by reference as if fully set forth herein.

58. The City of Allen Park violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5] as described above, which is incorporated by reference as if set forth fully herein.

59. The City Administrator of the City of Allen Park violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 thereunder [17 C.F.R. § 240.10b-5] as described above, which is incorporated by reference as if set forth fully herein.

60. As set forth above, during the relevant period Defendant Burtka, directly or indirectly, controlled both the City and the City Administrator.

61. Defendant Burtka is liable as a control person for the City's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5(b) thereunder [17 C.F.R. § 240.10b-5].

62. Defendant Burtka is liable as a control person for the City Administrator's violations of Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5(b) thereunder [17 C.F.R. § 240.10b-5].

63. Pursuant to Section 20(a) of the Exchange Act [15 U.S.C. § 78t(a)], Defendant Burtka is liable jointly and severally with and to the same extent as the City and the City Administrator.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

A. Permanently enjoining Defendant Burtka from violation, and from inducing violations of, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder;

B. An order pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] imposing a civil penalty against Defendant Burtka;

C. An order pursuant to Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)] permanently barring Defendant Burtka from participating in an offering of municipal securities, as defined in Section 3(a)(29) of the Exchange Act [15 U.S.C. § 78c(a)(29)], including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of any municipal security, *provided,* however, that

such injunction shall not prevent Defendant Burtka from purchasing or selling municipal securities for his own personal account;

D. Retaining jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and to carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court; and

E. Granting such further relief as the Court may deem appropriate.

Date: November 6, 2014

Respectfully submitted,

s/ Sally J. Hewitt
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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

v.

ERIC C. WAIDELICH,

Defendant.
_____/

CIVIL ACTION No.

HON.

COMPLAINT

Plaintiff, Securities and Exchange Commission ("Commission"), alleges and states as follows:

SUMMARY

1. The Securities and Exchange Commission brings this civil action in connection with violations of the antifraud provisions of the federal securities laws by Defendant Eric C. Waidelich ("Defendant" or "Waidelich"). Defendant was the City Administrator for the City of Allen Park, Michigan ("the City" or "Allen Park") who reported to the City's Mayor and to Allen Park's governing body, the City Council.

2. In 2008 the City began planning an economic development project in the form of a $146 million movie studio ("Studio Project") with eight sound stages, led by a Hollywood executive director. The City intended to support the development in part by $31 million of issuing bonds, which it ultimately did on November 12, 2009 and June 16, 2010 (collectively

"Bonds"). The City initially intended to repay the bond debt service with $1.6 million of revenue from leases at the Studio Project.

3. As the City Administrator, Defendant Waidelich was primarily responsible for executing the City Council's directives, including the plans for the Studio Project and the supporting Bonds.

4. By the time the City issued the Bonds, however, the plans to implement and pay for the Studio Project had deteriorated significantly. None of these changes, however, were reflected in the Bond offering documents nor in any of the City's other public statements.

5. Instead, the Bond offering documents continued to repeat the City's original plans for the Studio Project. In fact, by the time the Bonds were issued, the Studio Project had deteriorated to the point where it was much smaller, consisting of building and operating a vocational school. The deterioration put the City's ability to service the debt for the Bond offering at substantial risk.

6. In addition, in connection with the Bond offerings, the City included outdated budget information which did not reflect Waidelich's knowledge that the City faced a budget deficit for Fiscal 2010 of at least $2 million, or over 8.4% of its total general revenue fund.

7. Waidelich was aware of the deterioration of the scope and viability of the Studio Project as well as of the City's budget deficit. He nonetheless participated in drafting the offering documents for the Bonds which falsely stated that the Studio Project would still be the $146 million, full-service facility with eight sound stages, led by the Hollywood executive.

8. Through the activities alleged in this Complaint, Defendant Waidelich, directly or indirectly, engaged in transactions, acts, practices or courses of business which constitute

violations of Section 17(a)(2) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)(2)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5(b) [17 C.F.R. §240.10b-5(b)] promulgated thereunder.

DEFENDANT

9. Defendant Eric C. Waidelich, age 46, resides in the City of Allen Park, Michigan and was employed by the City as its City Administrator from November 2007 to March 2011.

JURISDICTION

10. This Court has jurisdiction over this action pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. Venue is proper in this Court pursuant to Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)] and Section 27 of the Exchange Act [15 U.S.C. § 78aa].

11. The acts, transactions, practices, and courses of business constituting the violations alleged herein have occurred within the jurisdiction of the United States District Court for the Eastern District of Michigan and elsewhere.

12. Defendant Waidelich, directly and indirectly, made use of the means and instrumentalities of interstate commerce, the means and instruments of transportation and communication in interstate commerce, and the mails, in connection with the acts, transactions, practices and courses of business alleged herein.

FACTS

Background

13. The Allen Park City Administrator was responsible for running the City's daily operations including preparing and submitting annual budgets to the City Council, and carrying

out City Council directives. The City Administrator was required to report to the City Council on "any and all matters" that "may require the Council's attention and action" and to perform "such other duties as may be prescribed . . . by ordinance or by direction of the Council."

14. The City of Allen Park is located 13 miles from the City of Detroit, Michigan. It previously has been governed by a City Council consisting of six elected members and the Mayor. The City is currently in receivership and was governed by an Emergency Manager whose appointment expired at the end of September 2014. After the Emergency Manager departed, a Receivership Transition Advisory Board (RTAB) consisting of members appointed via a final Order of the Emergency Manager was installed to oversee the transition of the City to home rule. The City ultimately will return to being governed by a seven-member City Council.

15. In April 2008 the State of Michigan enacted legislation that provided significant tax credits to film studios conducting business in Michigan. In August 2008 the City was approached by an owner and operator of a California film and post-production sound studio ("Producer") who inquired about building the Studio Project in the City.

16. The City Council believed that the Studio Project would bring much-needed economic development to the City. To support the Project, the City Council therefore agreed to offer what ultimately became a total of $28.275 million of general obligation limited tax bonds issued on November 12, 2009 ("2009 Bonds") and another $2.725 million of general obligation limited tax bonds issued on June 16, 2010 ("2010 Bonds").

The Public Private Partnership

17. The City and the Producer planned that the Studio Project would be financed and built through a Public Private Partnership ("PPP"), consisting of a limited liability corporation

with the City, the Producer and a private developer ("Developer") as members. The City would use the municipal bond proceeds to buy land which it then would donate to the PPP to use for the Studio Project. The Developer would finance and build necessary structures on the land while the Producer would manage the Project and find investors to fund the film production.

18. In April 2009 the City issued a press release that included relevant plans about the Studio Project. These plans, which the City then maintained on its website through at least June 2010, were that the Studio Project would be a full-service film and media production facility that would employ thousands of union and skilled workers, be located on 104 acres, consist of 750,000 square feet of facilities, have eight sound stages, and be led by a Hollywood production executive, at a cost of $146 million.

19. In May 2009, as Defendant Waidelich was preparing the City's Fiscal 2010 budget, the City faced a deficit of approximately $2 million. The Producer offered to provide up to $2 million to remove the deficit. Although Waidelich originally understood the $2 million would be a "financial gift," the Producer sent Waidelich a letter on May 14, 2009, stating that the $2 million was a "capital repayment" contingent on the City's contribution of land to the PPP.

20. In early June 2009, the Producer, the City, and the Developer signed an agreement for the PPP, pursuant to which the Developer committed $20 million for the Project's first phase.

The Collapse of the PPP and the City's $2 Million Budget Shortfall

21. In July 2009 the City's bond counsel advised the City that bond proceeds could not be used to purchase land that then would be donated to the PPP.

22. Because the City could not donate assets purchased with bond proceeds, it could not meet the contribution requirements necessary for membership in the PPP. As a result, the

plans for the PPP collapsed. The collapse of the PPP meant that the Developer, who had pledged to contribute $20 million, no longer had any obligations to the Studio Project.

23. The collapse of the PPP also meant that the City had a projected deficit for Fiscal 2010 of $2 million, because the Producer no longer was obligated to pay the City $2 million. Although Defendant Waidelich knew this, he took steps to create the false impression that the City would still receive the $2 million. The $2 million purported "donation" represented 8.4% of the City's budgeted $22 million in Fiscal 2010 revenue and was instrumental in creating the false appearance that the City's budget for Fiscal 2010 had no deficit.

24. In addition, the Producer's proposal to attract investors, media producers and tenants for the Studio Project had been based on the assumption that he would manage and control the entire Project. When the PPP collapsed, however, the City decided to own and manage the property itself. By August 2009, the plan was that the Producer was only going to lease 100,000 square feet and to operate a vocational school to train potential workers in the movie production business.

Wayne County and the City's Public Statements

25. Wayne County originally planned to support the Studio Project by issuing up to $12 million of municipal bonds and granting favorable tax status to the Studio Property. The County, however, raised numerous concerns about the viability of the Project from the start, expressing these concerns in writing and meetings with both Defendant Waidelich and the City's mayor.

26. By August 2009, the County informed the City that it would not grant favorable tax status to the property.

27. The City nevertheless issued a press release on August 14, 2009 which announced that ground breaking for construction was beginning at the Studio Project, that all Studio Project details, including financing, were complete and that the "all-encompassing film, TV and media production facility will open in October." None of these statements was true.

28. In late September 2009, the County further advised the City that it would not issue the $12 million municipal bonds without additional information. Defendant Waidelich advised the mayor that without the County's municipal bonds, the City could incur up to $4 million of additional interest. On October 6, 2009, the County confirmed that it would not provide any municipal bond financing for the Studio Project.

29. In response to concerns raised by a resident during an October 13, 2009 public City Council meeting, neither the mayor nor Defendant Waidelich discussed any of the negative developments that were impairing the Studio Project, including the fact that there were no prospects for building sound stages.

30. Thus, the City's plan for the Studio Project deteriorated significantly between April 2009, when the City issued its first press release, and November 12, 2009, when the City issued the 2009 Bonds totaling $28.275 million. By the time the 2009 Bonds were issued, the City no longer had any private investor money in place to build or develop the Studio Project and the Producer no longer had the ability to lead the development or attract investors.

The 2009 Bond Documents Did Not Disclose Material Negative Information

31. Defendant Waidelich was the primary source of the information used in drafting the offering documents for the 2009 Bonds. Waidelich received drafts of the offering documents and provided comments that were incorporated into the final versions. Waidelich's electronic

signature certified the offering documents on behalf of the City, stating that to the City's best knowledge and belief, the document was "true and correct" and did not "contain, nor omit, any material facts or info which would make the statements contained herein misleading."

32. The offering documents, however, did not disclose any of the adverse developments regarding the Studio Project. Similarly, the Offering Statements contained no disclosure or discussions regarding any potential risks.

33. In fact, the offering documents contained a number of material misstatements. First, the offering documents for the 2009 Bonds repeated all of the information about the Studio Project that had been contained in the City's initial April 2009 press release announcing the Project, even though the plans for the Studio Project had deteriorated significantly after April 2009.

34. In addition, the offering documents stated that the City intended initially to repay the Bonds by leasing facilities at the Studio Project and using the lease revenues towards payment of the Bonds. This representation was highly relevant to the City's ability to service its debt since the expected annual debt service otherwise would have constituted approximately 10% of the City's budget. The offering documents also stated that the City had existing leases "under contract" totaling $1.6 million for 48% of the available space and that additional lease arrangements, representing 27% of the available space, were currently in negotiation.

35. By the time the 2009 Bonds were issued, however, the projected $1.6 million of annual lease revenue included at least $300,000 from the Producer which Waidelich knew was uncertain. Defendant Waidelich also was aware that there were no existing negotiations regarding 27% of available space.

36. Finally, the City attached its projected Fiscal Year 2010 budget as an appendix to both its 2009 and its 2010 offering documents. The budget, which reflected the City's expectation that it would have a general fund surplus at the end of Fiscal Year 2010, appeared to be balanced because it was based on the assumption that the Producer would donate $2 million to the City. Waidelich, however, knew that the Producer no longer intended to pay $2 million to the City. The budget attached to the offering documents thus was materially misleading. The City really faced a projected $2 million deficit for Fiscal Year 2010.

The Bonds were rated "A" and Issued in November 2009

37. Standard & Poor ("S&P") reviewed information provided by the City and others in order to rate the City's 2009 Bonds. Waidelich did not inform S&P that the Producer no longer intended to pay $2 million to the City and thus misled S&P regarding the actual condition of the City's Fiscal Year 2010 budget.

38. On October 20, 2009 Standard & Poor ("S&P") assigned the 2009 Bonds an "A" rating. S&P's write-up noted that the FY 2010 budget was balanced only because of the $2 million donation, and pointed out that the City would have to address this structural imbalance.

39. The "A" rating by S&P was material to investors who purchased the 2009 Bonds.

Additional Adverse Developments Occurred Before the City Issued its June 2010 Bonds

40. After the 2009 Bonds were issued, the City retained a company to manage the Studio Project site. On February 12, 2010, the management company advised that the City would experience a significant decrease in net cash flow at the site at least for the first three years, rather than the increase from lease revenues it had expected. This was due to hiring agents

to solicit prospective tenants, management companies, providing rent forgiveness and building out properties.

41. On May 6, 2010 the City served the Producer with an eviction notice. The City and the Producer then negotiated an amended lease for only one-half the amount of space at one-half the price, with rent payments postponed until August 2010.

42. Despite these additional significant negative developments affecting the Studio Project, the City issued the 2010 Bonds on June 16, 2010. Although two weeks before the 2010 Bonds were issued, the City Council had adopted a budget for Fiscal Year 2011 which acknowledged the $2 million budget shortfall, the offering documents for the 2010 Bonds again incorporated the City's Fiscal 2010 budget figures which omitted the $2 million shortfall.

43. The 2010 Bond offering documents misleadingly continued to list tenants at the Studio Property with purported "total leases under contract represent[ing] approximately $1.6 million of annual revenue." The 2010 Bond offering documents stated that the total annual debt service was $2.6 million, an increase from the $2.2 million stated in the 2009 Bonds.

44. Finally, notwithstanding that the Producer by this time had reduced his presence at the Studio Project by half, the offering documents falsely continued describing the Studio Project as a "$146 million, full-service movie, television and new media production studio" that would consist of 750,000 square feet, eight sound stages, employ thousands of unionized skilled workers, and be managed by the Producer.

45. Defendant Waidelich again was the primary source of information for the 2010 Bond offering documents. He also reviewed and approved them and certified, on behalf of the City, that, to the City's best knowledge and belief, the document was "true and correct" and did

not "contain, nor omit, any material facts or information which would make the statements contained herein misleading."

46. On September 29, 2010 the Producer advised the City that he was terminating his lease at the Studio Property. He vacated the site on October 4, 2010. Defendant Waidelich resigned on February 27, 2011.

The Effect of the Studio Project Collapse on the City

47. The collapse of the Studio Project had a significant impact on the City's financial condition. The City filed a notice on the Electronic Municipal Market Access system ("EMMA") on December 29, 2010 that it was not filing an annual report for fiscal year 2010.

48. On March 8, 2011 S&P downgraded the City's unlimited tax bonds and its limited tax GO bonds to BB+.

49. The City did not file any continuing disclosure until January 4, 2012, at which time it announced it had received a "going concern" opinion from its auditors. On June 21, 2012 the Michigan State Treasurer began a Preliminary Review of the City, pursuant to State law, and issued a Final Report on August 8, 2012 recommending the appointment of an Emergency Manager. The Studio Project was listed as a primary factor in the City's deteriorating economic condition. An Emergency Manager was appointed in October 2012.

50. The City's most recent annual audit report, dated December 16, 2013, for Fiscal 2013, again includes a going concern opinion because of the City's general fund deficit of $694,185 and its Studio Project fund deficit of $10,370,611.

CLAIMS FOR RELIEF

COUNT I

Violations of Securities Act Section Act 17(a)(2)
[15 U.S.C. Section 77q(a)(2)]

51. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

52. By his conduct as alleged above, Defendant Waidelich, in the offer and sale of municipal securities, by the use of means and instruments of transportation or communication in interstate commerce and by use of the mails, directly and indirectly, obtained money or property by means of untrue statements of material fact or omissions to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

53. Defendant Waidelich was reckless or negligent in the activities described herein.

54. By reason of the foregoing, Defendant Waidelich violated, and unless enjoined will likely again violate, Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

COUNT II

Violations of Exchange Act Section 10(b) and Rule 10b-5(b)
[15 U.S.C. Section 78j(b)] and 17 C.F.R. Section 240.10b-5]

55. Paragraphs 1 through 50 are re-alleged and incorporated herein by reference.

56. By his conduct as alleged above, Defendant Waidelich, in connection with the purchase and sale of municipal securities, by the use of means and instruments of transportation or communication in interstate commerce and by use of the mails, directly and indirectly, made

untrue statements of material facts and omitted to state material facts necessary in order to make statements made, in the light of circumstances under which they were made, not misleading.

57. Waidelich, at a minimum, acted recklessly in the activities described herein.

58. By reason of the foregoing, Defendant Waidelich violated, and unless enjoined will likely again violate, Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5(b) thereunder [17 C.F.R. § 240.10b-5(b)].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that the Court enter a judgment:

A. Permanently enjoining Defendant Waidelich, his agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from further violations of Section 17(a) of the Securities Act [15 U.S.C. § 77q(a)] and Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder;

B. An Order pursuant to Section 21(d)(5) of the Exchange Act [15 U.S.C. § 78u(d)(5)] permanently barring Defendant Waidelich from participating in an offering of municipal securities, as defined in Section 3(a)(29) of the Exchange Act [15 U.S.C. § 78c(a)(29)], including engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of any municipal security, *provided,* however, that such injunction shall not prevent Defendant Waidelich from purchasing or selling municipal securities for his own personal account;

C. Retaining jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and to carry out the terms of all

orders and decrees that may be entered or to entertain any suitable application or motion by the Commission for additional relief within the jurisdiction of this Court; and

D. Granting such further relief as the Court may deem appropriate.

Date: November 6, 2014

Respectfully submitted,

s/ Sally J. Hewitt
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FILED
JAN 28 2015
CLERK'S OFFICE
U.S. DISTRICT COURT
EASTERN MICHIGAN

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-vs-

Case No. 14-14278
HON. AVERN COHN

GARY J. BURTKA,

Defendant.

-and-

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

-vs-

Case No. 14-14279
HON. AVERN COHN

ERIC C. WAIDELICH,

Defendant.
_____/

COMMENTS OF THE COURT ON APPROVING CONSENT JUDGMENTS

I. Introduction

Before the Court are motions for entry of consent judgments by the United States Securities and Exchange Commission ("SEC") in two separate and parallel civil actions relating to the sale of two sets of municipal general obligation limited tax bonds issued in October, 2009, and June, 2010, by the City of Allen Park ("City"), Michigan.

Defendants in the civil actions are the former Mayor of the City, Gary J. Burtka

("Burtka"), a control person, and Eric C. Waidelich ("Waidelich"), the former City Administrator, each of whom the SEC says engaged in actions which constituted violations of the securities statutes.

These actions were filed following an SEC administrative proceeding entitled In The Matter of the City of Allen Park, Michigan, Administrative Proceeding File No. 3-16259. In the course of the proceedings, the SEC found that the offering documents relating to the sale of the bonds referenced above contained false and misleading statements about the scope and viability of what was called the Studio Project, as well as the City's overall financial condition and ability to service the debt represented by the bonds. The SEC's press release 2014-249, attached as Exhibit A, describes the SEC's findings and actions.

The SEC in particular found that the two Official Statements describing the bonds contained false information. The first Official Statement, for a $28.275 Million Dollar bond issue, is dated October 27, 2009. The second Official Statement, for a $2.725 Million Dollar bond issue, is dated June 16, 2010. The Official Statements read essentially the same.

The consent judgments permanently bar each defendant from participation in an offering of municipal securities. In addition, Burtka is required to pay a $10,000.00 penalty. Each defendant's consent to the entry of a judgment is without admission or denial of the allegations contained in the respective complaint, except as to jurisdiction.

The Court deferred approval of the consent judgments because it lacked full knowledge of all the relevant facts, and wanted to assure itself that the consent judgments were fair and reasonable, and that the public interest was not disserved by

their entry, as is the Court's obligation. See United States Securities and Exchange Commission v. Citigroup Global Mkts. Inc., 752 F.3d 285 (2d Cir. 2014).

Initially, the Court was puzzled because of the intense interest of the SEC in disclosure problems in municipal bond offerings. It wanted to know why in $30 Million Dollar fraudulent bond offering, only two unsophisticated municipal officers were charged with wrongdoing, and why sophisticated third-party participants had, in the SEC's view, not called to account.

In light of the Court's concerns and the standards for its approval, it asked the SEC to file a supplemental brief detailing the background of the administrative proceedings. The Court also asked the SEC to explain why individual responsibility was limited to the two defendants, and further what occurred between the end of October of 2009 and June of 2010, the relevant time frame for the Official Statements.

The purpose of these comments is to give context to what has culminated in the entry of the consent judgments as well as set forth some additional observations.

II. Background

A.

By way of general history, the public record reflects a longtime interest of the SEC in the problems of disclosure in the municipal bond market. In November, 1977, an SEC commissioner spoke to the Municipal Finance Officers Association Disclosure and Current Reporting Colleagues about municipal securities disclosure policies and the need for disclosure guidelines. In September, 2000, a senior staff member of the SEC spoke to the Municipal Finance Officers Association about the problems of disclosure. In 2012, the SEC published a Report on the Municipal Securities Market,

an extensive study of all aspects of municipal bond offerings.

B.

As to these cases, planning for the Studio Project by the City began as early as August, 2008. It is fair to say that it was a fragile initiative. Significantly, in contrast to the optimistic tone of the Official Statements, Wayne County in a letter dated September 25, 2009, noted the downsizing of the Studio Project from what was described to it earlier in a request for participation in financing. As to general knowledge of the Studio Project, the letter said, "[Wayne County officials] continue to be disappointed in the manner in which we are informed of changes in the status of the project – namely through the local news media."

III. The SEC's Supplemental Filings

In response to the Court's concerns set forth above, the SEC filed a Supplemental Brief (Docs. 8 and 12), accompanied by the declaration of Mark Zehner, Deputy Chief of the Municipal Securities and Public Pensions Unit of the Division of Enforcement of the SEC (Docs. 8-1 and 12-1), describing in detail the investigation conducted by the SEC, the relevant facts relating to the Studio Project from its conception to its demise, and particularly the role played in that sequence of events by each of the individual defendants. The SEC also lodged with the Court the documents referenced in the administrative decision relating to the City.

The SEC also responded to the Court's query as to why it limited individual responsibility to Burtka and Waidelich instead of, for instance, including the underwriters of the bond issues, the City's bond counsel and the City's financial advisors in the charges of wrongdoing. The SEC explained in summary that the

underwriters had no responsibility for the misstatements in the Official Statements because the bonds were sold by competitive bid, and that in such circumstances the underwriters neither write the offering documents nor formulate the terms of the offering. As to bond counsel, the SEC said they were retained for a limited purpose, that is the tax treatment of the bonds.

As to the financial advisors, the SEC said that while they wrote the Official Statements, and as to the parts which were false and misleading, particularly the nature and development of the Studio Project, the financial advisors relied on what Waidelich or City employees told it. In the SEC's words, "The information that defendant Waidelich supplied the financial advisors was incomplete, false and misleading," and went on to say:

> The Dodd-Frank Wall Street Reform and Consumer Protection Act established that financial advisors owe fiduciary duties to their municipal entity clients when they provide advice on an issuance of municipal securities. But, the conduct in this case occurred before the enactment of the Dodd-Frank Act and, at such time, under federal law financial advisors did not owe fiduciary duties to issuers of municipal securities. In addition, there was no contract in place between the Financial Advisor and the City stating what services the Financial Advisor agreed to provide to the City.

The SEC appears to be saying that the financial advisors had no obligation in formulating an official statement; it was no more than an amanuenses.

The SEC also describes in some detail the deterioration of the Studio Project between the date of the first Official Statement and the second Official Statement. Again, the SEC effectively says that the financial advisors continued in their role of scrivener.

Finally, the record is silent on the involvement of the City Council in the issuance of the bonds. The record is also silent as to the interactions between defendants and the City Council or defendants and the financial advisors as to the language of the Official Statements.

IV. Additional Observations

A.

On March 28, 2013, an emergency manager was appointed by the Governor of Michigan to deal with the City's fiscal issues, primarily the absence of resources to meet the debt obligations represented by the $30 Million Dollars of debt in the form of the bonds. Using a multitude of initiatives, the emergency manager resolved the fiscal issues which caused her appointment. The emergency manager, on September 25, 2014, reported to the Governor that the financial emergency had been rectified. A variety of initiatives put in place reflected an increase in taxes and reduction in services, and brought the City's finances into balance. This is good news for the residents of the City.

While the City is now on a more solid fiscal path, the fact that $30 Million Dollars in municipal bonds were issued based on misleading and fraudulent statements as to the Studio Project should not be forgotten. The citizens of the City have seen their taxes increased and municipal services reduced as a consequence. Only the SEC, whose responsibility runs to bond investors, has seen fit to investigate the debacle. The record is silent as to any pending investigation of the Studio Project by any state or federal agency responsible for investigating municipal misbehavior.

B.

Historically, there was in place a mechanism in the form of the Municipal Finance Commission, which had the responsibility of supervising borrowing by local governments, including review before bonds could be issued. A description of the Commission's work is described in a paper by Alvin D. Sokolow entitled State Review of Local Borrowing: The Michigan Municipal Finance Commission, Technical Bulletin B-3T, published by the Institute for Community Development and Services, Michigan State University, January 1963. However, the Commission has been abolished. Generally, its duties have been taken over by the Department of the Treasury Local Audit and Finance Division. However, these duties do not appear to encompass prior approval of the issuance of municipal bonds. However, they do require certain documents be filed with the department within fifteen (15) days after a bond issuance. See M.C.L. § 141.2319. Thus, it would appear that today the State of Michigan lacks a mechanism to review the legitimacy of municipal borrowings before debt instruments are issued. It is therefore fair to say that the State steps in only and after the barn door is closed and the horse escapes.

In other words, it is only after fraud is uncovered and a municipality loses its financial footings does the State take action.

Quis custodiet ipsos custodes? Who will guard the guards themselves?

Avern Cohn

AVERN COHN
UNITED STATES DISTRICT JUDGE

Dated: 1/28/15
Detroit, Michigan

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 23229 / April 6, 2015

***Securities and Exchange Commission v. Gary J. Burtka*, Civil Action No. Civil Action No. 14-cv-14278 (Cohn) (E.D. MI)**

***Securities and Exchange Commission v. Eric C. Waidelich*, Civil Action No. Civil Action No. 14-cv-14279 (Cohn) (E.D. MI)**

SEC Obtains Final Judgments Against Gary Burtka and Eric Waidelich

The Securities and Exchange Commission announced that on January 28, 2015, the Honorable Avern Cohn of the United States District Court for the Eastern District of Michigan entered final judgments settling fraud charges brought by the Commission in related suits against defendants Gary J. Burtka and Eric C. Waidelich, the mayor and city administrator of Allen Park, Michigan. Both judgments bar the defendants from participating in any municipal bond offerings and enjoin them from future violations of certain antifraud provisions of the federal securities laws. The judgment against Burtka also imposed a $10,000 civil penalty.

The Commission's Complaints, and an administrative proceeding the Commission filed against the City of Allen Park, arose from the city's issuance of $31 million in general obligation bonds to support a movie studio project. The Commission alleged that the city began planning the studio project in late 2008 in the hope it would bring much-needed economic development. The state of Michigan had just enacted legislation that provided significant tax credits to film studios conducting business within the state. The original plan detailed a $146 million facility with eight sound stages led by a Hollywood executive director, and the city planned to repay investors with $1.6 million in revenue from leases at the site. The city issued bonds on November 12, 2009 and June 16, 2010 to raise funds to help develop the site.

The Complaints alleged that, by the time the bonds were issued, the city's plans to implement and pay for the studio project had deteriorated into merely building and operating an onsite vocational school. However, none of these changes were reflected in the bond offering documents or other public statements. Investors were left uninformed not only about the project's deterioration, but also about the substantial impact it would have on the city's ability to service the bond debt, which comprised approximately 10% of the city's total budget. Moreover, the city used outdated budget information in the bond offering documents that did not reflect the city's budget deficit of at least $2 million for fiscal year 2010. The studio project collapsed within months of the second bond issuance, and the state appointed an emergency manager in October 2010, citing the

failed project as a primary factor in the city's deteriorating economic condition.

The Complaint against Waidelich alleged that, as city administrator, he reviewed and approved the offering documents provided to investors. Those documents contained false and misleading statements about the scope and viability of the movie studio project as well as Allen Park's overall financial condition and its ability to service the bond debt. The Complaint against Burtka alleged that he was an active champion of the studio project and in a position to control the actions of the city and Waidelich with respect to the fraudulent bond issuances. Based on this control, the Complaint charged Burtka with liability for violations committed by the city and by Waidelich. This was the first time the Commission charged a municipal official under a federal statute that provides for "control person" liability.

Burtka and Waidelich consented to the entry of the Commission's proposed judgments against them. On November 25, 2014, Judge Avern Cohn held a status conference and asked the Commission for briefing on specific developments that occurred between the issuance of the first and second bonds, the harm caused by the fraud, and whether additional parties should be held responsible. On January 28, 2015, the Court entered the judgments, imposing a $10,000 civil penalty against Burtka and enjoining him from further violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and enjoining Waidelich from further violations of Section 17(a)(2) of the Securities Act of 1933 and Section 10 (b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The Court also barred Burtka and Waidelich from participating in any municipal bond offerings. Judge Cohn also posted comments explaining the basis for his decisions.

For further information, see Press Release No. 2014-249 (November 6, 2014).

http://www.sec.gov/litigation/litreleases/2015/lr23229.htm

SEC Obtains Court Order to Halt Fraudulent Bond Offering by City of Harvey, Ill.

FOR IMMEDIATE RELEASE
2014-122

Washington D.C., June 25, 2014 — The Securities and Exchange Commission today obtained an emergency court order against a Chicago suburb and its comptroller to stop a fraudulent bond offering that the city has been marketing to potential investors.

The SEC has filed fraud charges in U.S. District Court for the Northern District of Illinois against the city of Harvey, Ill., and Joseph T. Letke alleging that they have been engaging in a scheme for the past several years to divert bond proceeds for improper, undisclosed uses. The SEC's complaint alleges that the purported purpose of prior bond offerings was to fund the development and construction of a Holiday Inn hotel in Harvey. However without informing investors, Harvey officials diverted at least $1.7 million of bond proceeds from these offerings to pay the city's operational costs such as its payroll, and Letke received approximately $269,000 in undisclosed payments derived from bond proceeds. While investigating Harvey's past bond offerings to investors, the SEC learned that the city is intending to issue new limited obligation bonds as early as this week, and draft offering documents make materially misleading statements about the purpose and risks of those bonds while omitting that past bond proceeds have been misused.

In response to the SEC's request for emergency relief, the Hon. Judge Rebecca Pallmeyer conducted an emergency hearing today and issued a temporary restraining order preventing Harvey from offering or selling any bonds through July 14. At the hearing, Harvey agreed to this restriction. Additionally, to prevent dissipation of Letke's ill-gotten gains, the court order prohibits Letke from incurring any extraordinary expenses beyond reasonable and customary personal and business expenses. The court scheduled an additional hearing for July 8.

"We moved quickly to stop this city and its comptroller from issuing more bonds under false pretenses," said Andrew J. Ceresney, director of the SEC's Division of Enforcement. "We will continue to aggressively pursue municipalities and public officials who raise money through fraudulent bond transactions that harm both investors and residents."

David Glockner, director of SEC's Chicago Regional Office, added, "Harvey's bond investors were misled into believing their money would go toward construction of a Holiday Inn when instead the bulk of it was diverted into Harvey's general coffers and Letke's pocket. Our action has stopped their scheme in its tracks, and we will continue our investigation to determine additional facts surrounding the misconduct."

According to the SEC's complaint, instead of general obligations bonds that are repaid from the general coffers of a municipality, Harvey's bond offerings in 2008, 2009, and 2010 were limited obligations bonds that were to be repaid from dedicated tax revenue streams such as Harvey's hotel-motel tax, sales tax, or incremental tax from the Tax Increment Financing District that the city created for the development and construction of the Holiday Inn project. Therefore, it was important to bond investors that the bond offerings were consistent with the stated purpose and the money raised was actually used to fund the hotel development, because the amount of funds available to repay the bonds derived from tax revenues would be materially affected by the funding and progress of the project.

However, the SEC alleges that Harvey's bond investors were materially misled about the purpose and risks of the bonds they purchased from the city. As Harvey and Letke perpetrated the scheme to divert bond-related proceeds, the hotel redevelopment project turned into a fiasco for bond investors and city residents. According to news reports, the proposed Holiday Inn hotel and conference center stands as a decrepit shell. The hotel's façade has many holes in it, and the interior of the hotel appears gutted in places with dangling wires and exposed studs.

The SEC's complaint alleges that Harvey and Letke violated Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5.

The SEC's investigation, which is continuing, has been conducted by staff in the Chicago Regional Office and the Municipal Securities and Public Pensions Unit, including Eric A. Celauro, Sally J. Hewitt, and Scott Hlavacek. The litigation will be led by Eric M. Phillips. The case is being supervised by Peter K.M. Chan.

###

Related Materials

- SEC complaint

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. SECURITIES AND EXCHANGE COMMISSION,	)	
Plaintiff,	)	
vs.	)	**Civil Action No.:**
CITY OF HARVEY, ILLINOIS and JOSEPH T. LETKE	)	**Jury Trial Demanded**
Defendants.	)	

COMPLAINT

Plaintiff U.S. Securities and Exchange Commission (the "Commission" or "SEC") alleges as follows:

NATURE OF THE ACTION

1. This case involves a scheme by Defendants the City of Harvey, Illinois (the "City of Harvey" or "Harvey") and Joseph T. Letke ("Letke") to misuse proceeds raised from investors in municipal bonds issued by Harvey. From 2008 to the present, Harvey and its Comptroller, Letke, have engaged in a scheme to divert bond proceeds for improper purposes, including undisclosed payments to Letke. As part of the scheme, Harvey made misrepresentations and omissions to investors about how bond proceeds would be used and the risks associated with investments in Harvey's municipal bonds.

2. Defendants Harvey and Letke engaged in a fraudulent scheme, and Harvey made materially false and misleading statements, in connection with municipal

bond offerings by Harvey to bond investors for approximately $6 million in 2008 ("2008 Bond Offering"), for approximately $3 million in 2009 ("2009 Bond Offering") and for approximately $5 million in 2010 ("2010 Bond Offering").

3. The purported purpose of the 2008, 2009 and 2010 Bond Offerings was to provide funding to develop and construct a Holiday Inn Hotel in Harvey ("Hotel Redevelopment Project"). These bonds were not general obligation bonds and were not to be repaid from the general coffers of Harvey. Instead, they were limited obligation bonds. Depending on the particular bond offering, the bonds were to be repaid from dedicated tax revenue streams such as Harvey's hotel-motel tax and sales tax revenue or incremental tax from the Tax Increment Financing District ("Harvey TIF District") Harvey created for the development and construction of the Hotel Redevelopment Project.

4. Thus, it was important to bond investors that money raised from the bond offerings, consistent with the stated purpose, was actually used to fund the hotel development, since the amount of funds to repay the bonds derived from tax revenues would be materially affected by the funding and progress of the Hotel Redevelopment Project.

5. Yet, unbeknownst to bond investors and contrary to representations in Official Statements and other documents connected to the 2008, 2009 and 2010 Bond Offerings, from in or about 2009 through in or about 2011, Harvey officials improperly diverted at least $1.7 million of bond proceeds from these offerings into the general operation accounts of Harvey to pay the City's operation costs, including payroll. Letke, Harvey's comptroller, also received approximately $269,000 in undisclosed payments

derived from bond proceeds and other proceeds earmarked for the Hotel Redevelopment Project. Bond investors were thus materially misled about the purpose and risks of the bonds they purchased from Harvey

6. During the relevant period, Defendant Letke was the Comptroller of Harvey, for which he and a firm he controlled, Letke & Associates, Inc., received $1,080,403. In addition, Defendant Letke and his firm Letke & Associates served as a financial advisor to Harvey in connection with the 2008, 2009 and 2010 Bond Offerings.

7. Harvey intends to make a new issuance of limited obligation bonds as early as June 25, 2014 (the "2014 Proposed Bond Offering"). The draft offering documents for the 2014 Proposed Bond Offering make materially misleading statements about the intended use of bond proceeds and the risks of investing in Harvey's municipal bonds, while omitting to state the bond proceeds from the 2008, 2009, and 2010 Bond Offerings already had been misused.

8. Through the activities alleged in this Complaint, the Defendants, directly or indirectly, have engaged in transactions, acts, practices or courses of business which constitute violations of Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77q(a)] and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C. § 78j(b)] and Rule 10b-5 [17 C.F.R. § 240.10b-5] promulgated thereunder.

JURISDICTION AND VENUE

9. The Commission brings this action pursuant to the authority conferred by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)] and Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)] seeking to restrain and enjoin permanently the

Defendants from engaging in the acts, practices, transactions and courses of business alleged herein, and for such other equitable relief as may be appropriate or necessary for the benefit of investors.

10. The Commission also seeks a final judgment ordering Defendant Letke to disgorge his ill-gotten gains and pay prejudgment interest thereon, and ordering Letke to pay civil money penalties pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] and Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

11. The Commission also seeks a temporary restraining order prohibiting Harvey from offering or selling its own municipal securities, and permanent injunctive relief enjoining Harvey from offering or selling its own municipal securities for a period of five years, unless it first retains an Independent Consultant appointed by the Court to review Harvey's municipal security disclosure policies and procedures, and Harvey's procedures, controls and personnel for the proper use of bond proceeds, and implements any of the Consultant's recommendations for improvement.

12. The Commission also seeks to temporarily restrain, and permanently enjoin, Defendant Letke from participating in any capacity in a municipal securities offering.

13. This Court has jurisdiction over this action, and venue lies in this District, pursuant to Sections 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(d) and 77v(a)] and Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§78u(d) and 78aa]. The Defendants, directly or indirectly, singly or in concert, have made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts,

practices, and courses of business alleged herein. These transactions, acts, practices and courses of business occurred in the Northern District of Illinois, where the City of Harvey is located and where Letke resides.

14. Defendants have, directly and indirectly, made, and are making, use of the mails, and of the means and instrumentalities of interstate commerce, in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

15. There is a reasonable likelihood that Defendants will, unless enjoined, continue to engage in the transactions, acts, practices and courses of business set forth in this Complaint, and transactions, acts, practices and courses of business of similar purport and object.

THE DEFENDANTS

16. **City of Harvey, Illinois** is located in southern Cook County, Illinois, about 20 miles south of downtown Chicago. The City was organized on June 18, 1891 and is a "body politic and corporate" operating under the Illinois Municipal Code. It is governed by a City Council, comprised of a mayor, and six alderman elected from separate wards for four year terms.

17. **Joseph T. Letke**, age 55, resides in Frankfort, Illinois. He has been the comptroller for the City of Harvey, Illinois for at least six years and in June 2008 incorporated a number of limited liability companies relating to the Hotel Redevelopment Project, including Harvey Hotel Properties and others.

FACTS

A. Letke, His Business, and His Relationship to the City of Harvey

18. Letke is a certified public accountant who is the principal shareholder of several professional service businesses, including Alli Financial and Public Funding Enterprises. Alli Financial was formed on May 1, 2013, as a successor corporation to Letke & Associates. Letke also formed Public Funding Enterprises and Public Funding Group, LLC, which both were registered municipal advisors and provided financial advisor services regarding the issuance of municipal bonds to the City of Harvey and other municipalities.

19. Alli Financial provides accounting and financial consulting services to private and municipal clients, mostly in the south suburbs of Chicago. Letke serves as the comptroller for several of these municipalities, including the City of Harvey, and is responsible for the accounting and financial reporting of the municipalities in which he holds that position, as well as advising on the municipalities' revenues, expenditures and general financial condition. Alli Financial has accountants onsite at several municipalities to provide accounting and comptroller services, and Alli Financial normally bills the municipalities on an hourly basis.

20. During the period 2008 to 2010, the City of Harvey has paid Letke and/or his businesses a total of approximately $1.08 million for work as Harvey's Comptroller and for bookkeeping.

21. Letke and/or his businesses also received disclosed compensation totaling approximately $547,000 in his role as financial advisor to Harvey for 2008, 2009, and 2010 municipal bond offerings, as more fully set forth below.

22. Additionally, as set forth below, Letke and/or his businesses received approximately $269,000 in undisclosed compensation from the developer of the Hotel

Redevelopment Project (as more fully described below) or businesses the developer controlled. Letke served as an accountant for this developer during the pendency of the project.

23. In sum, from 2008 through 2010, Letke and/or his businesses received at least $1.9 million relating to the City of Harvey. Further, Letke and his businesses have continued to perform work for Harvey, and have been compensated for this work, from 2011 through the present.

B. The City of Harvey's Issuance of 2008 Bonds

24. In August 2008, Harvey conducted a municipal bond offering (the "2008 Bond Offering") to sell $6,025,000 of Hotel-Motel Tax Revenue Bonds, Series 2008A (the "2008 Bonds").

25. As part of the 2008 offering, the City and Developer entered into a Development Agreement on August 25, 2008 (the "2008 Development Agreement"). The 2008 Development Agreement stated that the total cost of the Hotel Redevelopment Project was estimated to be $23 million and that the Developer would provide equity "necessary to complete the Project." The Agreement also stated that, without the City's prior consent, no liens could be placed on the Project and no affiliate of the Developer could receive any City Funds, directly or indirectly, for work done, services provided or material supplied for the Project.

26. As part of the 2008 Bond Offering, Harvey provided to potential investors an Official Statement ("2008 Official Statement") with information regarding the offering. The 2008 Official Statement was signed by Harvey's Mayor and City Clerk on behalf of Harvey.

27. The 2008 Official Statement stated that the 2008 Bonds were being issued to finance: (i) a portion of the acquisition by the Developer of the project, Harvey Hotel Properties (the "Developer"), of a parcel of property at 17040 South Halsted Street, Harvey, Illinois ("Property"); (ii) the rehabilitation of the facilities located on the Property "to provide for a full-service hotel and conference center" which was expected to operate as a Holiday Inn; and (iii) to pay for administrative, financing, legal and other costs associated with the 2008 Bond Offering. The cover page of the 2008 Official Statement stated in pertinent part:

> The Bonds are being issued for the purposes of...financing costs of the Project described in this Official Statement, and paying incidental expenses associated with the issuance of the Bonds....

28. The Project for which the City of Harvey was issuing the 2008 Bonds was the acquisition and rehabilitation of facilities on the Property within the City of Harvey. According to the 2008 Official Statement, the Property would be improved with a full-service Holiday Inn hotel and conference center which would include, among other things, 239 rooms, a restaurant and lounge, an indoor pool, and 10,500 square feet of meeting space.

29. The 2008 Official Statement estimated that of the $6.025 million expected to be raised through the issuance of the 2008 Bonds, approximately $5.4 million would be used for a deposit into a fund for the Hotel Redevelopment Project and approximately $624,000 would be used for issuance costs, including the underwriter's compensation.

30. The 2008 Bonds were not general obligation bonds. In other words, the 2008 Bonds were not to be repaid to investors from the general coffers of Harvey.

31. Instead, according to the 2008 Official Statement, the bonds were payable solely from hotel-motel tax and sales tax revenue. On the front page of the 2008 Official Statement, in bold, capitalized type, the 2008 Official Statement represented in pertinent part: "The Bonds are not general obligations of the City, notwithstanding any provision or reference contained in this Official Statement, the Series 2008 A Ordinance, or any other bond document or transaction document; the Bonds shall be special limited obligations of the City. The Bonds are payable solely from Hotel-Motel Tax and Sales Revenues."

32. After receiving Harvey's representations in the 2008 Official Statement about how proceeds from the 2008 Bond Offering would be used, and how tax revenues would be generated to repay bondholders, investors purchased a total of $6.025 million of 2008 Bonds.

C. The City of Harvey's Issuance of 2009 Bonds

33. In or about August 2009, the City of Harvey conducted a municipal bond offering (the "2009 Bond Offering") to sell $3,000,000 of Series 2009A Bonds (the "2009 Bonds").

34. As part of the 2009 Bond Offering, the City and Developer entered into a Redevelopment Agreement dated June 22, 2009 ("2009 Redevelopment Agreement"). The 2009 Redevelopment Agreement again stated that, without the City's prior consent, no liens could be placed on the Project and no affiliate of the Developer could receive any City Funds, directly or indirectly, for work done, services provided or material supplied for the Hotel Redevelopment Project.

35. As part of the 2009 Bond Offering, the City of Harvey provided to potential investors a Bond Purchase Agreement as well as a Tax Exemption Certificate ("2009 Tax Exemption Certificate") with information regarding the offering. Harvey's Mayor signed both documents on behalf of the City.

36. The 2009 Tax Exemption Certificate stated that the 2009 Bonds were being issued to (i) pay a portion of the cost of the Hotel Redevelopment Project and (ii) to pay the Costs of Issuance of the 2009 Bonds.

37. The 2009 Tax Exemption Certificate estimated that of the $3 million expected to be raised through the issuance of the 2009 Bonds, approximately $1.749 million would be used for the acquisition of land for the Hotel Redevelopment Project, approximately $835,000 would be used for rehabilitation costs associated with the Hotel Redevelopment Project, $150,000 would be used for an underwriter's discount, and approximately $276,000 would be used for costs of issuance of the 2009 Bonds.

38. Like the 2008 Bonds, the 2009 Bonds were not general obligation bonds and were not to be repaid to investors from the general coffers of Harvey. Instead, according to the 2009 Tax Exemption Certificate, the bonds were payable solely from the incremental tax revenue generated by a redevelopment project area within the City of Harvey Center Street Tax Increment Finance District (the "Harvey TIF District"), where the Hotel Redevelopment Project was located.

39. Illinois law authorizes the use of tax increment financing, known as "TIF," to redevelop "blighted," "conservation," or "industrial park conservation areas" by financing redevelopment project costs with incremental property tax revenues. Incremental property tax revenue is derived from the increase in the equalized assessed

valuation of real property within a redevelopment project area over and above the equalized assessed valuation in effect at the time the redevelopment project area is established.

40. After receiving Harvey's representations in the 2009 Tax Exemption Certificate about how proceeds from the 2009 Bond Offering would be used, and how tax revenues would be generated to repay bondholders, a single investor purchased a total of $3 million of 2009 Bonds in approximately August 2009.

D. The City of Harvey's Issuance of 2010 Bonds

41. In or about September 2010, the City of Harvey conducted a municipal bond offering (the "2010 Bond Offering") to sell $5,000,000 of Series 2010 Bonds (the "2010 Bonds").

42. As part of the 2010 Bond Offering, the City of Harvey provided to potential investors an Official Statement ("2010 Official Statement") with information regarding the offering. The 2010 Official Statement was signed by Harvey's Mayor and City Clerk on behalf of Harvey.

43. The 2010 Official Statement stated that the 2010 Bonds were being issued to finance: (i) the reimbursement of the Developer, for eligible costs for the Hotel Redevelopment Project; (ii) the reimbursement of the City for advances made to the Developer; (iii) payment of bond issuance expenses; and (iv) future costs for the Hotel Redevelopment Project.

44. The 2010 Official Statement estimated that of the $5 million expected to be raised through the issuance of the 2010 Bonds, approximately $4.078 million would be used for a deposit to a project fund for the Hotel Redevelopment Project, $500,000

would be used for a deposit to a debt service reserve fund, and approximately $421,000 would be used for costs of issuance of the 2010 Bonds, including paying agent fees, underwriter's discount, legal fees, printing, and other miscellaneous costs of issuance.

45. Like the 2008 Bonds and the 2009 Bonds, the 2010 Bonds were not general obligation bonds and were not to be repaid to investors from the general coffers of Harvey. Instead, according to the 2010 Official Statement, the bonds were payable solely from the incremental tax revenue generated by a redevelopment project area within the Harvey TIF District where the Hotel Redevelopment Project was located. The 2010 Official Statement represented in pertinent part: "The Bonds are limited obligations of the City, payable solely from and secured by the Incremental Taxes and certain other moneys held under the Bond Ordinance." Thus, as with the 2008 Bonds and the 2009 Bonds, the Hotel Redevelopment Project, and the funding and progress of the project, would affect the amount of incremental tax revenue available to serve as the sole source of funds for repayment to investors in the 2010 Bonds.

46. After receiving Harvey's representations in the 2010 Official Statement about how proceeds from the 2010 Bond Offering would be used, and how tax revenues would be generated to repay bondholders, a single investor purchased a total of $5 million of 2010 Bonds.

E. Harvey's and Letke's Scheme to Misuse Bond-Related Proceeds and Harvey's Misrepresentations to Investors

47. From 2008 to the present, Harvey and Letke have engaged in a scheme to divert bond proceeds for improper purposes, including undisclosed payments to Letke beyond what was disclosed in the bond offering documents, payroll for the City of Harvey, and other purposes unrelated to the Hotel Redevelopment Project. As part of the

scheme, Harvey made misrepresentations and omissions to investors about how bond proceeds would be used and the risks associated with investments in Harvey's municipal bonds.

48. In August 2008, a title company for the Hotel Redevelopment Project disbursed $400,000 to Letke & Associates, which the offering documents for the 2008 Bonds disclosed as the firm's fee for acting as a financial adviser to Harvey for the offering.

49. All of the 2008 Bond Proceeds went to pay for past due amounts on the Hotel Redevelopment Project and none went, as it stated in the 2008 Official Statement, to the "rehabilitation of the facilities located on the" Property to provide the full-service Holiday Inn hotel and conference center. Approximately $3.5 million of bond proceeds were paid on past due loans, $900,000 went for past due real estate taxes, and approximately $1 million was for unpaid construction related costs.

50. In addition, in violation of the 2008 Development Agreement with the City, of the approximately $1 million in 2008 Bond Proceeds that went to unpaid construction costs, $502,000 was disbursed to a construction company that the Developer controlled. Letke & Associates, as the accountant and bookkeeper for both the Developer personally and for the Hotel Redevelopment Project, was aware of this $502,000 payment.

51. On February 17, 2009, an employee of Letke & Associates that worked from an onsite office at the City of Harvey emailed Letke, advising him, to the extent he did not already know, that the City was strapped financially. The employee told Letke that in order to pay water bills, health insurance and payroll, the City might "have to dip

into bond money." The employee then suggested that it might be better to use restricted funds rather than TIF bond proceeds because "[t]here's the whole tax exempt bond money being used for taxable items (operations) to be considered."

52. On February 25, 2009, shortly after the employee emailed Letke abut the City's lack of funds, the City transferred $290,000 from a TIF District fund to its general operations account and then used the money to make payroll.

53. As part of Harvey's and Letke's participation in the scheme to divert bond- related proceeds, in July 2009, the City of Harvey, through Letke and another Harvey official, sent $1.5 million from Harvey to a Letke & Associates escrow account. Letke & Associates then paid the Developer $1 million. After receiving this payment, the Developer made a $70,000 undisclosed payment to Letke and paid $100,000 to a woman that had no apparent connection to the Hotel Redevelopment Project.

54. In August 2009, as noted above, the City of Harvey distributed the 2009 Tax Exemption Certificate to investors as part of its issuance of the 2009 Bonds. The 2009 Tax Exemption Certificate stated that the purpose of the bonds was to provide funding for the Hotel Redevelopment Project and represented that repayment of the 2009 Bonds would be affected by the funding and progress of the Hotel Redevelopment Project. The 2009 Tax Exemption Certificate omitted to state that the Developer of the Hotel Redevelopment Project had misused a portion of the proceeds from the 2008 Bond Offering, as well as other City proceeds, by making undisclosed payments to Letke, the Developer himself, and an unrelated woman, as set forth in the preceding paragraphs herein.

55. In August 2009, the Mayor of the City of Harvey directed the underwriter for the 2009 Bond Offering to disburse $72,000 to Letke & Associates for its role as a financial adviser to Harvey on the Offering.

56. The City of Harvey materially misled investors by, among other things, stating in the 2009 Tax Exemption Certificate that Harvey was issuing the bonds for the Hotel Redevelopment Project while omitting to state that bond-related and other proceeds earmarked for the Hotel Redevelopment Project already had been misused.

57. In August 2009, as part of the scheme to divert bond proceeds, the City of Harvey used $600,000 in 2009 Bond proceeds for the City of Harvey's general expenses, and not for the Hotel Redevelopment Project. On August 9, 2009, $600,000 of 2009 Bond proceeds was transferred to the City of Harvey's general bank account. On that same day, the City withdrew $420,000 from its general bank account to meet Harvey's payroll obligations.

58. In September 2009, the City of Harvey transferred $150,000 to the Developer. The Harvey City Council resolution authorizing this payment characterized this payment as a loan to the Developer. The City's Director of Planning and Development emailed a memorandum entitled "Release of TIF Funds" to the Comptroller's office, the Mayor, the assistant to the Mayor, and the City's Economic Development and Finance Council Committees. The City employee cautioned that the purported loan had "no request for funds, paperwork, no itemization of what the monies will be utilized for and there is no justification given that the monies will meet state regulations regarding TIF eligible expenses." She requested that a stop payment be placed on the $150,000 check, "but to no avail."

59. In November 2009, the City of Harvey transferred an additional $100,000 to the Developer. The City does not appear to have received any documentation verifying that the $100,000 met state regulations regarding TIF eligible expenses.

60. In February 2010, in another act in furtherance of the scheme to divert bond proceeds, the City of Harvey used an additional $300,000 in 2009 Bond proceeds for the City of Harvey's general expenses, not for the Hotel Redevelopment Project. On February 12, 2010, $300,000 of 2009 Bond proceeds was transferred to the City of Harvey's general bank account. It appears that Harvey used this money for Harvey's general operations.

61. Also in February 2010, the Developer obtained a loan for $2.2 million ostensibly for the Hotel Redevelopment Project. In so doing, the Developer placed a lien on the Property without prior authorization from the City, as required in the 2008 Development Agreement and 2009 Redevelopment Agreement. Letke apparently was aware that the Developer placed this lien on the property, because he is the registered agent for the Developer's companies and made filings with the Illinois Secretary of State relating to the loan.

62. The Developer paid Letke & Associates an undisclosed $30,000 from the $2.2 million loan proceeds received in February 2010.

63. In September 2010, as noted above, the City of Harvey issued the 2010 Bonds and distributed the 2010 Official Statement to investors in the bonds. The City of Harvey received $1 million of the 2010 Bond Proceeds. It is possible this money was intended to repay the City in part for the $1.5 million loan it made to the Developer in July 2009. However, no documentation appears to exist supporting either the $1 million

transfer or the portion of the $1.5 million loan that was diverted to Letke and the woman with no apparent connection to the Hotel Redevelopment Project, as discussed above.

64. As noted above, the 2010 Official Statement stated that the purpose of the bonds was to provide funding for the Hotel Redevelopment Project and represented that repayment of the 2010 Bonds would be affected by the funding and progress of the Hotel Redevelopment Project. The 2010 Official Statement also set forth a variety of Risk Factors related to the risk that the Harvey TIF District would not generate a sufficient amount of pledged taxes such that there would be sufficient money to pay principal and interest on the bonds when due. But the 2010 Official Statement omitted to state that the a portion of the proceeds from Harvey's two previous bond offerings, the 2008 and 2009 Bond Offerings, already had been diverted from the Hotel Redevelopment Project and the TIF District.

65. The City of Harvey materially misled investors by, among other things, stating in the 2010 Official Statement that Harvey was issuing the bonds for the Hotel Redevelopment Project while omitting to state that bond-related proceeds from the 2008 and 2009 Bond Offerings and other proceeds earmarked for the Hotel Redevelopment Project already had been misused.

66. The City of Harvey also materially misled investors by, among other things, describing in the 2010 Official Statement the various risks that the Harvey TIF District would be unable to generate sufficient revenues to repay investors while omitting to state that the risk that Harvey would misuse bond proceeds had already occurred with respect to the 2008 and 2009 Offerings as well as with other proceeds earmarked for the Hotel Redevelopment Project within the Harvey TIF District.

67. Also in September 2010, the Mayor of the City of Harvey directed the trustee for the 2010 Bond Offering to disburse $75,000 of bond proceeds to Public Funding Enterprises for Letke's role as a financial advisor to Harvey on the Offering.

68. In September 2010, as part of Harvey's and Letke's participation in the scheme to divert bond proceeds, the City of Harvey transferred $1.87 million of the $5 million 2010 Bond proceeds to the Developer. The Developer then used $1,075,000 to pay off an existing loan for the project and $100,000 for an undisclosed payment to Letke & Associates. In violation of the 2008 Development Agreement and the 2009 Redevelopment Agreement, the Developer also used an additional $100,000 of the $1,075,000 for a payment to a construction company the Developer controlled.

69. In October 2010, as part of Letke's participation in the scheme to divert bond proceeds, the Developer made an additional undisclosed $49,375 payment to Letke & Associates and an additional $75,000 prohibited payment to the construction company the Developer controlled.

70. In June 2011, as part of Harvey's and Letke's participation in the scheme to divert bond proceeds, the City of Harvey authorized a $250,000 loan to the Developer. The $250,000 loan was transferred from an account holding proceeds from the $5 million 2010 Bond Offering. Documentation to support that the loan met state regulations regarding eligible TIF expenses appears not to exist. The Developer then made a $15,000 undisclosed payment to Letke & Associates, made a $30,000 prohibited payment to a construction company controlled by the Developer, and made a $57,000 prohibited payment to the Developer's majority owner.

71. In October 2011, as part of Harvey's participation in the scheme to divert bond proceeds, the City of Harvey used $959,000 in 2010 Bond proceeds for the City of Harvey's general expenses, not for the Hotel Redevelopment Project. The Mayor signed a Project Fund Disbursement request for the funds in which he certified, among other things, the following:

a. "In connection with the requested disbursement, [the City of Harvey] hereby certifies as follows:

i. This written requisition is for the payment of costs in connection with the issuance of the above-referenced Bonds or the *[acquisition or construction]* of the Project or reimbursement for costs of acquisition or construction of the Project.

ii. The [City of Harvey] and Developer have each complied with all requirements under the Redevelopment Agreement relating to the disbursement request.

iii. The City Engineer has inspected the work for which payment is requested and has confirmed that the work for which payment is requested has been completed and payment therefore should be approved."

On the date the Mayor signed the disbursement request, the Hotel Redevelopment Project already was in foreclosure.

72. The $959,000 of 2010 Bond proceeds was transferred to the City of Harvey's general bank account. Harvey then used this money for its general operations.

As the Comptroller for Harvey, Letke was responsible for recording these transactions, with assistance from employees of Letke & Associates.

F. The Failure of the Hotel Redevelopment Project

73. As of 2014, as the result of Harvey's and Letke's participation in the scheme to divert bond related proceeds, the Hotel Redevelopment Project has turned into a fiasco for bond investors and Harvey residents. According to news reports, the proposed Holiday Inn hotel and conference center stands as a decrepit shell. The hotel's façade has many holes in it, and the interior of the hotel appears gutted in places, with dangling wires and exposed studs, according to news reports.

G. Harvey's Misrepresentations to Underwriters About the Absence of Conflicts Of Interest

74. In connection with the 2009 and 2010 Bond Offerings, the City of Harvey executed a General Closing Certificate. The Mayor signed the 2009 and 2010 General Closing Certificates, along with the City Clerk.

75. The City of Harvey provided the General Closing Certificate to the underwriters for the 2009 and 2010 Bond Offerings in connection with the purchase of the bonds.

76. The General Closing Certificates for the 2009 and 2010 Bond Offerings, stated, in pertinent part, that "[n]of member of the City Council, no officer of the City, and no managerial or supervisory employee of the City" is "interested, either directly or indirectly, in his own name or in the name of any other person, association, trust or corporation" in the borrowing evidenced by the Bonds, or the contract or contracts for the acquisition, construction and equipping of the Hotel Redevelopment Project.

77. When the City of Harvey issued these General Closing Certificates in 2009 and 2010, Letke, as the Comptroller for Harvey, was an "officer" of Harvey. He also was a "managerial or supervisory employee of Harvey, supervising the accounting and financial employee of Harvey. Based on the undisclosed payments to Letke and/or his businesses described herein, Letke was "interested, either directly or indirectly" in the borrowing evidenced by the Bonds, or the contract or contracts for the acquisition, construction and equipping of the Hotel Redevelopment Project.

78. In light of Letke's undisclosed interests in the borrowing evidenced by the 2009 and 2010 Bonds, and in the contracts for the Hotel Redevelopment Project, Harvey's representations to the underwriters in the 2009 and 2010 General Closing Certificates about the absence of conflicts of interest were materially misleading.

H. Harvey's Planned Issuance of 2014 Bonds

79. Harvey intends to issue the 2014 Proposed Bond Offering. As part of this proposed offering of bonds (the "Proposed 2014 Bonds"), Harvey has prepared a draft Preliminary Limited Offering Memorandum (the "2014 Draft Offering Memorandum"). The 2014 Draft Offering Memorandum has been distributed to potential investors in the Proposed 2014 Bonds.

80. The 2014 Draft Offering Memorandum states that the Proposed 2014 Bonds will be issued to provide funds for: (i) construction and equipping of a 43,500 square foot grocery store (the "Grocery Store Development Project") in a TIF district within the City of Harvey (the "Second Harvey TIF District"); (ii) reimbursement of the developer of the Grocery Store Development Project for a portion of the costs of the project; and (iii) other public infrastructure and project costs.

81. Like the 2008 Bonds, 2009 Bonds, and 2010 Bonds, the Proposed 2014 Bonds are not general obligation bonds and are not to be repaid to investors from the general coffers of Harvey. Instead, according to the 2014 Draft Offering Memorandum, the bonds are to be payable solely from the incremental tax revenue generated by the tax increment redevelopment project areas within the Second Harvey TIF District where the Grocery Store Development Project will be located. Thus, the funding and progress of the Grocery Store Development Project would affect the amount of incremental tax revenue available to serve as the sole source of funds for repayments to investors in the Proposed 2014 Bonds.

82. The 2014 Draft Offering Memorandum also sets forth a variety of risk factors primarily related to the risk that the real estate within the Second Harvey TIF District, such as the proposed Grocery Store Development Project, would not generate sufficient revenues to pay principal and interest to bondholders.

83. The 2014 Draft Offering Memorandum omits to state that the City of Harvey had misused a portion of the proceeds from three previous bond offerings – the 2008, 2009, and 2010 Bond Offerings – as well as other proceeds directly from the City of Harvey, that also purportedly were for the purpose of providing funding for a redevelopment project within a Harvey TIF District, namely, the Hotel Redevelopment Project.

84. The City of Harvey has materially misled prospective investors in the 2014 Proposed Bond Offering by, among other things, stating in the 2014 Draft Offering Memorandum that Harvey intends to issue the bonds for the Grocery Store Development Project within the Second Harvey TIF District while omitting to state that bond-related

proceeds from the 2008, 2009, and 2010 Bond Offerings and other proceeds earmarked for similar projects within another TIF District already had been misused.

85. The City of Harvey also has materially misled prospective investors by, among other things, describing in the 2014 Draft Offering Memorandum the various risks that the Second Harvey TIF District would be unable to generate sufficient revenues to repay investors while omitting to state that the risk that Harvey would misuse bond proceeds had already occurred with respect to the 2008, 2009, and 2010 Offerings.

86. Unlike the prior offerings in 2008, 2009 and 2010, where a third party prepared a feasibility study for the offerings, the feasibility study for the 2014 project was done by Letke through Public Funding Group, LLC.

87. Letke has been involved in the drafting of the 2014 Draft Offering Memorandum. In addition, he is acting as a financial adviser to Harvey for the proposed issuance through Public Funding Group, LLC and will receive a fee if the bond issuance is completed.

I. The City of Harvey's Current Financial Condition

88. Harvey's last audited financial statements were dated April 30, 2008. In January 2014, the Illinois State Comptroller's Office instructed an auditor to bring the City into compliance with State law regarding annual audited financial statements.

89. Letke wrote a recent document stating that Harvey's current financial condition is grave. In the document, Letke predicts that in July 2014, Harvey would be unable to pay its bills, and by August 2014, Harvey would not be able to make payments to bondholders. Letke described Harvey's financial condition as a "crisis."

COUNT I

Violations of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rules 10b-5(a) and (c) [17 C.F.R. 240.10b-5(a) and (c)] thereunder

(All Defendants)

90. The Commission realleges and reincorporates by reference each and every allegation set forth above.

91. By virtue of the conduct alleged herein, the City of Harvey and Letke, directly or indirectly, singly or in concert with others, by use of the means or instrumentality of interstate commerce, or by the use of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of securities, have employed devices, schemes and artifices to defraud and/or engaged in acts, practices and courses of business which operated or would have operated as a fraud or deceit upon purchasers of securities and upon other persons.

92. Harvey and Letke knew or were reckless in not knowing of the activities described herein.

93. By reason of the foregoing, Harvey and Letke each violated, and unless enjoined will likely again violate, Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rules l0b-5(a) and (c) thereunder [17 C.F.R. § 240.10b-5(a) and (c)].

COUNT II

Violations of Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule 10b-5(b) [17 C.F.R. 240.10b-5(b)] thereunder

(The City of Harvey Only)

94. The Commission realleges and reincorporates by reference each and every allegation set forth above.

95. By virtue of the conduct alleged herein, the City of Harvey, directly or indirectly, singly or in concert with others, by use of the means or instrumentality of interstate commerce, or by the use of the mails, or of the facilities of a national securities exchange, in connection with the purchase or sale of securities, knowingly or recklessly, has made untrue statements of material facts and omitted to state material facts necessary in order to make statements made, in the light of the circumstances under which they were made, not misleading.

96. Harvey knew or was reckless in not knowing of the activities described herein.

97. By reason of the foregoing, Harvey violated, and unless enjoined will likely again violate, Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)] and Rule l0b-5(b) thereunder [17 C.F.R. § 240.10b-5(b)].

COUNT III

Violations of Sections 17(a)(1) and (3) of the Securities Act [15 U.S.C. § 77q(a)(1) and (3)]

(All Defendants)

98. The Commission realleges and reincorporates by reference each and every allegation set forth above.

99. The City of Harvey and Letke, directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, have employed devices, schemes or artifices to defraud and/or engaged in transactions, practices or courses of business which operate or would operate as a fraud or deceit upon the purchaser.

100. Harvey and Letke knew or were reckless or were negligent in not knowing of the activities described herein.

101. By reason of the foregoing, Harvey and Letke have each violated, and unless enjoined will likely again violate, Sections 17(a)(1) and 17(a)(3) of the Securities Act [15 U.S.C. § 77q(a)(1) and § 77q(a)(3)].

COUNT IV

Violations of Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)]

(The City of Harvey Only)

102. The Commission realleges and reincorporates by reference each and every allegation set forth above.

103. The City of Harvey, directly or indirectly, singly or in concert with others, in the offer and sale of securities, by use of the means and instruments of transportation and communication in interstate commerce and by use of the mails, has obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

104. Harvey knew or was reckless or was negligent in not knowing of the activities described herein.

105. By reason of the foregoing, Harvey Letke has violated, and unless enjoined will likely again violate, Sections 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)(2)].

RELIEF REQUESTED

I.

(Declaratory Judgment)

Issue findings of fact and conclusions of law that the Defendants committed the violations charged and alleged herein.

II.

(Injunctive Relief Against Future Securities Law Violations)

Enter an Order of Permanent Injunction restraining and enjoining Defendants, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with Defendants who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 10(b) of the Exchange Act [15 U.S.C. § 78j] and Rule 10b-5 [17 C.F.R. § 240.10b-5] thereunder and Section 17(a) of the Securities Act [15 U.S.C. § 77o(a)];

III.

(Other Injunctive and Interim Relief)

Grant other appropriate injunctive emergency interim relief, consistent with Rule 65(d) of the Federal Rules of Civil Procedure, as well as permanent injunctive relief, to protect investors, including: (i) an Order restraining and enjoining Harvey, its officers, agents, servants, employees, attorneys and those persons in active concert or participation with Harvey who receive actual notice of the Order, by personal service or otherwise, and

each of them from, directly or indirectly, engaging in the offer or sale of municipal securities for a period of 5 years unless, prior to doing so, it retains an Independent Consultant appointed by the Court, the Independent Consultant reviews Harvey's municipal security disclosure policies and procedures and its procedures, controls, and personnel for the proper use of bond proceeds, the Independent Consultant makes any recommendations for improvement, and Harvey implements any such recommendations for improvement; (ii) an Order restraining and enjoining Letke, his officers, agents, servants, employees, attorneys and those persons in active concert or participation with Letke who receive actual notice of the Order, by personal service or otherwise, including without limitation Letke & Associates, Alli Financial, Public Funding Group LLC, and Public Funding Enterprises) and each of them from, directly or indirectly, participating in the offer or sale of municipal securities; (iii) a Temporary Restraining Order and Order of Preliminary Injunction against Defendants restraining and enjoining them as set forth above in this Section and in Section II of the Relief Requested; (iv) an Order freezing the assets of Letke and the businesses he controls; (v) an Order requiring the Defendants to provide expedited discovery, as requested by the SEC

IV.

(Disgorgement of Ill-Gotten Gains)

Issue an Order requiring Letke to disgorge the ill-gotten gains that he received, directly or indirectly, as a result of his wrongful conduct, including prejudgment interest.

V.

(Civil Penalties)

Issue an Order imposing appropriate civil penalties upon Letke pursuant to Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)] and Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)].

VI.

(Retention of Equitable Jurisdiction)

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VII.

(Other Relief)

Grant such orders for further relief the Court deems appropriate.

JURY DEMAND

Pursuant to Rule 39 of the Federal Rules of Civil Procedure, the SEC demands that this case be tried before a jury.

Respectfully submitted,

/s/Eric M. Phillips

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Dated: June 24, 2014

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 23149 / December 5, 2014

***Securities and Exchange Commission v. City of Harvey, Illinois, et al.*, Civil Action No. 1:14-cv-4744**

City of Harvey Agrees to Settle Charges Stemming from Fraudulent Bond Offering Scheme

The Securities and Exchange Commission announced today that on December 4, 2014, the City of Harvey, Illinois agreed to settle charges stemming from an enforcement action filed in June 2014. The city has consented to the entry of a final judgment which includes undertakings designed to provide significant protections for bond investors.

On June 25, 2014, the SEC obtained an emergency court order in the U.S. District Court for the Northern District of Illinois against the Chicago suburb and its comptroller, Joseph T. Letke, to stop a fraudulent bond offering that the city had been marketing to potential investors. The complaint alleged that the city and Letke had been engaged in a scheme for the past several years to divert bond proceeds from prior bond offerings for improper, undisclosed uses. While investigating Harvey's past bond offerings, the SEC learned that the city intended to issue new limited obligation bonds. The SEC also learned that the city had drafted offering documents that made materially misleading statements about the purpose and risks of those bonds, while omitting that past bond proceeds had been misused.

The city has agreed to the entry of a final judgment which will enjoin it from committing future violations of Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. In addition, Harvey has agreed to retain an independent consultant and an independent audit firm, and will be prohibited from engaging in the offer or sale of any municipal securities for three years unless it retains independent disclosure counsel. These measures are designed to prevent future securities fraud by Harvey and to enhance transparency into Harvey's financial condition for future bond investors. The litigation against Letke is pending.

For additional information, see Release No. 2014-122 (June 25, 2014).

http://www.sec.gov/litigation/litreleases/2014/lr23149.htm

U.S. Securities and Exchange Commission

U.S. SECURITIES AND EXCHANGE COMMISSION

Litigation Release No. 23180 / January 27, 2015

***Securities and Exchange Commission v. City of Harvey, Illinois and Joseph T. Letke*, United States District Court for the Northern District of Illinois, Civil Action No. 1:14-cv-4744 (N.D. Ill., filed June 24, 2014)**

Court Enters Default Judgment Against SEC Defendant Joseph T. Letke, Bars Him from Participating in Municipal Securities Offerings, and Orders Him to Pay Over $200,000

The Commission announced that on January 27, 2015, an Illinois federal court entered a default judgment against Joseph T. Letke ("Letke"), a defendant in an action filed by the Commission in June 2014. The Commission alleged in its complaint that beginning in 2008, Letke participated in a scheme to divert municipal bond proceeds for improper purposes, including undisclosed payments to Letke. According to the complaint, Letke, a certified public accountant, served as the comptroller for several municipalities, mostly in the south suburbs of Chicago, including the City of Harvey, Illinois (the "City of Harvey"). According to the complaint, Letke and a firm he owned and controlled also served as a financial advisor to the City of Harvey in connection with certain municipal bond issuances in 2008, 2009 and 2010 (the "2008, 2009, and 2010 Bond Offerings").

The complaint alleged that according to the offering documents for the 2008, 2009, and 2010 Bond Offerings, the purpose of these offerings was to finance the development of a full-service hotel and conference center in the City of Harvey (the "Hotel Development Project"). But according to the complaint, Letke participated in a scheme to divert the proceeds from these bond issuances for improper purposes, including undisclosed payments to Letke beyond what was disclosed in the offering documents, for payroll for the City of Harvey, and for other purposes unrelated to the Hotel Redevelopment Project. The complaint alleged that as the result of the scheme to divert bond-related proceeds, the Hotel Redevelopment Project turned into a fiasco, with the Hotel Redevelopment Project never having been completed.

The Court's final judgment enjoins Letke from future violations of Section 17(a) of the Securities Act of 1933 and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, bars him from participating in any municipal securities offerings as an adviser or consultant to any participant in such an offering, and orders him to pay disgorgement in the amount of $164,375.00, plus prejudgment interest of $22,740.23, and a civil penalty of $30,000, for a total amount of $217,115.23.

For further information, please see Release Numbers 23149 (December 5, 2014) and 2014-122 (June 25, 2014).

http://www.sec.gov/litigation/litreleases/2015/lr23180.htm

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SEC Charges Charter School Operator in Chicago With Defrauding Bond Investors

FOR IMMEDIATE RELEASE
2014-110

Washington D.C., June 2, 2014 — The Securities and Exchange Commission today charged a charter school operator in Chicago with defrauding investors in a $37.5 million bond offering for school construction by making materially misleading statements about transactions that presented a conflict of interest.

The SEC alleges that UNO Charter School Network Inc. and United Neighborhood Organization of Chicago not only failed to disclose a multi-million-dollar contract with a windows company owned by the brother of one of its senior officers, but investors also weren't informed about the potential financial impact the conflicted transaction had on its ability to repay the bonds.

UNO is settling the SEC's charges by agreeing to undertakings to improve its internal procedures and training, including the appointment of an independent monitor.

"UNO misled its bond investors by assuring them it had reported conflicts of interest in connection with state grants when in fact it had not," said Andrew J. Ceresney, director of the SEC's Division of Enforcement. "Investors had a right to know that UNO's transactions with related persons jeopardized its ability to pay its bonds because they placed the grant money that was primarily funding the projects at risk."

According to the SEC's complaint filed in federal court in Chicago, UNO entered into two grant agreements with the Illinois Department of Commerce and Economic Opportunity (IDCEO) in 2010 and 2011 to build three schools. Each grant agreement contained a provision requiring UNO to certify that no conflict of interest existed when it signed the agreements. UNO was required to immediately notify IDCEO in writing if any actual or potential conflicts subsequently arose. If UNO breached this conflict of interest provision, IDCEO could suspend the payment of grants and recover grant funds already paid to UNO.

According to the SEC's complaint, UNO breached the conflict of interest provision as it entered the construction phases of the project in 2011 and 2012. UNO contracted two companies owned by brothers of its chief operating officer. UNO agreed to pay one company approximately $11 million to supply and install windows and the other company approximately $1.9 million to serve as an owner's representative during construction. UNO did not advise IDCEO in writing about either of those conflicted transactions.

The SEC alleges that when UNO conducted its $37.5 million bond offering in October 2011, it issued an official statement to investors in bond offering documents that devoted an entire subsection to the subject of conflicts of interest. UNO affirmatively assured investors that its conflicts policy was more robust than required for non-profit organizations. UNO did disclose the contract with the company serving as owner's representative, which was owned by the chief operating officer's brother – who was a former UNO board member himself.

The SEC alleges that UNO nonetheless failed to disclose its much larger transactions with the windows company owned by another brother of the chief operating officer. Moreover, nothing in the official statement disclosed that UNO already was in breach of the conflict of interest provision in its

June 2010 grant agreement with the IDCEO because it already had transacted with both companies without advising the agency in writing about those engagements. UNO also failed to disclose in the official statement that IDCEO could recoup all of the grant money as a result of this breach of the conflicts of interest provision. Had IDCEO exercised its rights under the grant agreements and recouped the entire amount of the grants, UNO would not have had the cash to repay the grants and therefore would have had to liquidate its charter schools – the very revenue-producing assets essential for repayment of the bonds.

"Conflicted transactions and self-dealing by issuer officials can be material information for municipal bond investors and should be given appropriate focus by issuers and underwriters in disclosure documents," said LeeAnn Gaunt, chief of the SEC Enforcement Division's Municipal Securities and Public Pensions Unit. "Failing to disclose material information undermines investor confidence in the municipal securities market and places at risk an important source of funding for local government projects."

The SEC complaint charges UNO with violations of Section 17(a)(2) of the Securities Act of 1933. UNO neither admitted nor denied the charges in the settlement.

The SEC's investigation is continuing. It has been conducted jointly by staff in the Chicago Regional Office and the Municipal Securities and Public Pensions Unit, including Michael Mueller, Eric Celauro, and Michael Foster. The case is being supervised by Peter K.M. Chan.

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Related Materials

- SEC complaint

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. SECURITIES AND EXCHANGE COMMISSION,	)	
Plaintiff,	)	
vs.	)	
	)	**Civil Action No.: 14-4044**
UNITED NEIGHBORHOOD ORGANIZATION OF CHICAGO, and UNO CHARTER SCHOOL NETWORK, INC.,	)	
Defendants.	)	

COMPLAINT

Plaintiff U.S. Securities and Exchange Commission (the "Commission") alleges as follows:

NATURE OF THE ACTION

1. This case involves violations of the antifraud provisions of the federal securities laws by UNO Charter School Network, Inc. ("UCSN") and United Neighborhood Organization of Chicago ("UNOC") in connection with their 2011 municipal bond offering. Unless otherwise indicated, both entities are hereinafter referred to as "UNO" or "Defendants."

2. In 2009, the State of Illinois appropriated $98 million to fund school construction by UNO. In connection with this appropriation, UNO entered into two grant agreements with the Illinois Department of Commerce and Economic Opportunity ("IDCEO") – in June 2010 and November 2011 – to build three schools. Each grant agreement contained a conflict of interest provision requiring UNO to (i) certify that no conflict of interest existed at the time it signed the

agreements, and (ii) immediately notify IDCEO in writing of any actual or potential conflicts of interest that subsequently arose. If UNO breached this conflict of interest provision, IDCEO could suspend the payment of grants and recover grant funds already paid to UNO.

3. During 2011 and 2012, UNO violated the conflict of interest provisions in the grant agreements by engaging one company and approving the engagement of another company, owned by family members of the then Senior Vice President/Chief Operating Officer of UNOC ("UNO's COO"), to perform work on the grant-funded schools without notifying IDCEO in writing of the engagements. Under these engagements, UNO contracted to pay one of these companies approximately $11 million to supply and install windows (the "Window Subcontractor"), and the other approximately $1.9 million to serve as an owner's representative during construction (the "Owner's Representative"). These engagements required the approval of the individual who then served as both UNOC's CEO and UCSN's President ("UNO's CEO/President").

4. On October 6, 2011, in connection with its offering of Charter School Refunding and Improvement Revenue Bonds (UNO Charter School Network, Inc. Project) Series 2011A and Series 2011B with a principal amount of $37,505,000 (the "Bonds"), UNO issued an Official Statement in which it affirmatively assured investors of the strength of its "Conflicts Policy" and also disclosed its engagement of the Owner's Representative. However, UNO failed to disclose (i) the engagement of the Window Subcontractor, (ii) that it had breached the conflict of interest provision in one of its grant agreements with IDCEO by engaging the Owner's Representative and approving the engagement of the Window Subcontractor without notifying IDCEO and (iii) the significant consequences, including IDCEO's right to recoup all of its grant money, which could result from UNO's conflicted transactions.

5. In light of UNO's affirmative assurances in its Official Statement about the strength of its "Conflicts Policy," reasonable investors would have wanted to know about the engagement of the Window Subcontractor, UNO's breach of the IDCEO grant agreements, and the potential consequences of that breach. In particular, investors would have wanted to know that UNO's breach of the grant agreements placed at risk the primary source of funds to pay the Bonds, because if IDCEO had exercised its rights under the grant agreements and recouped the entire amount of the grants, UNO would not have had the cash to repay the grants and therefore would have had to liquidate the very revenue-producing assets (*i.e.*, its charter schools) essential for repayment of the Bonds.

6. UNO's CEO/President, acting within the scope of his employment, approved and signed the Official Statement on behalf of UNO.

7. The Commission brings this lawsuit to prevent further harm to investors.

JURISDICTION AND VENUE

8. The Commission brings this action pursuant to Section 20(b) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. § 77t(b)].

9. This Court has jurisdiction over this action pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and 28 U.S.C. § 1331.

10. Venue is proper in this Court pursuant to Section 22 of the Securities Act [15 U.S.C. § 77v] and 28 U.S.C. § 1391. Each of the Defendants has its principal place of business in the Northern District of Illinois, and many of the acts and transactions constituting the violations alleged in this Complaint occurred within the Northern District of Illinois.

11. Defendants directly and indirectly made use of the means and instrumentalities of interstate commerce and of the mails in connection with the acts, practices, and courses of business alleged herein, and will continue to do so unless enjoined.

FACTS

Defendants

12. UNO Charter School Network, Inc. ("UCSN") was incorporated as an Illinois not-for-profit corporation on October 3, 1997 with its principal place of business in Chicago, Illinois. According to UCSN's website, UCSN currently operates a network of 16 charter schools serving over 7,500 students and families each year throughout the City of Chicago and is the largest operator of charter schools in the State of Illinois. UNO's main funding sources for school construction are state grants and debt (including the Bonds), and its primary funding source for charter school operations is a per pupil fee received from the Chicago Public Schools ("CPS"). UCSN is not registered with the Commission.

13. United Neighborhood Organization of Chicago ("UNOC") was incorporated as an Illinois not-for-profit corporation on February 10, 1984 and was founded as a Hispanic community organization. UNOC is an affiliate of UCSN, with its principal place of business in Chicago, Illinois. UNOC provides management services to UCSN in exchange for a fee pursuant to a contractual arrangement. UNOC is not registered with the Commission.

IDCEO Grants

14. UNO became involved with charter schools in the late 1990s when it opened its first school, Octavio Paz. During 2005-2009, UNO added capacity to its organization and developed a network of charter schools. Despite leasing and purchasing additional buildings,

UNO found itself increasingly in need of more space for additional schools to grow its charter school network.

15. UNO lobbied the State of Illinois for charter school construction grants, and in 2009, the State of Illinois appropriated $98 million to fund the construction of charter schools by UNO. This money was to be distributed to UNO through grants from IDCEO. The $98 million appropriation from the State of Illinois was the largest infusion of funds UNO had ever received.

16. On June 22, 2010, UNO and IDCEO entered into Grant Agreement No. 10-203037 (the "June 2010 Grant Agreement"), under which IDCEO agreed to provide UNO $25 million for the construction of the Soccer Academy Elementary School in Chicago.

17. On November 2, 2011, UNO and IDCEO entered into Grant Agreement No. 12-203291 (the "November 2011 Grant Agreement"), under which IDCEO agreed to provide UNO $35 million for the construction of the Galewood Elementary School and the Soccer High School, both in Chicago. The grant amount for the November 2011 Grant Agreement was increased from $35 million to $53 million in September 2012.

18. UNO's CEO/President approved and signed the June 2010 Grant Agreement and the November 2011 Grant Agreement, including any amendments thereto.

19. Both grant agreements set out the terms and conditions upon which IDCEO agreed to provide UNO the $25 million and $53 million grants. These grant agreements were not publicly available. Section 5.8 of both grant agreements states, in relevant part:

> A conflict of interest exists if [UNO's] officers, directors, agents, employees and family members use their position for a purpose that is, or gives the appearance of, being motivated by a desire for a private gain, financial or nonfinancial, for themselves or others, particularly those with whom they have family business or other ties.
>
> . . . .

> [UNO] must immediately notify [IDCEO] in writing of any actual or potential conflicts of interest, as well as any actions that create or which appear to create a conflict of interest.
>
> . . . .
>
> [UNO] certifies that no conflict of interest as defined [above] exists. If such a conflict or appearance thereof exists or arises, [UNO] must provide immediate notification to [IDCEO] as provided [above].
>
> . . . .
>
> Violations of Section 5.8 may result in suspension or termination of this Agreement, and recovery of Grant Funds provided hereunder.

Conflicted Transactions

20. At the time UNO entered into the grant agreements, UNO's CEO/President was CEO of UNOC, President of UCSN and a member of the UNOC and UCSN boards, and UNO's COO was Senior Vice President/Chief Operating Officer for UNOC. UNO's CEO/President met UNO's COO in 1995 and was a good friend of UNO's COO and his family.

21. In connection with its construction of the Soccer Academy Elementary School, Galewood Elementary School and Soccer High School, UNO engaged or approved the engagement of a number of contractors, including the following:

Contractor	**Date Engaged**	**Contract Amount**	**Services Provided**
Window Subcontractor	1/4/2011	$4,001,500	Window Subcontractor for Soccer Academy Elementary School
Owner's Representative	8/8/2011	$592,744	Owner's Representative (*i.e.*, UNO's representative) for Soccer Academy Elementary School
Window Subcontractor	3/29/2012	$2,248,800	Window Subcontractor for Galewood Elementary School

Owner's Representative	8/8/2012	$1,300,000	Owner's Representative for Galewood Elementary School and Soccer High School
Window Subcontractor	12/3/2012	$4,812,000	Window Subcontractor for Soccer High School

22. The Window Subcontractor was owned by a brother of UNO's COO ("COO's Brother 1"), and the Owner's Representative was owned by another brother of UNO's COO ("COO's Brother 2"). COO's Brother 2 was a former UNO board member. Even though the Window Subcontractor and the Owner's Representative were owned by family members of UNO's COO, then a senior officer of UNOC, neither UNO's CEO/President nor anyone else at UNO ever notified IDCEO in writing – as required by Section 5.8 of the grant agreements – of the engagements of the Window Subcontractor or the Owner's Representative.

23. UNO's CEO/President approved and signed the agreements on behalf of UNO to engage the Owner's Representative and also provided final approval for the engagement of the Window Subcontractor.

Bond Offering and Misstatements Regarding Conflicted Transactions

24. In October 2011, the Bonds, pursuant to the terms of the Official Statement, were issued with UCSN as borrower and UNOC as guarantor, making each entity liable to repay the proceeds of the Bonds. The Illinois Finance Authority, an agency of the State of Illinois, was the conduit issuer for the Bonds.

25. The Bonds are special, limited obligations payable solely by UNO. Neither the full faith and credit nor the taxing power of the State of Illinois is pledged to secure payment on the Bonds. Instead, the primary security for the Bonds is the per pupil revenues UNO receives from CPS for operating its schools (including those schools to be constructed with the $98

million State of Illinois appropriation). Without revenue from CPS, UNO would be unable to repay the Bonds.

26. In connection with its offering of the Bonds, UNO issued an Official Statement in which it represented that UNO could not "give any assurances that [the IDCEO] grants will be made and, if they are, the schedule on which such grants will be received." Notwithstanding this general admonition, the Official Statement was quite specific about UNO's "Conflicts Policy," devoting an entire subsection to the subject and affirmatively assuring investors that UNO had a "Conflicts Policy" that was more robust than that required for non-profit organizations. In particular, this subsection provided that "[a]lthough the legal standards for avoiding conflicts of interest for non-profit organizations are fairly limited, [UNO] will avoid where possible even the appearance of impropriety." In addition to highlighting the strength of its "Conflicts Policy," UNO also disclosed in this subsection that: (i) it had engaged the Owner's Representative to assist with the construction of the Soccer Academy Elementary School and (ii) COO's Brother 2 (the owner of the Owner's Representative) was the brother of UNO's COO.

27. The Official Statement nonetheless failed to disclose: (i) the engagement of the Window Subcontractor, for a contract to provide goods and services at a cost substantially higher than the cost of the Owner's Representative contract, as a subcontractor for the construction of the Soccer Academy Elementary School; and (ii) that the Window Subcontractor was owned by COO's Brother 1. Further, nothing in the Official Statement disclosed that UNO already was in breach of the conflict of interest provision in the June 2010 Grant Agreement because UNO had already engaged the Owner's Representative and approved the engagement of the Window Subcontractor to assist with the construction of the Soccer Academy Elementary School without advising IDCEO in writing of those engagements; nor did the Official Statement disclose that

IDCEO could therefore suspend and/or recoup all of the grant money as a result of UNO's breach.

28. UNO's CEO/President approved and signed the Official Statement on behalf of UNO.

29. After issuing the Official Statement, in which it failed to disclose its breach of the June 2010 Grant Agreement, UNO breached the conflict of interest provision in the November 2011 Grant Agreement by engaging the Owner's Representative and approving the engagement of the Window Subcontractor to assist with the construction of the Galewood Elementary School and Soccer High School and failing to advise IDCEO in writing of these engagements. As with its breach of the June 2010 Grant Agreement, UNO failed to disclose to investors that it had breached the November 2011 Grant Agreement, and the potentially devastating consequences of this breach for UNO.

IDCEO's Discovery of Conflicted Transactions and Suspension of Grant Payments

30. The Chicago Sun-Times published an article on February 4, 2013 concerning UNO's use of the State of Illinois grant funds. The article alleged violations by UNO of Section 5.8 of the IDCEO grant agreements. On February 6, 2013, IDCEO wrote a letter to UNO requesting that it respond to the allegations in the Sun-Times article. The Sun-Times article raised high-profile allegations that called into question UNO's principal source of funds (including the funds needed to finish construction of the Soccer High School in time for the beginning of the next academic year) and raised the prospect of administrative and criminal investigations.

31. UNO responded to IDCEO's letter on February 20, 2013. UNO disputed that it had violated Section 5.8 of the IDCEO grant agreements, but nevertheless stated that it had

decided to terminate its employment relationship with UNO's COO, suspend its contractual relationship with the Owner's Representative, and that it had "authorized the retention of retired federal Judge Wayne Andersen to spearhead an independent audit and review of UNO's policies, practices and procedures related to the expenditure of governmental-sourced funds and to make recommendations for the adoption of policies and procedures to govern future expenditures." UNO's CEO/President approved and signed this letter on behalf of UNO.

32. In response to UNO's letter, IDCEO sent UNO another letter on April 25, 2013. This letter stated:

> [W]e believe that UNO's failure to notify [IDCEO] of an appearance of a conflict of interest arising from the familial relationship between a senior UNO official and two contractors hired to perform work with Grant Funds constituted a violation of Section 5.8 of each of [the] Grant Agreements . . . , which requires that "[t]he Grantee must immediately notify [IDCEO] in writing of any actual or potential conflicts of interest, as well as any actions that create or which appear to create a conflict of interest."
>
> As a result of UNO's failure to comply with the specific conditions of the Grant Agreements, [IDCEO] is temporarily suspending [the November 2011 Grant Agreement], withholding any further payment of grant funds and prohibiting UNO from incurring additional obligations of grant funds until further notice pursuant to Section 5.5.B. of the Grant Agreement.

In addition to suspending further grant payments to UNO, IDCEO in its April 25, 2013 letter also requested that UNO: (i) respond to a series of inquiries regarding the status of the relationship between the Window Subcontractor and UNO as well as the Owner's Representative and UNO; (ii) share Judge Andersen's recommendations with IDCEO; (iii) perform an audit for each of the IDCEO grants; and (iv) retain a third party reasonably satisfactory to IDCEO to conduct an independent analysis of whether the awarding of contracts to the Window Subcontractor and the Owner's Representative constituted an actual conflict of interest.

33. Prior to IDCEO's suspension of the November 2011 Grant Agreement, UNO had received approximately $25 million of the $53 million IDCEO had agreed to provide under the agreement. Because of IDCEO's suspension, UNO was unable to timely pay its construction contractors, which resulted in liens being placed on the Soccer High School. According to UNOC's then VP of Real Estate, "[t]hose issues alone . . . raised concerns with [UNO's] bond investors and may lead to higher bids on our smaller renovation projects."

Investor Call

34. On March 27, 2013, UNO hosted an investor call "for the purpose of reviewing the previous year's financial results." On this call, a representative from Prudential questioned why UNO engaged in the transactions with the Window Subcontractor and the Owner's Representative when most charter schools prohibit conflict of interest transactions. In response, UNO's CEO/President falsely stated that there were no guidelines on conflicted transactions in the IDCEO grant agreements and therefore the engagements of the Window Subcontractor and the Owner's Representative were not prohibited.

CLAIM FOR RELIEF

Violation of Securities Act Section 17(a)(2) (Against All Defendants)

35. Paragraphs 1 through 34 are realleged and incorporated by reference as though fully set forth herein.

36. As more fully described in Paragraphs 1 through 34 above, Defendants, in the offer and sale of securities, by the use of means and instruments of transportation or communication in interstate commerce and by use of the mails, directly and indirectly, have obtained money and property by means of untrue statements of material fact and by omitting to

state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

37. The Defendants each acted negligently.

38. By engaging in the conduct described above, the Defendants each, directly and indirectly, violated, and unless enjoined there is a substantial risk that Defendants will again violate Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)], which would result in irreparable harm to Defendants' bondholders.

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests that this Court:

I.

Issue findings of fact and conclusions of law that the Defendants committed the violations charged and alleged herein.

II.

Enter an Order of Permanent Injunction restraining and enjoining Defendants, their officers, agents, servants, employees, attorneys and those persons in active concert or participation with Defendants who receive actual notice of the Order, by personal service or otherwise, and each of them from, directly or indirectly, engaging in the transactions, acts, practices or courses of business described above, or in conduct of similar purport and object, in violation of Section 17(a)(2) of the Securities Act [15 U.S.C. § 77q(a)].

III.

Order UNO to retain an independent monitor to reasonably detect and prevent conflicted transactions. While UNO has taken certain remedial measures following the commencement of

the Commission's investigation, an independent monitor nonetheless is necessary for a period of time to protect bondholders by ensuring that there are no further conflicted transactions.

IV.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

V.

Grant such other relief as this Court deems appropriate.

Respectfully Submitted,

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Dated: June 2, 2014

s/ Michael J. Mueller
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SEC Charges Kansas for Understating Municipal Bond Exposure to Unfunded Pension Liability

Enforcement Action Stems From Nationwide Review of Muni Bond Disclosure

FOR IMMEDIATE RELEASE
2014-164

Washington D.C., Aug. 11, 2014 — The Securities and Exchange Commission today announced securities fraud charges against the state of Kansas stemming from a nationwide review of bond offering documents to determine whether municipalities were properly disclosing material pension liabilities and other risks to investors. According to the SEC's cease-and-desist order instituted against Kansas, the state's offering documents failed to disclose that the state's pension system was significantly underfunded, and the unfunded pension liability created a repayment risk for investors in those bonds.

Shortly after its nationwide review of municipal bond disclosures began, the SEC brought its first-ever enforcement action against a state when it sanctioned New Jersey for failing to disclose to investors that it was underfunding the state's two largest pension plans. Around the same time, the SEC began questioning the disclosures surrounding eight bond offerings through which Kansas raised $273 million in 2009 and 2010. As the SEC began its inquiry, Kansas began adopting new policies and procedures to improve disclosures about its pension liabilities. Kansas has now fully implemented those remedial actions, and has agreed to settle the SEC's charges for its prior incomplete disclosures.

The SEC also charged Illinois last year for its misleading pension disclosures, and the state similarly implemented a number of remedial actions.

"We're pleased that our actions have resulted in improved disclosure of pension liabilities in states that were not making investors aware of a significant repayment risk," said Andrew Ceresney, director of the SEC Enforcement Division. "Investors must be given adequate information to evaluate the impact of pension fund liability on a state's overall financial condition."

According to the SEC's order against Kansas, the series of bond offerings were issued through the Kansas Development Finance Authority (KDFA) on behalf of the state and its agencies. According to one study at the time, the Kansas Public Employees Retirement System (KPERS) was the second-most underfunded statewide public pension system in the nation. In the offering documents for the bonds, however, Kansas did not disclose the existence of the significant unfunded liability in KPERS. Nor did the documents describe the effect of such an unfunded liability on the risk of non-appropriation of debt service payments by the Kansas state legislature. The SEC's investigation found that the failure to disclose this material information resulted from insufficient procedures and poor communications between the KDFA and the Kansas Department of Administration, which provided the KDFA with the information to include in the offering materials.

"Kansas failed to adequately disclose its multi-billion-dollar pension liability in bond offering documents, leaving investors with an incomplete picture of the state's finances and its ability to repay the bonds amid competing strains on the state budget," said LeeAnn Ghazil Gaunt, chief of the

SEC Enforcement Division's Municipal Securities and Public Pensions Unit. "In determining the settlement, the Commission considered Kansas's significant remedial actions to mitigate these issues as well as the cooperation of state officials with SEC staff during the investigation."

According to the SEC's order, Kansas has since adopted new policies and procedures to help ensure that appropriate disclosures about pension liabilities are being made in its offering documents. Kansas designated responsible parties in state agencies critical to the disclosure process, mandated closer communication and cooperation among those agencies, established a disclosure committee, and now requires annual training of key personnel. Without admitting or denying the findings, Kansas consented to the SEC's order to cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933.

The SEC's investigation was conducted by Robert Hannan and Eric Werner in the Fort Worth Regional Office with assistance from members of the Municipal Securities and Public Pensions Unit including Joseph Chimienti, Creighton Papier, Jonathan Wilcox, and Mark Zehner (deputy chief).

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Related Materials

- SEC order

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9629 / August 11, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16009

In the Matter of **THE STATE OF KANSAS,** **Respondent.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), against the State of Kansas ("Respondent" or the "State").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer"), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

1. From August 2009 through July 2010, the Kansas Development Finance Authority ("KDFA") raised $273 million through eight series of bonds on behalf of the State and its agencies without disclosing in the bond offering documents (the "Official Statements") the existence of the significant unfunded liability in the State's pension system, known as the Kansas Public Employees Retirement System ("KPERS"), or the effect of such unfunded liability on the risk of non-appropriation of debt service payments by the State Legislature. At the time, according to one study, KPERS was the second-most underfunded statewide public pension system in the nation.[2] The failure to disclose this material information in the Official Statements resulted from insufficient procedures and poor communications between KDFA and the Kansas Department of Administration ("KDA"), which provided information to KDFA for inclusion in the Official Statements, including preparing the State's financial statements that were included as part of the Official Statements.

Respondent

2. Kansas possesses all powers, functions, rights, privileges and immunities authorized by the United States Constitution, the Kansas Constitution and the State's laws, including the power to issue debt.

a. KDFA is an independent instrumentality of the State created in 1987 by the State Legislature for the primary purposes of enhancing the ability of the State to finance capital improvements and improving access to long-term financing for State agencies, political subdivisions, and public and private organizations and businesses. As a conduit issuer, KDFA offers municipal securities on behalf of underlying borrowers, including the State.

b. KDA, a component of the State, provides essentially all financial and administrative services for the State. KDA's Division of Budget was responsible for overseeing the incurrence of debt, including the review of certain disclosure documents drafted by KDFA, while KDA's Division of Accounts and Reports ("Division of Accounts") was responsible for preparing the Comprehensive Annual Financial Reports, or CAFRs, for the State.

KPERS Was Significantly Underfunded

3. KPERS, an independent instrumentality of the State, is a multi-employer pension system administering various defined benefit pension plans covering substantially all governmental employers and public employees in the State. The State is the largest of the approximately 1,400 employers that participate in KPERS, and directly or indirectly contributes approximately 70% of all employer contributions to KPERS, although more than half of KPERS's 155,000 active members are employed by local school districts. KPERS annually prepares and publicly releases an actuarial valuation as of the end of each calendar year and a Comprehensive Annual Financial Report for each 12-month period ended June 30 ("KPERS CAFR").

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[2] Only Illinois had a lower funded ratio for its state pension fund system than Kansas. See "*The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform*," Pew Center on the States (February 2010).

4. For years, KPERS was significantly underfunded. Specifically, the State's statutory maximum annual contribution rates were insufficient to cover both (a) the cost of pension benefits earned by public employees by virtue of their service in the current year, known as the normal cost, and (b) a payment to amortize the accumulated amount of pension liabilities that have been deemed earned, but are not funded, known as the unfunded actuarial accrued liability, or UAAL. At the end of the 2008 calendar year, KPERS had a total retirement system UAAL of $8.3 billion and a 59% funded ratio.[3] This liability was substantial - by comparison, in 2008, the State's tax-supported debt was $3.1 billion.

5. The State was not the only obligor of the total retirement system UAAL. Other obligors included, but were not limited to, local school districts and local governments. The State Group of KPERS (State employees) had a 72% funded ratio and represented $1.0 billion of the $8.3 billion total retirement system UAAL at the end of 2008. The School Group of KPERS (local school district employees) had a 52% funded ratio and represented $5.2 billion of the $8.3 billion total retirement system UAAL at the end of 2008. Although technically an obligation of the local school districts, historically the State appropriated from its general fund an amount sufficient to cover the entire cost of those school districts' contributions to KPERS's School Group. By the end of 2009, KPERS had a total retirement system funded ratio of 64% and UAAL of $7.7 billion, which included a State Group funded ratio of 78%, representing a $0.8 billion UAAL, and a School Group funded ratio of 56%, representing a $5.0 billion UAAL.

The State's Debt is Subject to a Risk of Non-Appropriation

6. The Kansas Constitution substantially limits the State's ability to directly issue general obligation debt, and consequently the State borrows money through the issuance of revenue obligations subject to annual appropriation, including certain bonds issued by KDFA. Moreover, unlike many states that provide significant legal protections regarding the repayment of their debt, in Kansas the Legislature must annually appropriate money to pay the principal and interest on the debt issued by the KDFA on its behalf.[4] Because of this requirement for annual appropriation, bond holders are at risk that the Legislature may choose, for any reason, to not appropriate funds for debt service over other competing budget demands, such as state services, school funding, or pension obligations. The major credit rating agencies routinely reduce the credit rating assigned to these bonds by one level in order to reflect the risk of non-appropriation.

[3] The funded ratio, which is one measure of the financial health of a pension plan, is the actuarial value of assets expressed as a percentage of the actuarial accrued liability. A 100% funded ratio means that that the existing assets cover the present value of the future benefits to be paid by the system.

[4] The annual debt service on the State's bond debt payable from appropriations from the State General Fund is less than two percent of the State General Fund budget.

The CAFRs Did Not Disclose KPERS's Underfunded Status

7. The State, by and through the KDA's Division of Accounts, issues CAFRs purportedly in accordance with standards promulgated by the Governmental Accounting Standards Board ("GASB"). Beginning with the 2004 CAFR, on the advice of outside accountants, the State changed the way the pension liabilities of KPERS were reported. The outside accountants concluded that GASB did not require a detailed disclosure of KPERS in the State's CAFR as long as KPERS made such disclosure in its own CAFR, which it did.

8. As a result of this change, for the 2004 through 2009 fiscal years, the State's CAFRs did not provide any information regarding KPERS's UAAL or funded ratio. Instead, the CAFR simply provided certain information regarding KPERS and the State's expenditures to fund employer contributions to KPERS, and listed the mailing address and telephone number for KPERS (but not an internet website, email address, or contact person), should someone want additional information. As a result, the State's CAFRs from 2004 through 2009 made no reference to the State's substantially underfunded pension plan.

The Failure to Disclose KPERS's Underfunding

9. From 2004 on, the underfunding of KPERS was repeatedly discussed in various local newspapers, and by credit rating agencies. In several reports issued by Moody's during this time period, the rating agency noted that the State faced budgetary pressures by virtue of KPERS's underfunded status, including both statutorily scheduled increases in pension fund contributions and the debt service payable on the State's pension obligation bonds, and that the State's debt ratings could go up if there was strong improvement in pension funding.

10. Kansas's practice of not disclosing the underfunded status of KPERS became increasingly inconsistent with the practice of most states issuing municipal securities, which generally provided disclosure in their CAFRs or the body of their Official Statements regarding the financial health of their pension funds. By 2008, with the exception of Kansas, the overwhelming majority of the Official Statements for state-level bond issuances at a minimum disclosed the UAAL or funded ratios of the associated state-level pension plans, particularly if those plans were significantly underfunded.

KDFA and KDA's Disclosure Practices and Procedures

11. KDFA took the lead in preparing the three Official Statements for the eight series of bonds issued on behalf of the State from August 2009 through July 2010, including the retention of disclosure counsel. Each of the Official Statements made repeated boldface disclosures regarding the possibility of non-appropriation. The Official Statements also contained sections reporting on appropriations and budget processes for the State, and on current State budget issues such as revenue estimates, general fund receipts and pending school finance litigation, as well as long-term economic, income, and demographic trends. Each Official Statement included as an appendix the most recent State CAFR and identified the amount of other State indebtedness payable from appropriations from the State General Fund, but none of

the relevant Official Statements (or appendices thereto) specifically mentioned the underfunded status of KPERS.

12. In the course of preparing each Official Statement, KDFA routinely asked KDA, and in particular KDA's Division of Budget, to advise it of, among other things, material adverse changes in the State's overall financial condition, or of any liabilities not reflected in the most recent CAFR that had a material adverse effect on the State's financial condition. Moreover, at each closing, KDA executed a certificate to the effect that the information in the Official Statement set forth under certain captions and in specific appendices, which corresponded to information regarding the State, was true in all material respects, and insofar as such matters were concerned, did not omit to state a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which the statements were made, not misleading. At each closing, KDFA also executed a certificate stating that, in the Official Statement, the KDFA had not made an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

13. These queries and certifications did not trigger the inclusion of any additional information regarding KPERS's unfunded liability to any of the August 2009 to July 2010 Official Statements. Furthermore, although KDFA, KDA, and other members of the working group had an informal process for the development and review of official statements, neither KDFA nor KDA had any formal written policies or procedures for addressing trends or risk factors that might be material to bondholders. KDFA operated with the understanding that KDA was responsible for providing the information and disclosures in the Official Statements relating to financial issues impacting the State. Conversely, KDA understood that KDFA was responsible for such disclosure. This lack of clear communication, together with the absence of effective written policies or procedures in either organization, meant that neither KDA nor KDFA identified the absence of the KPERS unfunded liability, or discussed the need to add such disclosure to the Official Statements.

KPERS's 2008 Investment Losses Highlighted the Materiality of its Underfunded Status

14. By the summer of 2009, the impact of KPERS's 2008 investment losses was becoming clear. A draft actuarial report provided to the KPERS Board in mid-July 2009 spelled out that KPERS's UAAL had jumped from $5.6 billion in 2007 to $8.3 billion in 2008, a 49% increase, and its aggregate funded ratio dropped from 71% to 59%.

15. The State was contemporaneously preparing for a large multipurpose $127 million bond offering through KDFA. A portion of this offering, approximately $40 million, was sold primarily to out of state investors. At meetings or on telephone conferences with S&P and Moody's regarding the credit rating of this bond offering at the end of July, the Secretary of Administration raised as a topic the financial health of KPERS, and in particular the possible need for legislative action to increase the statutory annual contribution rate so as to provide for additional State funding to KPERS. KDFA emailed the draft actuarial report to the relevant

rating agency analysts the following week. KPERS's underfunded status was explicitly referenced in each firm's credit rating report.

Omitted Language Made the Official Statements Materially Misleading

16. These credit rating agency discussions led to further discussions by the working group to consider possible changes to the draft August 2009 Preliminary Official Statement. Proposed language was circulated to the working group setting forth a warning that future State expenditures could be affected by various unpredictable circumstances or events beyond the control of the State, including the need for additional state funding of KPERS and/or gains or losses on KPERS's investments.

17. Notwithstanding the renewed focus on the financial health of KPERS, no one at KDA or KDFA raised a concern that the proposed language was inadequate or that additional disclosure regarding KPERS should be added to the Official Statements. Rather, KDFA's proposed language was adopted following review, but without comment, and incorporated into both the Preliminary and final Official Statement for the August 2009 offering. At the closing, KDFA and KDA signed without objection the certifications regarding the accuracy and completeness of the Official Statement as more fully described in paragraph 12.

18. The added language was materially misleading in that it omitted any information regarding KPERS's financial health, or the associated risks created by the State's underfunding of its pension obligations. As the actuarial report detailed, and the Secretary of Administration highlighted, KPERS's financial difficulties were the result of years of statutory maximum contribution rates insufficient to cover both KPERS's normal costs and UAAL. The need for increased funding for KPERS was both reasonably predictable and within the control of the State. The three Official Statements for the eight series of bonds offered by KDFA in August 2009 through 2010 omitted this language rendering them materially misleading.

19. Respondent should have known the Official Statements were deficient, and that the absence of any disclosure concerning KPERS's finances and underfunding within the Official Statements rendered the disclosure materially misleading.

Prompt Remedial Measures

20. Respondent adopted new disclosure policies and procedures prior to the November 2011 offering of bonds payable from appropriations from the State's general fund. Among other things, these new procedures designated responsible parties in critical State agencies, mandated closer communication and cooperation among those agencies, established a State Disclosure Committee, and required annual training of key personnel. Moreover, the State's fiscal year 2010 CAFR resumed including information regarding KPERS contributions and a schedule of funding progress. Additionally, Official Statements for the State's most recent revenue bond offerings included a separate appendix discussing KPERS and, among other things, its underfunded status.

Legal Discussion

21. Issuers of municipal securities must ensure that financial information contained in their disclosure documents is not materially misleading. Proper disclosure allows investors to understand and evaluate the financial health of the municipality in which they invest.

22. The antifraud provisions of Section 17(a) of the Securities Act prohibit fraudulent or deceptive practices in the offer or sale of securities by the issuers of municipal securities. Section 17(a)(2) of the Securities Act prohibits obtaining money or property by means of any untrue statement of material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. Section 17(a)(3) of the Securities Act prohibits engaging in any transaction, practice, or course of business which operates, or would operate as a fraud or deceit upon the purchaser. A misstatement or omission is material if there is a substantial likelihood that a reasonable investor would have viewed the information as "having significantly altered the 'total mix' of information available." TSC Indus., Inc. v. Northway, Inc., 426 U.S. 438, 449 (1976). To the extent the omitted information relates to contingent future events, materiality depends upon "a balancing of both the indicated probability that the event will occur and the anticipated magnitude of the event in light of the totality of circumstances." Basic, Inc. v. Levinson, 485 U.S. 224, 238 (1988). Cautionary words about future risk cannot insulate one from liability for the failure to disclose actual material facts regarding that risk. Dolphin and Bradbury v. SEC, 512 F.3d 634, 640 (DC Cir. 2008). Negligence is sufficient to prove violations of Section 17(a)(2) or (3) of the Securities Act. Aaron v. SEC, 446 U.S. 680, 696-97 (1980).

Violations

23. As a result of the conduct described above, Respondent violated Sections 17(a)(2) and 17(a)(3) of the Securities Act.

24. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by the State, as described in Paragraph 20, and KDFA's and KDA's substantial cooperation afforded the Commission staff during the investigation.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

Pursuant to Section 8A of the Securities Act, the State shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act.

By the Commission.

Jill M. Peterson
Assistant Secretary

SEC Sanctions 13 Firms for Improper Sales of Puerto Rico Junk Bonds

FOR IMMEDIATE RELEASE
2014-246

Washington D.C., Nov. 3, 2014 — The Securities and Exchange Commission today sanctioned 13 firms for violating a rule primarily designed to protect retail investors in the municipal securities market.

All municipal bond offerings include a "minimum denomination" that establishes the smallest amount of the bonds that a dealer firm is allowed to sell an investor in a single transaction. Municipal issuers often set high minimum denomination amounts for so-called "junk bonds" that have a higher default risk that may make the investments inappropriate for retail investors. Because retail investors tend to purchase securities in smaller amounts, this minimum denomination standard helps ensure that dealer firms sell high-risk securities only to investors who are capable of making sizeable investments and more prepared to bear the higher risk.

In its surveillance of trading in the municipal bond market, the SEC Enforcement Division's Municipal Securities and Public Pensions Unit detected improper sales below a $100,000 minimum denomination set in a $3.5 billion offering of junk bonds by the Commonwealth of Puerto Rico earlier this year. The SEC's subsequent investigation identified a total of 66 occasions when dealer firms sold the Puerto Rico bonds to investors in amounts below $100,000. The agency instituted administrative proceedings against the firms behind those improper sales: Charles Schwab & Co., Hapoalim Securities USA, Interactive Brokers LLC, Investment Professionals Inc., J.P. Morgan Securities, Lebenthal & Co., National Securities Corporation, Oppenheimer & Co., Riedl First Securities Co. of Kansas, Stifel Nicolaus & Co., TD Ameritrade, UBS Financial Services, and Wedbush Securities.

The enforcement actions are the SEC's first under Municipal Securities Rulemaking Board (MSRB) Rule G-15(f), which establishes the minimum denomination requirement. Each firm agreed to settle the SEC's charges and pay penalties ranging from $54,000 to $130,000.

"These actions demonstrate our commitment to rigorous enforcement of all types of violations in the municipal bond market," said Andrew J. Ceresney, Director of the SEC's Division of Enforcement. "We will act quickly and use all available tools to protect investors in municipal securities."

LeeAnn G. Gaunt, Chief of the SEC's Municipal Securities and Public Pensions Unit added, "These firms violated a straightforward investor protection rule that prohibits the sale of muni bonds in increments below a specified minimum. We conduct frequent surveillance of trading in the municipal bond market and will penalize abuses that threaten retail investors."

The SEC's orders against the 13 dealers find that in addition to violating MSRB Rule G-15(f) by executing sales below the minimum denomination, they violated Section 15B(c)(1) of the Securities Exchange Act of 1934, which prohibits violations of any MSRB rule. Without admitting or denying the findings, each of the firms agreed to be censured. They also agreed to review their policies and procedures and make any changes that are necessary to ensure proper compliance with MSRB Rule G-15(f).

The SEC's investigation, which is continuing, is being conducted by Joseph Chimienti, Sue Curtin, Heidi M. Mitza, and Jonathon Wilcox with assistance from Kathleen B. Shields. The case is supervised by Kevin B. Currid and Mark R. Zehner. The SEC appreciates the assistance of the MSRB.

* * *

Links to the SEC's orders and penalty amounts are included below:

- Charles Schwab & Co. – $61,800
- Hapoalim Securities USA – $54,000
- Interactive Brokers LLC – $56,000
- Investment Professionals Inc. – $67,800
- J.P. Morgan Securities – $54,000
- Lebenthal & Co. – $54,000
- National Securities Corporation – $60,000
- Oppenheimer & Co. – $61,200
- Riedl First Securities Co. of Kansas – $130,000
- Stifel Nicolaus & Co. – $60,000
- TD Ameritrade – $100,800
- UBS Financial Services – $56,400
- Wedbush Securities Inc. – $67,200

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UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73498 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16232

In the Matter of **Charles Schwab & Co., Inc.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Charles Schwab & Co., Inc. ("Schwab" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Schwab, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail customers for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Schwab violated MSRB Rule G-15(f) by executing four sales transactions in the Puerto Rico bonds with customers in amounts below the $100,000 minimum denomination of the issue.

Respondent

1. Schwab is a California corporation that maintains principal offices in San Francisco, California. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed four unsolicited sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to these transactions.

11. Respondent did not have any policies or procedures concerning MSRB Rule G-15(f).

Violations

12. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

13. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected customer transactions in the 2014 Bonds below the minimum denomination of the issue,

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F. 2d 798, 803 (D.C. Cir. 1965)).

Respondent cancelled the transactions. Respondent has also amended its policies and procedures to ensure compliance with MSRB Rule G-15(f).

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $61,800 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Schwab as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73499 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16233

In the Matter of **Hapoalim Securities USA, Inc.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Hapoalim Securities USA, Inc. ("Hapoalim" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Hapoalim, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Hapoalim violated MSRB Rule G-15(f) by executing one sales transaction in the Puerto Rico bonds with a customer in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. Hapoalim is a Delaware corporation that maintains principal offices in New York, New York. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sale in 2014 Bonds to a Customer
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed one unsolicited sales transaction in the 2014 Bonds with a customer in an amount below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction. Respondent informed the customer of the risks of trading in the 2014 bonds before executing the trade.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected a customer transaction in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transaction.

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $54,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Hapoalim as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73500 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16234

In the Matter of **Interactive Brokers LLC,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Interactive Brokers LLC ("Interactive" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Interactive, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions, regardless of whether the securities are suitable for the customer. In March 2014, Interactive violated MSRB Rule G-15(f) by executing one sales transaction in the Puerto Rico bonds with a customer in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. Interactive is a Connecticut limited liability corporation that maintains principal offices in Greenwich, Connecticut. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sale in 2014 Bonds to a Customer
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed one unsolicited sales transaction in the 2014 Bonds with a customer in an amount below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The sales order was placed and effected through Respondent's online trading platform. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected a customer transaction in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transaction. In cancelling the transaction, Respondent incurred costs of

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

$4,000. Respondent also amended its policies and procedures to ensure compliance with MSRB Rule G-15(f).

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies or supplementing existing policies. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $56,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Interactive as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73501 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16235

In the Matter of Investment Professionals Inc., Respondent.	ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Investment Professionals Inc. ("Investment Professionals" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Investment Professionals, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Investment Professionals violated MSRB Rule G-15(f) by executing four sales transactions in the Puerto Rico bonds with customers in amounts below the $100,000 minimum denomination of the issue.

Respondent

1. Investment Professionals is a Texas corporation that maintains principal offices in San Antonio, Texas. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed four sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to these transactions. Respondent solicited all of the customer sales transactions.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it became aware that it had effected customer transactions in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transactions.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $67,800 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Investment Professionals as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73502 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16236

In the Matter of **J.P. Morgan Securities LLC,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against J.P. Morgan Securities LLC ("J.P. Morgan" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by J.P. Morgan, a registered broker-dealer and municipal securities dealer, to a customer in an amount below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, J.P. Morgan violated MSRB Rule G-15(f) by executing one sales transaction in the Puerto Rico bonds with a customer in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. J.P. Morgan is a Delaware limited liability company that maintains principal offices in New York, New York. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sale in 2014 Bonds to a Customer
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed one unsolicited sales transaction in the 2014 Bonds with a customer in an amount below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction. Respondent informed the customer of the risks of trading in the 2014 Bonds before executing the trade.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected a customer transaction in the 2014 Bonds below the minimum denomination of the issue,

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F. 3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F. 2d 798, 803 (D.C. Cir. 1965)).

Respondent cancelled the transaction prior to settlement. Following the transaction, Respondent conducted additional training regarding compliance with MSRB Rule G-15(f).

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $54,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying J.P. Morgan as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73507 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16241

In the Matter of **Lebenthal & Co., LLC,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Lebenthal & Co., LLC ("Lebenthal" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Lebenthal, a registered broker-dealer and municipal securities dealer, to a customer in an amount below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail customers for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Lebenthal violated MSRB Rule G-15(f) by executing one sales transaction in the Puerto Rico bonds with a customer in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. Lebenthal is a Delaware limited liability company that maintains principal offices in New York, New York. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sale in 2014 Bonds to a Customer
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed one sales transaction in the 2014 Bonds with a customer in an amount below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected a customer transaction in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transaction.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $54,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Lebenthal as a Respondent in these proceedings, and the file number of these proceedings; a copy

of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73508 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16242

In the Matter of National Securities Corp., Respondent.	ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against National Securities Corp. ("National Securities" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by National Securities, a registered broker-dealer and municipal securities dealer, to a customer in an amount below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, National Securities violated MSRB Rule G-15(f) by executing one sales transaction in the Puerto Rico bonds with a customer in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. National Securities is a Washington corporation that maintains principal offices in Seattle, Washington. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is

below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f)

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sale in 2014 Bonds to a Customer
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed one sales transaction in the 2014 Bonds with a customer in an amount below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction. Respondent solicited the customer sales transaction. Respondent informed the customer of the risks of trading in the 2014 Bonds before executing the trade.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected a customer transaction in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transaction.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $60,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying National Securities as a Respondent in these proceedings, and the file number of these

proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73509 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16243

In the Matter of Oppenheimer & Co., Inc., Respondent.	ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Oppenheimer & Co., Inc. ("Oppenheimer" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Oppenheimer, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail customers for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Oppenheimer violated MSRB Rule G-15(f) by executing three sales transactions in the Puerto Rico bonds with customers in amounts below the $100,000 minimum denomination of the issue.

Respondent

1. Oppenheimer is a New York corporation that maintains principal offices in New York, New York. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed three unsolicited sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to these transactions.

11. Respondent did not have any policies or procedures concerning MSRB Rule G-15(f).

Violations

12. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

13. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware that it had effected customer transactions in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transactions.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings

[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $61,200 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Schwab as a Respondent in these proceedings, and the file number of these proceedings; a copy of

the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73510 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16244

In the Matter of **Riedl First Securities Co. of Kansas,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Riedl First Securities Co. of Kansas ("Riedl" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Riedl, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Riedl violated MSRB Rule G-15(f) by executing 28 sales transactions in the Puerto Rico bonds with customers in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. Riedl is a Kansas corporation that maintains principal offices in Wichita, Kansas. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed 28 sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction. Respondent solicited all of the customer sales transactions.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected customer transactions in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transactions. In cancelling the transactions, Respondent incurred costs of $11,600.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $130,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Riedl as a Respondent in these proceedings, and the file number of these proceedings; a copy of the

cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73503 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16237

In the Matter of Stifel Nicolaus & Co., Inc., Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Stifel Nicolaus & Co., Inc. ("Stifel" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Stifel, a registered broker-dealer and municipal securities dealer, to a customer in an amount below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail customers for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Stifel violated MSRB Rule G-15(f) by executing one sales transaction in the Puerto Rico bonds with a customer in an amount below the $100,000 minimum denomination of the issue.

Respondent

1. Stifel is a Missouri corporation that maintains principal offices in St. Louis, Missouri. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is

below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

$100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sale in 2014 Bonds to a Customer
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent received an unsolicited customer order to purchase $130,000 of the 2014 Bonds. In order to fill the order, Respondent purchased $130,000 of the 2014 Bonds on a riskless principal basis. After it purchased these bonds, Respondent's customer directed Respondent to allocate $100,000 of the bonds to his account and $30,000 to another customer's account. In response, Respondent executed two separate sales transactions with each customer, one for $30,000 and another for $100,000. The $30,000 sales transaction in the 2014 Bonds was below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to this transaction.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it became aware that it had effected a customer transaction in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transaction.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $60,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Stifel as a Respondent in these proceedings, and the file number of these proceedings; a copy of the

cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73504 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16238

In the Matter of **TD Ameritrade, Inc.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against TD Ameritrade, Inc. ("TD Ameritrade" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by TD Ameritrade, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail investors for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March and May 2014, TD Ameritrade violated MSRB Rule G-15(f) by executing thirteen sales transactions in the Puerto Rico bonds with customers in amounts below the $100,000 minimum denomination of the issue.

Respondent

1. TD Ameritrade is a New York corporation that maintains principal offices in Omaha, Nebraska. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. Between March and May 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed ten unsolicited sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. In May 2014, Respondent executed an additional three such sales transactions in the 2014 Bonds. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to these transactions.

11. Respondent did not have any policies or procedures concerning MSRB Rule G-15(f).

Violations

12. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

13. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it was made aware by Commission staff that it had effected

[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F. 2d 798, 803 (D.C. Cir. 1965)).

customer transactions in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transactions.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $100,800 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341

6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying TD Ameritrade as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73505 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16239

In the Matter of **UBS Financial Services Inc.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against UBS Financial Services, Inc. ("UBS" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by UBS, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail customers for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, UBS violated MSRB Rule G-15(f) by executing five sales transactions in the Puerto Rico bonds with customers in amounts below the $100,000 minimum denomination of the issue.

Respondent

1. UBS is a Delaware corporation that maintains principal offices in Weehawken, New Jersey. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is

below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

$100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed five unsolicited sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to these transactions. Respondent informed the customers of the risks of trading in the 2014 Bonds before executing the trades.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it became aware that it had effected customer transactions in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transactions and amended its policies and procedures to ensure compliance with MSRB Rule G-15(f).

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $56,400 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying UBS

as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 73506 / November 3, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16240

In the Matter of **Wedbush Securities Inc.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 15(b), 15B(c)(2) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Wedbush Securities Inc. ("Wedbush" or "Respondent").

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

[1] The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

These proceedings involve the sale of non-investment grade or "junk" bonds issued by the Commonwealth of Puerto Rico ("Puerto Rico") by Wedbush, a registered broker-dealer and municipal securities dealer, to customers in amounts below the minimum denomination of the issue. Rule G-15(f) promulgated by the Municipal Securities Rulemaking Board ("MSRB") prohibits dealers from effecting customer transactions in municipal securities in amounts below the minimum denominations of the issues. Minimum denominations are generally intended to limit sales of municipal securities to retail customers for whom such bonds may not be suitable, but the proscriptions of Rule G-15(f) apply to all transactions with customers, regardless of whether the securities are suitable for the customer. In March 2014, Wedbush violated MSRB Rule G-15(f) by executing three sales transactions in the Puerto Rico bonds with customers in amounts below the $100,000 minimum denomination of the issue.

Respondent

1. Wedbush is a California corporation that maintains principal offices in Los Angeles, California. It is a registered broker-dealer pursuant to Section 15(b) of the Exchange Act. It is also a municipal securities dealer and a municipal securities broker as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act.

MSRB Rule G-15(f): Minimum Denomination Requirements for Bond Sales to Customers

2. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules for transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer, or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Respondent is subject to Section 15B(c)(1) of the Exchange Act and MSRB rules.

3. MSRB Rule G-15(f)(i) prohibits a broker, dealer, or municipal securities dealer from effecting a customer transaction in municipal securities issued after June 1, 2002 in an amount lower than the minimum denomination of the issue except pursuant to two limited exceptions. First, under MSRB Rule G-15(f)(ii), a dealer may purchase municipal securities from a customer in an amount below the minimum denomination of the issue if the dealer determines that the customer's position in the issue is already below the minimum denomination and the customer's entire position in the issue would be liquidated by the transaction. Second, under MSRB Rule G-15(f)(iii), a dealer may sell municipal securities to a customer in an amount below the minimum denomination of the issue if the dealer determines that the position being sold resulted from the liquidation of another customer's entire position in the issue which was below the minimum denomination of the issue. Additionally, a dealer selling under MSRB Rule G-15(f)(iii) must, at or before the completion of the transaction, notify the customer that the amount of the transaction is below the minimum denomination of the issue and that this may adversely affect the liquidity of the customer's position.

4. Under MSRB Rule G-15(f), brokers, dealers, and municipal securities dealers may not sell municipal securities in amounts below the minimum denomination of an issue to a customer regardless of whether the customer holds or would hold a position in the issue which is equal to or exceeds the minimum denomination of the issue. The rule also prohibits brokers, dealers, and municipal securities dealers from purchasing municipal securities in amounts below the minimum denomination of an issue from a customer whose position in the securities equals or exceeds the minimum denomination of the issue unless the customer's position is being liquidated in its entirety.

5. The purpose of MSRB Rule G-15(f) is to ensure municipal securities dealers observe the minimum denominations stated in the official documents of municipal securities issues.[2] Official documents for municipal securities issues may state a "minimum denomination" larger than the normal $5,000 par due to issuers' concerns that the securities may not be appropriate for those retail investors who would be likely to purchase securities in relatively small amounts.[3]

The Puerto Rico General Obligation Bonds of 2014

6. On March 11, 2014, Puerto Rico issued $3.5 billion in General Obligation Bonds of 2014, Series A (CUSIP 74514LE86) (the "2014 Bonds").

7. The 2014 Bonds are non-investment grade securities and are considered "junk" bonds. In March 2014, the 2014 Bonds had a credit rating of "Ba2" by Moody's Investors Service, "BB+" by Standard & Poor's Rating Services, and "BB" by Fitch Ratings.

8. Non-investment grade bonds present substantial risks to retail investors. Risks of investing in non-investment grade bonds include liquidity risk (*i.e.*, risk that an investor will not be able to sell a bond quickly and at an efficient price), credit risk (*i.e.*, risk of loss due to an actual or perceived deterioration in the financial health of the issuer) and interest rate risk (*i.e.*, risk that rising interest rates may cause bond prices to decline). In addition, the market for non-investment grade bonds is constricted by the fact that many municipal bond mutual funds are prohibited by their prospectuses from purchasing non-investment grade bonds.

9. The Official Statement of the Commonwealth of Puerto Rico (the "Official Statement") disseminated in connection with the issue of the 2014 Bonds specifies in pertinent part that the 2014 Bonds "are issuable as registered bonds without coupons in denominations of $100,000 and any multiple of $5,000 in excess thereof." During the relevant period, MSRB Rule G-15(f) permitted dealers to effect customer transactions in the 2014 Bonds in amounts equal to the $100,000 minimum denomination of the issue or amounts greater than $100,000 in increments of $5,000. Dealers could therefore have effected customer transactions for $105,000, $110,000, and

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[2] Order Granting Approval of Proposed Rule Change Relating to Minimum Denominations, Exchange Act Release No. 45338, 67 Fed. Reg. 6960 (Feb. 14, 2002); Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 (Dec. 28, 2001).

[3] Id.

so forth. Dealers were prohibited from effecting transactions with customers in the 2014 Bonds in amounts below $100,000, regardless of a customer's aggregate position in the 2014 Bonds.[4]

Sales in 2014 Bonds to Customers
Below the $100,000 Minimum Denomination of the Issue

10. In March 2014, Respondent executed three sales transactions in the 2014 Bonds with customers in amounts below the $100,000 minimum denomination of the issue established by the issuer, Puerto Rico, and specified in the Official Statement. The limited exceptions provided under MSRB Rule G-15(f) for customer transactions in municipal securities below the minimum denomination of an issue did not apply to these transactions. Respondent solicited all of the customer sales transactions.

Violations

11. As a result of the conduct described above, Respondent willfully[5] violated MSRB Rule G-15(f).

12. As a result of Respondent's willful violations of MSRB Rule G-15(f), Respondent willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. After it became aware that it had effected customer transactions in the 2014 Bonds below the minimum denomination of the issue, Respondent cancelled the transactions.

Undertakings

Respondent will undertake to review the adequacy of its existing policies and procedures relating to compliance with MSRB Rule G-15(f). After that review, Respondent will make such changes as are necessary to effect compliance with MSRB Rule G-15(f), including adopting new policies and procedures or supplementing existing policies and procedures. Respondent will implement these policies and procedures, and conduct training as to the policies and procedures and compliance with MSRB Rule G-15(f). Respondent will inform Commission staff no later than six (6) months after the entry of this Order that it has complied with the above undertakings

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[4] For example, a dealer could not have effected a customer transaction for $100,000, followed by a separate below-minimum-denomination transaction for $5,000, for a total of $105,000. The second transaction would have violated MSRB Rule G-15(f). See Notice of Filing of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to Minimum Denominations, Exchange Act Release No. 45174, 66 Fed. Reg. 67342 at n.12 (Dec. 28, 2001).

[5] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

and shall provide the Commission staff with a copy of its existing policies and procedures as to MSRB Rule G-15(f) at that time.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2) and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act and MSRB Rule G-15(f) .

B. Respondent is censured.

C. Respondent shall, within seven (7) days of the entry of this Order, pay a civil money penalty in the amount of $67,200 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717. Payment must be made in one of the following ways:

(1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Wedbush as a Respondent in these proceedings, and the file number of these proceedings; a copy

of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

By the Commission.

Brent J. Fields
Secretary

Edward Jones to Pay $20 Million for Overcharging Retail Customers in Municipal Bond Underwritings

FOR IMMEDIATE RELEASE
2015-166

Washington D.C., Aug. 13, 2015 — The Securities and Exchange Commission today announced that St. Louis-based brokerage firm Edward Jones and the former head of its municipal underwriting desk have agreed to settle charges that they overcharged customers in new municipal bonds sales. It's the SEC's first case against an underwriter for pricing-related fraud in the primary market for municipal securities. The firm also was charged with separate misconduct related to supervisory failures in its review of certain secondary market municipal bond trades.

Municipal bond underwriters are required to offer new bonds to their customers at what is known as the "initial offering price," which is negotiated with the issuer of the bonds. An SEC investigation found that instead of offering bonds to customers at the initial offering price, Edward Jones and Stina R. Wishman took new bonds into Edward Jones' own inventory and improperly offered them to customers at higher prices. In other instances, Edward Jones entirely refrained from offering the bonds to its customers until after trading commenced in the secondary market, and then offered the bonds at prices higher than the initial offering prices. The firm's customers paid at least $4.6 million more than they should have for new bonds. In one instance, the misconduct resulted in an adverse federal tax determination for an issuer and put it at risk of losing valuable federal tax subsidies.

Edward Jones agreed to settle the case by paying more than $20 million, which includes nearly $5.2 million in disgorgement and prejudgment interest that will be distributed to current and former customers who were overcharged for the bonds. Wishman agreed to pay $15,000 and will be barred from working in the securities industry for at least two years.

"Edward Jones undermined the integrity of the bond underwriting process by overcharging retail customers by at least $4.6 million and by misleading municipal issuers," said Andrew J. Ceresney, Director of the SEC Enforcement Division. "This enforcement action, which is the first of its kind, reflects our commitment to addressing abuses in all areas of the municipal bond market."

According to the SEC's order instituting a settled administrative proceeding against Edward Jones, the firm's supervisory failures related to dealer markups on secondary market trades that involved the firm purchasing municipal bonds from customers, placing them into its inventory, and selling them to other customers often within the same day. Because of the short holding periods, the firm faced little risk as a principal and almost never experienced losses on these intraday trades. The SEC's investigation found that Edward Jones' supervisory system was not designed to monitor whether the markups it charged customers for certain trades were reasonable.

"Because current rules do not require dealers to disclose markups on municipal bonds, investors receive very little information about their dealer's compensation in municipal bond trades," said LeeAnn Ghazil Gaunt, Chief of the SEC Enforcement Division's Municipal Securities and Public Pensions Unit. "It is therefore important that firms have adequate supervisory systems to ensure that they are complying with their fair pricing obligations."

Edward Jones consented to the SEC order without admitting or denying the findings that the firm willfully violated Sections 17(a)(2) and (3) of the Securities Act of 1933, Section 15B(c)(1) of the Securities Exchange Act of 1934, and Rules G-17, G-11(b) and (d), G-27, and G-30(a) of the Municipal Securities Rulemaking Board (MSRB). The firm also failed reasonably to supervise within the meaning of Section 15(b)(4)(E) of the Exchange Act. Edward Jones undertook a number of remedial efforts and now discloses the percentage and dollar amount of markups on all fixed income retail order trade confirmations in principal transactions.

Wishman consented to a separate SEC order without admitting or denying the findings that she willfully violated Sections 17(a)(3) of the Securities Act, MSRB Rules G-17, G-11(b) and (d), and G-30(a). She also was a cause of Edward Jones' violations of Section 17(a)(2) of the Securities Act and Section 15B(c)(1) of the Exchange Act.

The SEC's investigation, which is continuing, has been conducted by Municipal Securities and Public Pensions Unit members Kevin Guerrero, Ivonia K. Slade, Eric A. Celauro, Sally J. Hewitt, and Brian D. Fagel along with Joseph O. Chimienti, Jonathan Wilcox, and the unit's deputy chief Mark R. Zehner. Providing assistance were members of the SEC's National Exam Program, including Michael Fioribello, Paul N. Mensheha, and Stephen Vilim.

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Related Materials

- SEC order against Edward Jones
- SEC order against Wishman

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9889 / August 13, 2015

SECURITIES EXCHANGE ACT OF 1934
Release No. 75688 / August 13, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16751

In the Matter of **EDWARD D. JONES & CO., L.P.,** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTIONS 15(b), 15B(c), AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") and Sections 15(b), 15B(c), and 21C of the Securities Exchange Act of 1934 ("Exchange Act") against Edward D. Jones & Co., L.P. ("Edward Jones" or "Respondent").

II.

In anticipation of the institution of these proceedings, Edward Jones has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, Edward Jones consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b), 15B(c), and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. This matter concerns improper practices involving municipal securities by Edward Jones, a retail-oriented broker-dealer based in St. Louis, Missouri. As an underwriting co-managing syndicate member for new issue negotiated municipal securities, in certain instances Edward Jones failed to make bona fide public offerings to its customers at initial offering prices. In the secondary market for municipal securities, Edward Jones failed to have internal controls to prevent certain improper trading practices.

2. With respect to underwriting new issue municipal bonds, from at least February 2009 to December 2012 (the "Relevant Period"), and in violation of its fundamental obligations as a member of the underwriting syndicate, Edward Jones' municipal syndicate desk, in several negotiated offerings where it served as a co-manager, obtained new issue municipal bonds for its own inventory and then offered those bonds to customers for prices higher than the initial offering prices negotiated with the issuer before the bonds began trading. In some of these instances during the Relevant Period, Edward Jones' municipal syndicate desk refrained entirely from offering new issue municipal bonds to its customers at any price until after the bonds began trading, at which point the firm offered and sold the bonds to its customers at prices above the initial offering prices.

3. Edward Jones' sale of municipal bonds to its customers at prices higher than initial offering prices increased its revenues from municipal underwriting. During the Relevant Period, the firm collected at least $4.647 million in revenue with these practices through the offer and sale of about 156 different bonds in 75 negotiated offerings in which Edward Jones served as a co-manager. This amount was in addition to fees that Edward Jones earned as a member of the syndicate for certain of those offerings. Edward Jones' misconduct harmed its customers by causing them to pay prices higher than the initial offering prices for municipal bonds. In addition, in one instance, Edward Jones' misconduct resulted in an adverse federal tax determination for one municipal issuer, creating a risk that the issuer could lose valuable federal tax subsidies.

4. With respect to trading municipal bonds in the secondary market, between January 2011 and October 2013, Edward Jones failed to establish an adequate supervisory system to identify and review certain of Edward Jones' customer orders to buy and sell municipal securities. As a result, Edward Jones was unable to adequately monitor whether the markups it charged for certain transactions were reasonable.[2]

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[1] The findings herein are made pursuant to the Offer of Edward Jones. These findings are not binding on any other person or entity in this or any other proceeding.

[2] A markup is generally considered to be the difference between the prevailing market price of the security and the higher price paid by the customer to the dealer.

5. Beginning in 2013, Edward Jones began to undertake significant remedial measures related to the underwriting and secondary trading of municipal bonds, including the disclosure of the percentage and dollar amount of markups/markdowns on all of its fixed income retail order confirmations, the hiring of additional compliance personnel, and the adoption and implementation of new and enhanced supervisory procedures.

6. As a result of the conduct described herein, Edward Jones willfully violated Sections 17(a)(2) and (3) of the Securities Act, Section 15B(c)(1) of the Exchange Act, and Rules G-17, G-11(b) and (d), G-27, and G-30(a) of the Municipal Securities Rulemaking Board ("MSRB"), and failed reasonably to supervise within the meaning of Section 15(b)(4)(E) of the Exchange Act.[3]

Respondent

7. **Edward D. Jones & Co., L.P.**, a Missouri limited partnership, is a retail-oriented broker-dealer based in St. Louis, Missouri, with nearly 7 million retail customers and over 12,000 registered representatives, known as financial advisors ("FAs"). Edward Jones is the principal operating subsidiary of the Jones Financial Companies, L.L.L.P., a Missouri limited partnership whose interests are registered under Section 12(g) of the Exchange Act. Edward Jones is registered with the Commission as a broker-dealer and an investment adviser, and is a municipal securities dealer under Section 3(a)(30) of the Exchange Act.

Related Individual

8. **Stina R. Wishman**, age 50, resides in Warren County, Missouri. After joining Edward Jones in 1982, Wishman started and headed the firm's municipal syndicate desk. She served in that role from 1993 until June 2013. Wishman retired from the firm in July 2014. During the relevant period, she held Series 7, 53, and 63 licenses.

Background on Negotiated Offerings of Municipal Bonds

9. Municipalities often raise money by issuing to the public new bonds that are sold through an underwriting process. In what is known in the industry as a "negotiated" offering, the municipal issuer will choose an underwriter to act either as the sole underwriter or as the senior manager of the underwriting syndicate. A syndicate is a group of broker-dealers that join together to purchase new issue municipal securities from the issuer for the purpose of distributing those securities and consists of a senior manager, who leads the offering, and co-managing underwriters, or "co-managers." This matter involves Edward Jones' role as a co-manager in syndicates that underwrote and sold municipal bonds to the public through negotiated offerings.

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[3] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

10. The municipal issuer usually compensates the syndicate for its services in distributing the bonds by selling the bonds to the syndicate at a discount to the "initial offering price," the price at which the bonds are offered to the investing public by the syndicate at the time of original issuance. The difference between the initial offering price and the discounted price for the syndicate is the "underwriters' discount" or "underwriters' spread."

Formation of the Underwriting Syndicate and
Obligation to Offer Bonds At Initial Offering Prices

11. Syndicates typically have an agreement in place which sets forth the contractual relationship between the senior manager and the co-managers, known as an Agreement Among Underwriters ("AAU"). AAUs memorialize the standard terms of an underwriting for all subsequent transactions in which the parties to the AAU may participate. Template AAUs that are specifically tailored for negotiated municipal offerings are published by industry associations and are used commonly by active municipal underwriters.

12. During the Relevant Period, underwriters that used the template AAUs for negotiated municipal offerings were obliged, under those agreements, to make a public offering of all bonds at the initial offering price in effect at the time they were allocated bonds by the issuer and senior manager. Market participants have long understood the AAU to place an obligation on the syndicate members, as parties to the agreement, to offer and attempt to sell the bonds at the initial offering prices negotiated with the issuer before the bonds begin trading.

13. In addition to the agreed-upon terms of the AAU, municipal underwriters adhere to a well-established industry practice in negotiated offerings that requires them, when part of a syndicate, to offer and attempt to sell all of the bonds at the initial offering prices for a certain period of time. These limitations are known as "syndicate restrictions," and are generally in effect until the expiration of those restrictions. Among other things, syndicate restrictions ensure that the bonds are sold at the price which the issuer and the syndicate have agreed to sell them.

Pricing of Municipal Bonds

14. Once the syndicate is formed, the senior manager solicits the co-managers for their views on the prices for the various bonds to be issued. The senior manager then negotiates with the issuer over the terms of the offering, specifically the maturities, interest rates, and initial offering prices for the bonds. Thereafter, the senior manager notifies the co-managers of the preliminary pricing for the bonds and the terms of the order period(s) to be held for the bonds.

15. Generally, the syndicate is the only source of pricing and other information about the bonds to be issued before and during the order period(s). Retail investors, in particular, must rely on communications from their broker-dealer, acting in the capacity of underwriter, to learn about pricing and other offering details before the bonds begin trading. Ultimately, the initial offering prices are printed on the cover page of the final disclosure document, known as the Official Statement ("OS"), which typically is released days after the bonds begin trading.

Order Periods and the Determination of Order Priorities for Municipal Bonds

16. The "order period" in negotiated offerings is a period of time, often not longer than a few hours, during which the senior manager solicits preliminary orders known as indications of interest[4] from the syndicate members for municipal bonds on behalf of their customers. There are two types of order periods: an initial, generally longer order period for retail customers, and a subsequent, generally shorter order period for institutional investors. Although institutions are typically precluded from participating in retail order periods, syndicate members may submit orders on behalf of retail customers during either order period.

17. Often, orders for municipal bonds exceed the amount of bonds available. Although the senior manager ultimately decides which orders will, and will not, be filled, its decision-making process is governed by written "priority provisions" which, under MSRB Rule G-11, must be established and circulated to the entire syndicate by the senior manager before the first offer of any bonds. Priority provisions, also known as the "priority of orders," establish the sequence in which bonds will be allocated to specific order types.

18. One type of order, called a "group net" order,[5] typically has a higher priority and, thus, increases the likelihood that those co-managers who place them will have their order filled over competing orders. Bonds acquired in a group net order are acquired at the initial offering price. MSRB Rule G-11 requires that any syndicate member submitting an order identify whether that order is for its own dealer account, and if a "group net" order, the identity of the person for whom the order is submitted. Importantly, effective October 2010 and with some exclusions not relevant here, MSRB Rule G-11 explicitly requires that underwriters give priority to customer orders over orders for their own dealer accounts.

19. Before the AAU is executed, syndicate members typically engage in initial efforts to inform their sales force and customers of the upcoming bond offering. Once the senior manager provides preliminary pricing information, syndicate members can solicit orders from their customers and provide feedback to the senior manager, which may adjust the pricing after talks with the issuer. After the order period(s) closes, the senior manager evaluates the submitted orders, allocates bonds according to the priority provisions, and communicates the exact final prices and coupons for each maturity to the rest of the syndicate through a final pricing wire.

Bond Purchase Agreements, Underwriters' Certificates, and the Lifting of Syndicate Restrictions

20. The allocation and the pricing of the municipal bonds to be issued are conditioned upon the execution of the bond purchase agreement (the "BPA") between the issuer and the

[4] Indications of interest are non-binding pre-sale orders for a forthcoming issue of new municipal bonds. Although contractually such orders cannot be deemed to be executed until a bond purchase agreement is entered into by the issuer and the underwriters, in reality the prospective purchases are not tentative – indications of interest are often eventually filled by the underwriters without any subsequent consultation with the purchasers.

[5] A "group net" order is an order made on behalf of the syndicate account, which benefits all syndicate members according to their percentage participations in the account. If allocated, a group net order is allocated at the public offering price without deducting the concession or takedown.

senior manager on behalf of the syndicate, which sets forth the respective responsibilities of the parties in connection with this sale, including the final negotiated price at which each bond initially will be sold to investors, known alternately as the "public offering price" or the "initial offering price." Many BPAs include an explicit agreement by the syndicate to offer all of the bonds to be issued at the final offering price negotiated with the issuer.

21. The price at which new issue bonds are sold is important for ensuring compliance with the applicable laws governing the issuance of tax-exempt and other municipal securities. To that end, the senior manager, on behalf of the entire syndicate, typically provides a certificate on the settlement date which is relied upon by bond counsel and the issuer for tax compliance purposes. This certificate is known in the industry as the "underwriters' certificate" or the "issue price certificate."

22. Among other things, many underwriters' certificates include representations that the syndicate made a bona fide public offering of all of the bonds at the initial offering prices set forth in the OS, that the syndicate reasonably expected that all of the bonds would be initially sold to the public at the initial offering prices set forth in the OS at the time the bonds were purchased by the syndicate, and that at least ten percent of each maturity of the bonds was first sold to the public (subject to certain exclusions) at the initial offering prices set forth in the OS.

23. The senior manager promptly informs the syndicate once the BPA is executed, while syndicate restrictions are still in effect, so that the syndicate members can then execute the previously placed orders with their customers at the initial offering price. Afterward, the senior manager often, but not always, sends a communication to the rest of the syndicate called the "free-to-trade wire," which lifts the various syndicate restrictions and allows syndicate members to trade the bonds at prices other than the initial offering prices.

The Creation of Edward Jones' Municipal Syndicate Desk

24. Wishman created Edward Jones' municipal syndicate desk in 1993 so that the firm could have the opportunity to obtain better access to new issue bonds for its retail customers. Issuers often included the firm in syndicates because of the firm's well-known, geographically-dispersed retail customer base.

25. Wishman supervised the municipal syndicate desk from its creation until 2013 and was primarily responsible for overseeing Edward Jones' underwriting of new issue municipal bonds. She had responsibilities related to the syndicate desk's compliance with applicable securities laws and regulations, including MSRB rules. As part of those responsibilities, she assisted in conducting an annual review of certain written supervisory procedures that applied to the municipal syndicate desk, checking for conformity with such applicable securities laws, regulations, and MSRB rules.

26. Over the years, Wishman became familiar with, and had extensive experience with, AAUs, BPAs, and underwriters' certificates, and signed the majority of Edward Jones' AAUs. She understood that the phrase "bona fide public offering" meant that Edward Jones was

required to make the bonds available at the public offering price during the order period and that no changes could be made to that price until the syndicate restrictions were lifted.

Edward Jones Improperly Offered and Sold Certain New Issue Municipal Bonds at Prices Higher than the Initial Offering Prices

27. Despite Wishman's experience with and knowledge of the applicable standards, from at least the beginning of the Relevant Period, she and Edward Jones' municipal syndicate desk offered and sold certain new issue municipal bonds to Edward Jones' customers at prices above the initial offering prices (the "Relevant Issuances").[6] Between 2009 and 2012, Edward Jones collected at least $4.647 million in additional revenue through the sale of 156 different maturities in 75 different negotiated offerings at prices higher than the initial offering price.

28. In certain co-managed, negotiated transactions during the Relevant Period as further detailed below, Wishman and the municipal syndicate desk at Edward Jones improperly offered out particular bonds to customers from its inventory at prices above the initial offering prices while syndicate restrictions remained in effect. In these instances, Wishman and Edward Jones' municipal syndicate desk typically placed orders with the lead underwriter for specific maturities for the firm's own inventory during the order period, but did not give their customers an opportunity to similarly participate. Once Edward Jones' municipal syndicate desk obtained an allocation of those bonds and took them into inventory, and while syndicate restrictions remained in effect, the firm offered the securities to customers from its own inventory at prices above the initial offering prices in these transactions. There is a substantial likelihood that these customers would have considered the pricing of these bonds by Edward Jones to be significant.

29. For example, in November 2009, Edward Jones acted as a co-managing underwriter of a $38.83 million issuance of Taxable Sales Tax Revenue Bonds, Series 2009 (the "Amarillo Bonds") by the Amarillo Economic Development Corporation. Edward Jones' syndicate desk did not inform its FAs about this offering until after the order period for these bonds closed, effectively foreclosing the firm's customers from having the opportunity to place orders at the initial offering price. Nevertheless, the firm placed an order for its own inventory during the institutional order period and obtained an allocation of $3.665 million, representing approximately 10% of the two term bonds maturing in 2019 and 2030. After the close of the order period but before the Amarillo Bonds began trading, Edward Jones offered the bonds out to its customers at prices above the initial offering prices for those maturities.

30. In contrast to Edward Jones, the other underwriters for this deal sold their entire allocations of the 2019 and 2030 maturities at the initial offering price. Edward Jones made over $79,000 from improperly selling as principal (that is, for its own account) the 2019 and 2030 maturities of Amarillo Bonds at prices above the initial offering prices, in addition to its share of the underwriters' discount for the transaction.

31. Normally syndicate members submit orders for their own account as "member" or "stock" orders, which have lower priority. To obtain bonds for its inventory when acting as a co-manager on the Relevant Issuances, Edward Jones' municipal syndicate desk, in part through

[6] The Relevant Issuances are described in the Appendix, an attachment to this Order.

Wishman, often placed "group net" orders with the senior managers, without explicitly stating that the orders were for its own dealer account, in violation of MSRB Rule G-11. Pursuant to industry practice and MSRB rules, a group net order can be placed for a dealer's own account, but it would have to be disclosed that the order was for stock, that is, for the dealer's own account. For example, although the software platform often used by Edward Jones' municipal syndicate desk to submit orders sometimes contained fields that would have allowed it to clarify to the senior manager that the group net orders were for Edward Jones' inventory, in certain instances, Wishman and Edward Jones' municipal syndicate desk failed to explicitly disclose to the senior manager, at the time of submission, that these group net orders were for the firm's inventory (i.e., the firm's dealer account). This practice of placing "group net" orders not accompanied with a disclosure that they were for the firm's own inventory had the potential to mislead certain senior managers about the true nature of the orders and may have caused them to make allocations of bonds that they otherwise would not have made.

32. In July 2010, for example, although there was a priority for retail orders, Edward Jones offered St. Johns, Michigan Public Schools 2010 School Building and Site Bonds, Series B (the "St. Johns' Bonds") to its customers at prices above the initial offering price while syndicate restrictions were in effect.

33. Despite being notified by the senior manager that Michigan retail investors had priority in the offering, Wishman and Edward Jones did not offer any of the St. Johns' Bonds to the firm's Michigan customers prior to, or during, the order period for those bonds. Instead, Wishman submitted "group net" orders for the St. Johns' Bonds to the senior manager that did not specify that the orders were for the firm's own account. On the basis of these orders, on July 15, 2010, the senior manager allocated three maturities of the St. Johns' Bonds to Edward Jones.

34. The next day, July 16, 2010, while syndicate restrictions were in effect, Wishman and Edward Jones offered out all three maturities of the St. Johns' Bonds to their customers from the firm's inventory at prices above the initial offering price. Edward Jones then sold, as principal, its entire allocation of St. Johns' Bonds to its customers out of its inventory at prices above the initial offering price. No other member of the underwriting syndicate sold the 2035 and 2040 maturities of the St. Johns' Bonds at any prices other than the initial offering price.

35. In addition to its portion of the underwriters' discount from this transaction, Edward Jones earned over $190,000 from improperly selling St. Johns' Bonds that it had obtained as an allocation in the primary offering for prices above the initial offering prices.

36. In other negotiated offerings for which Edward Jones served as a co-managing underwriter during the Relevant Period, Wishman and the municipal syndicate desk initially offered out the bonds at the correct initial offering prices to its customers. However, in these instances, the firm's municipal syndicate desk would then increase the prices of the bonds while syndicate restrictions were in effect, and would offer and sell the bonds to its customers above the initial offering prices.

37. During the Relevant Period, Edward Jones offered a total of 90 bonds in 32 negotiated transactions to its customers at prices above the initial offering prices while syndicate

restrictions were in effect, either through the initial offer or through a later price increase after an offer at the initial offering price.

Edward Jones Improperly Failed to Offer its Customers Certain New Issue Municipal Bonds at Any Price

38. In certain negotiated municipal offerings for which Edward Jones served as a co-manager during the Relevant Period, the firm failed to offer the new issue bonds to its customers at all before trading in those bonds began. Nevertheless, in these instances, Edward Jones obtained an allocation of new issue municipal bonds for its own inventory during the institutional order period and then offered them to its customers at prices higher than the initial offering prices after trading began. Edward Jones thus did not provide its customers the opportunity to place orders to the syndicate account for new issue municipal bonds prior to or during the order period at the initial offering price. This is an opportunity that should have been afforded to Edward Jones' customers because the firm was a member of the underwriting syndicate.

39. During the Relevant Period, while acting as a co-manager, Edward Jones' municipal syndicate desk offered municipal bonds to its customers only after trading in the bonds began in a total of 29 negotiated transactions. In these transactions, the firm failed to offer a total of 45 bonds at any price before trading began. When Edward Jones ultimately did offer these particular bonds to its customers, it did so at prices above the initial offering prices.

40. In an additional 14 negotiated offerings involving 21 different bonds, Edward Jones could not produce any documentation, such as messages from its internal communication system or other communications, which would indicate its municipal syndicate desk took steps to make a bona fide offering of the municipal bonds before trading in the bonds began.

Edward Jones Improperly Offered and Sold Build America Bonds in Primary Offerings

41. Wishman and Edward Jones' municipal syndicate desk also engaged in the improper offer and sale practices discussed above in connection with a specific type of taxable municipal bond called a Build America Bond ("BAB").[7] Effective between 2009 and 2010, the BAB program provided a deep federal subsidy to municipal issuers (equal to 35% of the taxable interest) in lieu of the traditional tax-exemption, and was intended to lower issuers' net borrowing costs. In April 2009, Wishman received an IRS Notice with information about BABs.

Nebraska Public Power District BAB Offering

42. In 2009, Edward Jones served as a co-managing underwriter on a $168.245 million negotiated offering of BABs and other general revenue bonds by the Nebraska Public Power District ("NPPD"). The AAU between Edward Jones and the senior manager provided

[7] The American Recovery and Reinvestment Act of 2009 authorized state and local governments to issue BABs to provide liquidity for municipal financing of capital projects in the midst of the financial crisis. See Pub. L. No. 111-5, 123 Stat. 115 (2009) (enacted Feb. 17, 2009).

that Edward Jones agreed to offer the securities at the offering price in effect at the time the bonds were sold to the firm. As discussed below, however, Wishman and Edward Jones' municipal syndicate desk failed to make a bona fide public offering of the NPPD BABs to the firm's customers at the initial offering prices.

43. On the morning of June 10, 2009, after Edward Jones joined the syndicate, Wishman notified the firm's financial advisors in Nebraska (the "Nebraska FAs") that the retail order period for the non-BABs series of the NPPD bonds ran until 11:00 a.m. Central Time and asked the Nebraska FAs to offer them to their customers. However, Wishman did not inform the Nebraska FAs of the details regarding the order period for the NPPD BABs, which did not have a retail priority, either before or during the order period. As a result, the Nebraska FAs therefore did not offer the BABs to their customers at that time.

44. Instead, on June 10, 2009, Wishman placed two "group net" orders for both maturities of NPPD BABs. However, the firm's "group net" orders did not explicitly state that they were for the firm's own inventory. The senior manager employee responsible for reviewing orders and making allocations of the NPPD bonds, in conjunction with the issuer, testified that he understood from the language of Edward Jones' orders that they were group net orders on behalf of Edward Jones' retail customers.

45. The senior manager filled Edward Jones' entire orders for NPPD BABs on June 10 at par. The senior manager informed Edward Jones that it had been allocated $100,000 of the 2026 maturity and $10 million of the 2035 maturity, and that the initial offering price was 100 (i.e., par).

46. On the afternoon of June 10, after the BABs order period closed but before syndicate restrictions were lifted, Wishman informed Edward Jones' Nebraska FAs of the NPPD BAB allocations and instructed them to offer those bonds out to customers at prices higher than the initial offering prices. Edward Jones offered the 2026 maturity of NPPD BABs at 102 and the 2035 maturity of NPPD BABs at 103, both above the initial offering price.

47. On June 11, 2009, the senior manager sent a final pricing wire to the syndicate that set the initial trading time of NPPD bonds for 2:15 p.m. Eastern Time ("ET") that day. At 2:36 p.m. ET that day, the senior manager sent a free-to-trade wire to the rest of the syndicate regarding the NPPD taxable bonds and BABs which read: "Effective immediately all syndicate terms and price restrictions are removed and the bonds are free to trade."

48. Before syndicate restrictions were lifted, Edward Jones sold $97,000 of its $100,000 allocation of the 2026 NPPD BABs to customers at a price of 102. Similarly, Edward Jones ticketed the sales of $2.294 million of the 2035 NPPD BABs to customers at prices above the initial offering price (generally 103) before syndicate restrictions were lifted. Edward Jones' sales of the 2026 NPPD BABs at a price of 102 decreased the yield to customers from 6.606% to 6.323%. Its sales of the 2035 NPPD BABs at a price of 103 decreased the yield to customers from 7.399% to 6.962%.

49. In the BPA for the NPPD deal, the underwriters agreed to make a bona fide public offering of all of the NPPD bonds at prices not in excess of the initial public offering price. The underwriters' certificate for the NPPD represented that a bona fide public offering of all of the NPPD bonds had been made at the initial offering price and that at least 10% of each NPPD maturity was sold at the initial public offering price.

50. NPPD's CFO testified that she would not have allocated any of the 2026 or 2035 NPPD BABs to Edward Jones had she known, at the time that she was making the allocations of the bonds, that Edward Jones was taking these bonds into its own inventory in order to sell to its retail customers at prices higher than the initial offering price.

51. Edward Jones' portion of the underwriters' discount from the sale of the NPPD BABs was $18,918.55. By comparison, Edward Jones made $292,524 from improperly selling the 2026 and 2035 NPPD maturities at prices above the initial offering price.

52. To qualify as BABs and thereby maintain the valuable tax subsidy offered by the program, new issue municipal bonds had to satisfy a number of requirements. Most importantly, a bond could not be treated as a BAB if the issue price had more than a de minimis amount of premium[8] over the stated principal amount of the bond.

53. On October 5, 2012, the Internal Revenue Service concluded that a portion of the NPPD 2035 BABs did not qualify as BABs because the issue price of the $10 million principal amount that Edward Jones offered and sold (of the total $32.89 million notional amount for that maturity) had more than a de minimis amount of premium over the stated principal amount of the bond. The IRS determined that those bonds offered and sold at prices higher than 102.25 did not qualify as BABs and were not entitled to the federal subsidy, which the NPPD had valued as worth $260,000 per year, or approximately $6.5 million over the BABs' stated term.

54. In July 2013, the NPPD entered into an agreement with the IRS, pursuant to which it agreed to resolve the dispute by paying $350,000 to the IRS. In return, the NPPD was allowed to continue to claim credits under the BAB program with respect to interest paid on the 2035 BABs, and the IRS agreed not to contest such credits. Edward Jones later entered into an agreement with the NPPD pursuant to which it agreed to reimburse the NPPD the amount paid to the IRS, in addition to other expenses incurred by the NPPD over the tax-related dispute.

Edward Jones' Municipal Bond Trading in the Secondary Market

55. In addition to its activities as an underwriter for new issues of municipal bonds, Edward Jones has a secondary trading desk which executes buy and sell orders of municipal bonds on behalf of its customers in the secondary market. In the secondary market, dealers execute trades on either an agency or a principal basis.

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[8] The "de minimis premium amount" is calculated by multiplying the number of complete years to maturity or redemption date by 0.25% of the stated redemption price at maturity. See 26 U.S.C. § 1273(a)(3). For example, if there are nine complete years before a bond can be called at 100, the de minimis premium amount would be 2.25%.

56. In an agency transaction, a dealer represents the buyer, the seller, or both, and therefore takes on no position risk. In these instances, a dealer charges a commission or fee, which is disclosed to the customer.

57. When a dealer executes trades in municipal bonds in a principal capacity, the dealer buys securities in the secondary market, holds the securities in its inventory for a period of time and later sells them. In principal transactions, dealers take on some degree of position risk and charge a markup or fee. The amount of the markup that a dealer charges in these circumstances varies depending on different factors, including, but not limited to, the expense involved in effecting the transaction, the service provided in effecting the transaction, the availability of securities in the market, and the fact that the dealer is entitled to a profit. Dealers are not currently required to disclose markups to customers when acting as principals.

58. Pursuant to MSRB Rule G-27, municipal bond dealers must have a system of supervision for both agency and principal trades reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Board rules, including the requirement to exercise diligence in establishing the fairness and reasonableness of the commission or markups for such trades.

59. As discussed below, between January 2011 and October 2013, Edward Jones did not have an adequate system for reviewing certain of its principal trades. This lack of an adequate supervisory system may have prevented Edward Jones from determining whether the markups it charged for certain principal transactions were reasonable.

Edward Jones' System for, and Supervision of, Secondary Municipal Bond Trading

60. Edward Jones uses an internal web-based system for fixed income trading. The system allows Edward Jones' fixed income traders to execute buy and sell orders that are received from the firm's customers. The system also provides a means for the firm's traders and FAs to search the firm's inventory for fixed income securities based on various features including ratings and maturity. The firm's FAs actively use the system to monitor and search the firm's inventories for fixed income securities that are potentially of interest to their customers.

61. For example, if an Edward Jones customer wants to buy a particular bond, the FA enters the order into the system, at which time the order will auto-execute if the bond is available in inventory. If the bond is not available, an Edward Jones fixed income trader will review the order to determine if it can be otherwise executed.

62. Between January 2011 and October 2013, approximately 60% of Edward Jones customer sales of municipal securities were ultimately purchased by other Edward Jones customers after these securities passed through Edward Jones' principal accounts ("Transactions"). Edward Jones' risk in these Transactions derives from potential price movements that might occur during the holding period. These Transactions were often executed intraday, and therefore the securities were held only briefly in Edward Jones' principal inventory accounts.

63. Because holding periods for the intraday Transactions were short, Edward Jones faced little risk. In fact, large negative price movements were rare for Transactions with a holding period of even a few days. During the relevant time period, Edward Jones almost never experienced losses on intraday Transactions.

64. During the relevant time period, the firm's supervisory system did not adequately consider all relevant factors in monitoring the reasonableness of the markups on certain of the firm's Transactions. As a result, the firm's supervisory system was not reasonably designed to monitor whether the markups it charged for certain Transactions were reasonable.

Legal Discussion

Edward Jones Violated Section 17(a)(2) and (3) of the Securities Act

65. Section 17(a)(2) of the Securities Act makes it unlawful "in the offer or sale of any securities ... directly or indirectly ... to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading." Section 17(a)(3) of the Securities Act makes it unlawful "in the offer or sale of any securities ... directly or indirectly ... to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser." Negligence is sufficient to establish a violation of Sections 17(a)(2) and 17(a)(3); no finding of scienter is required. Aaron v. SEC, 446 U.S. 680, 696-97 (1980).

66. An underwriter "occupies a vital position" in a securities offering because investors rely on its reputation, integrity, independence, and expertise. Municipal Securities Disclosure, Exchange Act Release No. 26100, 1988 WL 999989 at 20 (Sept. 22, 1988). "By participating in an offering, an underwriter makes an implied recommendation about the securities." Id. "An underwriter must investigate and disclose material facts that are known or reasonably ascertainable." Dolphin and Bradbury, Inc. v. SEC, 512 F.3d 634, 641 (D.C. Cir. 2008) (citing Municipal Securities Disclosure, Exchange Act Release No. 26100, 1988 WL 999989 at 20). "Although other broker-dealers may have the same responsibilities in certain contexts, underwriters have a 'heightened obligation' to ensure adequate disclosure." Id.

67. During the Relevant Period, as discussed above, Edward Jones failed to disclose to its customers that it had agreed to make – and was expected to make under well-established industry practice – a bona fide public offering of all the municipal bonds to be issued at the initial offering price, while acting as a co-managing underwriter in several negotiated offerings. By failing to do so, Edward Jones obtained additional revenues from the sale of new issue municipal bonds to its customers at prices above the initial offering price. These additional revenues were often greater than what the firm had contracted to earn with the municipal issuers through its share of the underwriters' discount.

68. Edward Jones' practices as a co-managing underwriter of the Relevant Issuances effectively denied its customers the opportunity to place orders to the syndicate account for new issue municipal bonds prior to or during the order periods at the initial offering prices. This

opportunity should have been afforded to Edward Jones' customers because the firm was a member of the syndicate. These practices resulted in Edward Jones' customers paying more for the bonds than the issuers or senior managers intended.

69. Wishman and Edward Jones were at least negligent. Their conduct was inconsistent with industry standards for, and written agreements governing, municipal underwriting.

70. As a result of the conduct described above, Edward Jones willfully violated Sections 17(a)(2) and 17(a)(3) of the Securities Act.

Edward Jones Violated MSRB Rule G-17

71. MSRB Rule G-17 provides in relevant part that, in the conduct of its municipal securities business, every broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice. Negligence is sufficient to establish a violation of MSRB Rule G-17.

72. As part of a dealer's fair-dealing obligation under Rule G-17, the MSRB has repeatedly interpreted the rule to create affirmative disclosure obligations. In particular, all representations made by underwriters to municipal issuers in connection with municipal securities offerings, whether oral or written (such as, for example, those made in underwriters' certificates), must be true, accurate, and must not misrepresent or omit material facts.

73. As part of multiple underwriting syndicates during the Relevant Period, Edward Jones misrepresented in certain BPAs and underwriters' certificates that it would make or had made bona fide offerings of each maturity of the bonds to be issued at the initial offering prices. Municipal issuers relied on the representations of the underwriting syndicate – of which Edward Jones was a part – to establish issue price, to ensure compliance with arbitrage restrictions and other regulations for tax-exempt bonds, and to ensure qualification of the bonds as BABs. These misstatements created a risk that the municipal issuers could lose the tax-exemption for certain issuances or the federal subsidy under the BAB program.

74. Moreover, MSRB guidance interpreting the fair practice principles of MSRB Rule G-17, as they apply to the priority of orders for new issue securities and effective October 12, 2010, required that underwriters give priority of orders to customers over orders from underwriters or their related accounts. An underwriter may violate its fair dealing duties by making commitments to the issuer regarding distribution of the issuer's securities, and then failing to honor them. When acting as a co-managing underwriter for certain of the Relevant Issuances, Edward Jones failed to honor its agreements with issuers to give priority to retail orders by not, in the first instance, informing its retail customers of the offerings before or during the order period.

75. As a result of the conduct described above, Edward Jones willfully violated MSRB Rule G-17.

Edward Jones Violated MSRB Rules G-11(b) and (d)

76. MSRB Rule G-11(b) required every syndicate member submitting an order to the senior manager to disclose if the securities were for its dealer account or for a related portfolio, until the rule was expanded in August 2010 to apply to all brokers, dealers, and municipal securities dealers, whether or not syndicate members. Rule G-11(d) requires all group orders to include the identity of the person for whom the order is submitted.

77. While acting as a co-manager for certain of the Relevant Issuances, Wishman and Edward Jones' municipal syndicate desk placed orders, including group net orders, for municipal bonds that failed to adequately disclose, at the time of submission, that the orders were for the firm's dealer account.

78. As a result of the conduct described above, Edward Jones willfully violated MSRB Rules G-11(b) and (d).

Edward Jones Violated MSRB Rule G-30(a)

79. During the Relevant Period, MSRB Rule G-30(a) required dealers to sell municipal bonds from their own account to a customer at an aggregate price (including any markdown or markup) that was fair and reasonable, taking into consideration all relevant factors, including the resulting yield to the customer, which should have been comparable to the yield on other bonds of comparable quality, maturity, coupon rate, and block size then available in the market.

80. During the Relevant Period, Edward Jones sold certain new issue municipal bonds from its inventory to customers at prices that were not fair and reasonable. Because it sold certain new issue municipal bonds to its customers at prices above the initial offering prices, the prices at which Edward Jones sold those securities in the initial days of trading often were above the levels at which other underwriters, and sometimes even other investors, sold the same municipal bonds. Consequently, the yields on these bonds sold to Edward Jones customers often were below the yields of the exact same bonds being sold in the market during the initial days of trading.

81. As a result of the conduct described above, Edward Jones willfully violated MSRB Rule G-30(a).

Edward Jones Failed Reasonably to Supervise and to Establish an Adequate Supervisory System

82. Section 15(b)(4)(E) of the Exchange Act authorizes the Commission to impose sanctions against a broker-dealer for failing to reasonably supervise another person subject to the firm's supervision who committed a securities law violation. A broker-dealer can be liable for failure to supervise either when it lacks procedures reasonably designed to prevent and detect the underlying violation, see, e.g., Smith Barney, Harris Upham & Co., Exchange Act Release No. 21813, 32 SEC Docket 766 (Mar. 5, 1985), or when it has failed to adopt a reasonable system to implement those procedures. See, e.g., A.G. Edwards & Sons, Inc., Exchange Act Release No.

55692, 2007 SEC LEXIS 891 (May 2, 2007). MSRB Rule G-27(a) obligates brokers, dealers, and municipal securities dealers to supervise the conduct of the municipal securities activities of the firm and its associated persons to ensure compliance with MSRB rules, the applicable provisions of the Exchange Act, and rules thereunder. MSRB Rule G-27(b) obligates brokers, dealers, and municipal securities dealers to establish and maintain a system to supervise the municipal securities activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and MSRB rules.

83. Edward Jones failed to establish policies and procedures that would reasonably be expected to prevent and detect the violations by Wishman, an associated person, of Section 17(a)(3) of the Securities Act and MSRB Rules G-17, G-11(b) and (d), and G-30(a) in connection with her municipal underwriting activities during the Relevant Period. In addition, with respect to its municipal underwriting activities generally during the Relevant Period, Edward Jones lacked a system that was reasonably designed to achieve compliance with the antifraud provisions of the federal securities laws and MSRB Rules G-17, G-11, and G-30(a), which violated MSRB Rule G-27.

84. Moreover, with respect to trading municipal bonds in the secondary market during the nearly three-year period between January 2011 and October 2013, Edward Jones failed to establish an adequate supervisory system to identify and review certain of Edward Jones' customer orders to buy and sell municipal securities and therefore was unable to determine whether the markups it charged for certain transactions were reasonable. As a result, Edward Jones violated MSRB Rule G-27.

85. As a result of the conduct described above, Edward Jones failed reasonably to supervise within the meaning of Section 15(b)(4)(E) of the Exchange Act and willfully violated MSRB Rule G-27.

Edward Jones Violated Section 15B(c)(1) of the Exchange Act

86. Section 15B(c)(1) of the Exchange Act prohibits brokers, dealers, and municipal securities dealers from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any MSRB rule. As a result of the negligent conduct described above and its willful violations of MSRB Rules G-17, G-11(b) and (d), G-30(a), and G-27, Edward Jones willfully violated Section 15B(c)(1) of the Exchange Act.

Remedial Efforts

87. Edward Jones has undertaken a number of remedial efforts, including the following:

- Disclosure of markups: Edward Jones now discloses in writing both the percentage and dollar amount of any markup or markdown on all fixed income retail order trade confirmations in principal transactions.

- Personnel: Edward Jones hired a dedicated compliance officer to work on its fixed income desk, in direct proximity to municipal syndicate and secondary trading. Edward Jones hired a new head of its municipal syndicate desk with extensive experience in the securities industry.

- Implemented recommended improvements: Edward Jones retained a consulting firm to conduct a review of the firm's municipal business and make recommendations for improvements. Edward Jones implemented, or is in the process of implementing, the resulting recommendations.

- Procedures for new issues: Edward Jones adopted a new written supervisory procedure which states that all bonds acquired in new issuances may only be sold at the public offering price. Accordingly, the firm no longer allows any additional markups of bonds acquired in new issuances during or after the underwriting period, other than for the purpose of marking bonds to market.

- Procedures for markups: Edward Jones has reduced the maximum possible markup on buy orders of municipal bonds. The maximum markdown for sell orders of municipal bonds in the secondary market also has been reduced.

- Surveillance of Internal Web-Based Trading System: Edward Jones improved its surveillance and now automatically blocks any customer purchase within 30 minutes of a customer sale in the same CUSIP within the same branch, unless the bond was already in the firm's inventory prior to the sell trade.

- Partial Restitution to Customers: In 2009, while acting as a co-managing underwriter, Edward Jones' practices resulted in it selling eight maturities of BABs with more than a de minimis amount of premium. For these maturities, Edward Jones voluntarily refunded to its customers the amount of markup charged over and above the de minimis premium amount. These refunds totaled approximately $122,891 (the "BAB De Minimis Premium Refunds").

- Review of Municipal Procedures: Edward Jones has implemented improvements to its written supervisory procedures, operating procedures, and training in its municipal securities division.

88. The Commission considered these remedial acts in determining to accept the Offer of Edward Jones.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in the Offer by Edward Jones.

Accordingly, pursuant to Section 8A of the Securities Act and Sections 15(b), 15B(c), and 21C of the Exchange Act, it is hereby ORDERED that:

A. Edward Jones shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act, Section 15B(c)(1) of the Exchange Act, and MSRB Rules G-17, G-11, G-30, and G-27.

B. Edward Jones is censured.

C. Edward Jones shall pay disgorgement and prejudgment interest as follows:

1. Edward Jones shall pay disgorgement of $4,524,332.60 and prejudgment interest of $670,068.77. Within ten days of the entry of this Order, Edward Jones shall deposit $5,194,401.37 representing the full amount of the disgorgement and prejudgment interest (the "Disgorgement Fund") into a segregated cash account at Edward Jones to be used exclusively for the purpose of making payments to current and former customers pursuant to a calculation defined below. Edward Jones shall provide the Commission's staff with evidence of such deposit in a form acceptable to the Commission's staff. If timely deposit of the disgorgement or prejudgment interest is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600, 17 C.F.R. § 201.600.

2. Edward Jones shall be responsible for administering the Disgorgement Fund. Edward Jones shall use the Disgorgement Fund to pay each affected current and former customer who purchased a Relevant Issuance, an amount determined by (i) subtracting the initial offering price from the price paid, each set forth as a percentage, (ii) multiplying the resulting percentage difference by the face amount of the Relevant Issuance purchased, (iii) adding to that total reasonable interest at the Federal Short-Term rate as of the date of purchase of the Relevant Issuance through the date of this Order, for a total dollar amount for each Relevant Issuance, and (iv) to the extent that any customer purchased more than one Relevant Issuance, adding the customers' total amounts for each Relevant Issuance together. This formula is referred herein as the "Calculation." The Calculation and the resulting amounts for each customer shall be submitted to, reviewed, and approved by the Commission's staff in accordance with this Subsection C. The payments made by Edward Jones to customers pursuant to the Calculation shall not include any applicable BAB De Minimis Premium Refunds already paid to that customer.

3. Edward Jones shall, within 60 days from the entry of this Order, submit a proposed Calculation to the Commission staff for its review and approval that identifies, at a minimum: (i) the name and account number of each customer; (ii) the exact amount to be paid to each such customer for the Relevant Issuances; (iii) the exact amount of any portion of the payment that Edward Jones claims already has been paid to such customer as part of the firm's remedial efforts and described herein, including, but not limited to, BAB De Minimis Premium Refunds, along with supporting proof of such advance payment; and (iv) a description of the Relevant Issuances to which the customer's payment relates. Edward Jones also shall provide to the Commission's staff such additional information and supporting documentation relating to the Relevant Issuances as the Commission's staff may request for the purpose of its review. Neither Edward Jones nor any former or current employees of Edward Jones' municipal syndicate desk shall be allowed to participate in the distribution payments or receive any portion of the

Disgorgement Fund; all other former or current employees of Edward Jones who are eligible for a distribution payment (and whose names have been provided to the Commission staff), however, may be paid from the Disgorgement Fund. In the event of one or more objections by the Commission's staff to Edward Jones' proposed Calculations and/or any of its information or supporting documentation, Edward Jones shall submit a revised Calculation for the review and approval of the Commission staff and/or additional information or supporting documentation within twenty days (or such other time as agreed to by the Commission staff) of the date that Edward Jones is notified of the objection, which revised Calculation shall be subject to all of the provisions of this Subsection C.

4. Edward Jones shall complete the transmission of all amounts otherwise payable to its customers pursuant to a Calculation approved by the Commission's staff within 120 days of the entry of this Order, unless such time period is extended as provided in paragraph nine (9) of this Subsection C.

5. If Edward Jones cannot distribute or return any portion of the Disgorgement Fund for any reason, including an inability to locate a customer or any factors beyond Edward Jones' control, Edward Jones shall transfer any such undistributed funds to the Commission for transmittal to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3) after the final accounting, provided for in this Subsection C, is approved by the Commission. Any such payment shall be made in one of the following ways:

(a) Edward Jones may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(b) Edward Jones may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(c) Edward Jones may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Edward Jones as a Respondent in these proceedings and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110-1424.

6. Edward Jones shall be responsible for any and all tax compliance responsibilities associated with the Disgorgement Fund and may retain any professional services

necessary or appropriate. The costs and expenses of any such professional services shall be borne by Edward Jones and shall not be paid out of the Disgorgement Fund.

7. Within 180 days after the date of entry of this Order, Edward Jones shall submit to the Commission's staff for its approval a final accounting, on a form provided by the Commission staff, and certification of the deposition of the Disgorgement Fund, which final accounting and certification shall be in a format to be provided by the Commission's staff. The final accounting and certification shall include, but not be limited to: (i) the amount paid to each payee; (ii) the date of each payment; (iii) the check number or other identifier of money transferred; (iv) the date and amount of any returned payment; (v) a description of any effort to locate a prospective payee whose payment was returned or to whom payment was not made for any reason; (vi) any amounts to be forwarded to the Commission for transfer to the United States Treasury; and (vii) an affirmation that the amounts paid to customers, plus any amounts that Edward Jones claims to have been refunded to customers before the date of this Order, represent a fair and reasonable calculation of the amounts above the initial offering prices that Edward Jones charged in the Relevant Issuances. Edward Jones shall submit proof and supporting documentation of such payment (whether in the form of cancelled checks or otherwise) in a form acceptable to the Commission's staff and under a cover letter that identifies Edward Jones as a Respondent in these proceedings and the file number of these proceedings to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110-1424. Edward Jones shall provide any and all supporting documentation for the accounting and certification to the Commission's staff upon its request and shall cooperate with any additional requests by the Commission's staff in connection with the accounting and certification.

8. After Edward Jones has submitted the final accounting to the Commission's staff, the staff shall submit the final accounting to the Commission for approval and shall request Commission approval to send any remaining amount to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3).

9. The Commission's staff may extend any of the procedural dates set forth in this Subsection C for good cause shown. Deadlines for dates relating to the Disgorgement Fund shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

D. Edward Jones shall, within ten days of the entry of this Order, pay a civil money penalty in the amount of $15,000,000 to the Securities and Exchange Commission, of which $1,500,000 shall be transferred to the Municipal Securities Rulemaking Board in accordance with Section 15B(c)(9)(A) of the Exchange Act, and of which the remaining $13,500,000 shall be transferred to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Such payment shall be made in one of the following ways:

1. Edward Jones may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

2. Edward Jones may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

3. Edward Jones may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Edward Jones as a Respondent in these proceedings and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110-1424.

E. Edward Jones shall preserve, for a period of not less than six (6) years, all records of its compliance with the terms of this Order that relate to Edward Jones' administration of the Disgorgement Fund.

By the Commission.

Brent J. Fields
Secretary

Attachment: Appendix of Relevant Issuances

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
3/24/2009	Holly Area School District	MI	2009 Refunding Bonds (General Obligation - Unlimited Tax)	435866NQ7	2022	$240,000
4/16/2009	City of Omaha, Nebraska	NE	General Obligation Refunding Bonds, Series of 2009	681712VP7	2024	$900,000
4/28/2009	New Jersey Turnpike Authority	NJ	Turnpike Revenue Bonds, Series 2009F (Federally Taxable - Issuer Subsidy - Build America Bonds)	646139W35	2040	$500,000
5/4/2009	Milan Area Schools	MI	2009 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	598801HS0	2024	$500,000
5/4/2009	Milan Area Schools	MI	2009 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	598801HX9	2029	$500,000
5/4/2009	Milan Area Schools	MI	2009 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	598801JC3	2034	$1,075,000
5/7/2009	Otoe County School District 0111 (Nebraska City Public Schools)	NE	General Obligation Bonds, Series 2009	68905FDC0	2021	$100,000
5/7/2009	Otoe County School District 0111 (Nebraska City Public Schools)	NE	General Obligation Bonds, Series 2009	68905FDD8	2022	$70,000
5/7/2009	Otoe County School District 0111 (Nebraska City Public Schools)	NE	General Obligation Bonds, Series 2009	68905FDE6	2023	$100,000
5/28/2009	Van Buren Public Schools	MI	2009 School Building and Site Bonds (Unlimited Tax - General Obligation) (Federally Taxable - Build America Bonds - Direct Payment)	920729HD5	2029	$100,000
5/28/2009	Van Buren Public Schools	MI	2009 School Building and Site Bonds (Unlimited Tax - General Obligation) (Federally Taxable - Build America Bonds - Direct Payment)	920729HE3	2039	$200,000
5/28/2009	Hall County School District 0083 (Wood River Rural Schools)	NE	General Obligation Refunding Bonds, Series 2009	40604FBJ0	2022	$700,000
6/1/2009	Board of Education of the City of Peoria, School District Number 150	IL	Taxable General Obligation School Bonds, Series 2009B	713040FT5	2024	$1,000,000
6/1/2009	Board of Education of the City of Peoria, School District Number 150	IL	Taxable General Obligation School Bonds, Series 2009B	713040FV0	2026	$180,000
6/1/2009	State of Texas	TX	College Student Loan Bonds, Series 2009	882722FQ9	2030	$500,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
6/24/2009	Fremont Public Schools	MI	2009 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	357334JH5	2029	$215,000
6/24/2009	Fremont Public Schools	MI	2009 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	357334JT9	2039	$100,000
6/24/2009	Nebraska Public Power District	NE	2009 Series A Bonds (Taxable Build America Bonds)	63968AQG3	2026	$10,000,000
6/24/2009	Nebraska Public Power District	NE	2009 Series A Bonds (Taxable Build America Bonds)	63968AQH1	2035	$925,000
6/25/2009	The County of Lincoln, Nebraska	NE	General Obligation Bonds, Series 2009	533279BT1	2029	$40,000
6/29/2009	Kansas Development Finance Authority	KS	Revenue Bonds Series 2009G (Kansas Board of Regents - Pittsburg State University Student Health Center Project)	48542KYU7	2018	$45,000
6/29/2009	Kansas Development Finance Authority	KS	Revenue Bonds Series 2009G (Kansas Board of Regents - Pittsburg State University Student Health Center Project)	48542KYX1	2021	$55,000
6/29/2009	Kansas Development Finance Authority	KS	Revenue Bonds Series 2009G (Kansas Board of Regents - Pittsburg State University Student Health Center Project)	48542KYY9	2022	$65,000
7/15/2009	City of Gering Leasing Corporation	NE	Lease Rental Revenue Refunding Bonds, Series 2009 (City Facilities Project)	373800BL4	2023	$55,000
7/15/2009	City of Gering Leasing Corporation	NE	Lease Rental Revenue Refunding Bonds, Series 2009 (City Facilities Project)	373800BM2	2024	$1,000,000
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MH1	2022	$195,000
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MJ7	2023	$625,000
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MK4	2024	$225,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MM0	2026	$410,000
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MN8	2027	$605,000
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MP3	2028	$440,000
8/4/2009	The Board of Regents for the Oklahoma Agricultural and Mechanical Colleges, Oklahoma State University	OK	General Revenue Bonds, Series 2009A	678504MQ1	2029	$1,130,000
8/6/2009	Illinois Municipal Electric Agency	IL	Power Supply System Revenue Bonds, Taxable Series 2009C (Build America Bonds - Direct Payment)	452024GU0	2023	$2,500,000
8/6/2009	Illinois Municipal Electric Agency	IL	Power Supply System Revenue Bonds, Taxable Series 2009C (Build America Bonds - Direct Payment)	452024GT3	2035	$2,650,000
8/20/2009	Missouri Joint Municipal Electric Utility Commission	MO	Power Project Revenue Bonds (Plum Point Project), Series 2009B (Federally Taxable)	606092EG5	2037	$4,860,000
8/20/2009	Missouri Joint Municipal Electric Utility Commission	MO	Power Project Revenue Bonds (Plum Point Project), Series 2009A (Federally Taxable - Build America Bonds - Direct Pay)	606092EF7	2039	$25,000,000
9/1/2009	Winona Independent School District	TX	Unlimited Tax School Building Bonds, Series 2009	975332EV5	2039	$1,000,000
9/22/2009	Croswell-Lexington Community Schools	MI	2009 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	227705GM6	2029	$445,000
9/30/2009	Missouri Highways and Transportation Commission	MO	Taxable Federal Reimbursement State Road Bonds (Build America Bonds) Series B 2009	60636WNT8	2026	$850,000
9/30/2009	Missouri Highways and Transportation Commission	MO	Taxable Federal Reimbursement State Road Bonds (Build America Bonds) Series B 2009	60636WNU5	2033	$200,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
10/26/2009	Lincoln County School District 0001 (North Platte Public Schools)	NE	General Obligation School Refunding Bonds, Series 2009	533288FS0	2020	$470,000
12/15/2009	Amarillo Economic Development Corporation	TX	Taxable Sales Tax Revenue Bonds, Series 2009	023026CD7	2019	$665,000
12/15/2009	Amarillo Economic Development Corporation	TX	Taxable Sales Tax Revenue Bonds, Series 2009	023026CE5	2030	$3,000,000
12/23/2009	Public Utility District No. 1 of Klickitat County, Washington	WA	Electric System Revenue Bonds, Series 2009B (Taxable Build America Bonds - Direct Payment)	498622GQ6	2031	$100,000
12/29/2009	Public Building Commission of Peoria	IL	Taxable School District Facilities Revenue Bonds, Series 2009C (Board of Education of the City of Peoria, School District Number 150 Project) (Lincoln Middle and Peoria High Schools Project) (Build America Bonds - Direct Payment to Issuer)	71323MDE9	2026	$500,000
12/30/2009	School District of the City of Detroit	MI	School Building and Site Bonds (Unlimited Tax General Obligation), Series 2009B, Build America Bonds (Taxable - Direct Payment Bonds)	2511295A6	2017	$200,000
12/30/2009	School District of the City of Detroit	MI	School Building and Site Bonds (Unlimited Tax General Obligation), Series 2009B, Build America Bonds (Taxable - Direct Payment Bonds)	2511295B4	2018	$750,000
12/30/2009	School District of the City of Detroit	MI	School Building and Site Bonds (Unlimited Tax General Obligation), Series 2009B, Build America Bonds (Taxable - Direct Payment Bonds)	2511295C2	2019	$1,000,000
12/30/2009	School District of the City of Detroit	MI	School Building and Site Bonds (Unlimited Tax General Obligation), Series 2009B, Build America Bonds (Taxable - Direct Payment Bonds)	2511295D0	2039	$40,000,000
1/27/2010	Hamilton Community Schools	MI	2010 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	407594FD7	2016	$325,000
1/27/2010	Hamilton Community Schools	MI	2010 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	407594FJ4	2021	$300,000
1/27/2010	Hamilton Community Schools	MI	2010 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	407594FK1	2022	$400,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
1/27/2010	Hamilton Community Schools	MI	2010 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	407594FL9	2023	$600,000
1/27/2010	Hamilton Community Schools	MI	2010 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	407594FP0	2026	$615,000
1/27/2010	Hamilton Community Schools	MI	2010 School Building and Site Bonds (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	407594FT2	2030	$1,400,000
2/18/2010	Holly Area School District	MI	2010 Refunding Bonds (General Obligation - Unlimited Tax)	435866PB8	2018	$100,000
2/18/2010	Holly Area School District	MI	2010 Refunding Bonds (General Obligation - Unlimited Tax)	435866PH5	2024	$100,000
2/18/2010	Holly Area School District	MI	2010 Refunding Bonds (General Obligation - Unlimited Tax)	435866PJ1	2025	$175,000
2/18/2010	Holly Area School District	MI	2010 Refunding Bonds (General Obligation - Unlimited Tax)	435866PF9	2022	$20,000
2/18/2010	Holly Area School District	MI	2010 Refunding Bonds (General Obligation - Unlimited Tax)	435866PG7	2023	$100,000
4/1/2010	City of Mason Building Authority	MI	2010 Building Authority Bonds (General Obligation - Limited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	575238AV2	2030	$180,000
4/1/2010	City of Mason Building Authority	MI	2010 Building Authority Bonds (General Obligation - Limited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	575238AW0	2040	$250,000
4/8/2010	City of Portsmouth, Virginia	VA	General Obligation Public Improvement Bonds, Series 2010B (Taxable - Direct Pay Build America Bonds)	73723RHZ9	2021	$500,000
4/8/2010	City of Portsmouth, Virginia	VA	General Obligation Public Improvement Bonds, Series 2010B (Taxable - Direct Pay Build America Bonds)	73723RJD6	2025	$2,000,000
4/8/2010	City of Portsmouth, Virginia	VA	General Obligation Public Improvement Bonds, Series 2010B (Taxable - Direct Pay Build America Bonds)	73723RJE4	2030	$325,000
4/8/2010	City of Portsmouth, Virginia	VA	General Obligation Public Improvement Bonds, Series 2010B (Taxable - Direct Pay Build America Bonds)	73723RJF1	2040	$415,000
4/8/2010	City of Portsmouth, Virginia	VA	General Obligation Notes, Series 2010C (Tax-Exempt)	73723RJM6	2014	$1,000,000
4/26/2010	State of Illinois	IL	General Obligation Bonds, Taxable Build America Bonds, Series 2010-3	452152FG1	2016	$595,000
4/26/2010	State of Illinois	IL	General Obligation Bonds, Taxable Build America Bonds, Series 2010-3	452152FK2	2019	$1,325,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
4/26/2010	State of Illinois	IL	General Obligation Bonds, Taxable Build America Bonds, Series 2010-3	452152FA4	2035	$970,000
5/6/2010	Chippewa Valley Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	170016WT2	2020	$1,000,000
5/6/2010	Chippewa Valley Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	170016XD6	2030	$2,500,000
5/6/2010	Chippewa Valley Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	170016XJ3	2035	$3,000,000
5/13/2010	Belding Area Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	077527JR1	2024	$120,000
5/13/2010	Belding Area Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	077527JM2	2030	$500,000
5/13/2010	Belding Area Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	077527JN0	2035	$500,000
5/13/2010	Belding Area Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	077527JP5	2040	$500,000
5/19/2010	City of Howell	MI	Sewage Disposal System Revenue Bonds, Series 2010 (Federally Taxable - Recovery Zone Economic Development Bonds)	443132CA1	2025	$375,000
5/19/2010	City of Howell	MI	Sewage Disposal System Revenue Bonds, Series 2010 (Federally Taxable - Recovery Zone Economic Development Bonds)	443096HE5	2029	$260,000
5/25/2010	Jackson Public Schools	MI	2010 School Building and Site Bonds, Series B (Unlimited Tax General Obligation) (Taxable - Qualified School Construction Bonds - Direct Payment)	468312ER0	2019	$280,000
5/27/2010	City of Omaha Public Facilities Corporation	NE	Lease Revenue Bonds (Omaha Baseball Stadium Project), Series 2010	681785ET4	2029	$1,650,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
5/27/2010	City of Omaha Public Facilities Corporation	NE	Lease Revenue Bonds (Omaha Baseball Stadium Project), Series 2010	681785EU1	2036	$1,650,000
6/23/2010	Kenowa Hills Public Schools	MI	2010 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	489890KB8	2026	$4,000,000
6/24/2010	Warren Consolidated Schools District	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	935341YB7	2027	$2,000,000
6/30/2010	Marshall Public Schools	MI	2010 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	572461MC2	2027	$2,000,000
8/4/2010	St. Johns Public Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	790450FB1	2021	$320,000
8/4/2010	St. Johns Public Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	790450FR6	2035	$365,000
8/4/2010	St. Johns Public Schools	MI	2010 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax) (Federally Taxable - Build America Bonds - Direct Payment)	790450FW5	2040	$415,000
8/11/2010	Oklahoma Municipal Power Authority	OK	Power Supply System Revenue Bonds, Series 2010B (Federally Taxable Build America Bonds - Direct Pay)	67910HMS6	2040	$435,000
8/12/2010	North Central Michigan College	MI	College Building and Site and Refunding Bonds, Series 2010	658499BG2	2023	$280,000
8/12/2010	North Central Michigan College	MI	College Building and Site and Refunding Bonds, Series 2010	658499BK3	2026	$5,250,000
8/12/2010	North Central Michigan College	MI	College Building and Site and Refunding Bonds, Series 2010	658499BN7	2029	$2,985,000
8/12/2010	North Central Michigan College	MI	College Building and Site and Refunding Bonds, Series 2010	658499BP2	2030	$1,000,000
9/14/2010	Polk County, Florida	FL	Utility System Revenue Bonds, Series 2010 (Federally Taxable - Build America Bonds - Direct Subsidy)	731167EA6	2040	$5,000,000
9/15/2010	Carthage Independent School District	TX	Unlimited Tax School Building Bonds, Series 2010A	146735DF9	2013	$250,000
10/28/2010	School District of the City of Detroit	MI	School Building and Site Bonds (Unlimited Tax General Obligation), Series 2010B, Build America Bonds (Taxable - Direct Payment Bonds)	251130ED8	2040	$3,880,000
12/1/2010	Katy Independent School District	TX	Unlimited Tax School Building Bonds, Taxable Series 2010-D (Build America Bonds - Direct Payment to Issuer)	486063MH0	2041	$300,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
12/2/2010	Maine Municipal Bond Bank	ME	Grant Anticipation Bonds (Maine Department of Transportation), Series 2010B Taxable Build America Bonds	56045RAJ8	2019	$640,000
12/2/2010	Maine Municipal Bond Bank	ME	Grant Anticipation Bonds (Maine Department of Transportation), Series 2010B Taxable Build America Bonds	56045RAM1	2022	$5,000,000
12/10/2010	Missouri Joint Municipal Electric Utility Commission	MO	Power Project Revenue Bonds (Prairie State Project), Series 2010A (Federally Taxable Build America Bonds - Direct Pay)	606092FD1	2042	$1,850,000
12/16/2010	Charlotte Public Schools	MI	2010 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Recovery Zone Economic Development Bonds - Direct Payment)	160879JN3	2035	$2,300,000
12/16/2010	Charlotte Public Schools	MI	2010 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Recovery Zone Economic Development Bonds - Direct Payment)	160879JT0	2040	$250,000
2/15/2011	City of Alliance, Nebraska	NE	Water Revenue Refunding Bonds, Series 2011	018708ED5	2015	$50,000
2/15/2011	City of Alliance, Nebraska	NE	Water Revenue Refunding Bonds, Series 2011	018708EE3	2016	$55,000
2/15/2011	City of Alliance, Nebraska	NE	Water Revenue Refunding Bonds, Series 2011	018708EF0	2017	$55,000
2/15/2011	City of Alliance, Nebraska	NE	Water Revenue Refunding Bonds, Series 2011	018708EG8	2018	$140,000
2/15/2011	Pearland Independent School District	TX	Unlimited Tax Schoolhouse Bonds, Series 2001B	704879V77	2025	$1,500,000
2/15/2011	Brownsboro Independent School District	TX	Unlimited Tax School Building & Refunding Bonds, Series 2011	116079FK5	2020	$120,000
2/15/2011	Brownsboro Independent School District	TX	Unlimited Tax School Building & Refunding Bonds, Series 2011	116079FW9	2031	$915,000
3/3/2011	Michigan Finance Authority	MI	Local Government Loan Program Revenue Bonds, Series 2011A, School Program Bonds (Federally Taxable)	59447PDJ7	2017	$1,415,000
3/3/2011	Michigan Finance Authority	MI	Local Government Loan Program Revenue Bonds, Series 2011A, School Program Bonds (Federally Taxable)	59447PDP3	2023	$50,000
3/3/2011	Michigan Finance Authority	MI	Local Government Loan Program Revenue Bonds, Series 2011A, School Program Bonds (Federally Taxable)	59447PDQ1	2025	$1,215,000
3/10/2011	State of Illinois	IL	General Obligation Bonds, Taxable Series of February 2011	452152HU8	2019	$1,000,000
4/7/2011	State of Oregon Housing and Community Services Department	OR	Housing Revenue Bonds (Single-Family Mortgage Program), 2011 Series A Bonds (Non-AMT)	68608NCC4	2021	$1,000,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
4/7/2011	State of Oregon Housing and Community Services Department	OR	Housing Revenue Bonds (Single-Family Mortgage Program), 2011 Series A Bonds (Non-AMT)	68608NCD2	2021	$215,000
4/28/2011	Pennsylvania Turnpike Commission	PA	Turnpike Subordinate Revenue Bonds, Series A of 2011	709223F55	2041	$190,000
5/11/2011	Goodrich Area Schools	MI	2011 School Building and Site Bonds (General Obligation - Unlimited Tax)	382406MZ6	2021	$280,000
5/11/2011	Goodrich Area Schools	MI	2011 School Building and Site Bonds (General Obligation - Unlimited Tax)	382406ND4	2025	$250,000
5/11/2011	Goodrich Area Schools	MI	2011 School Building and Site Bonds (General Obligation - Unlimited Tax)	382406NG7	2028	$250,000
5/11/2011	Goodrich Area Schools	MI	2011 School Building and Site Bonds (General Obligation - Unlimited Tax)	382406NV4	2041	$500,000
5/17/2011	Montrose Community Schools	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	615182AW2	2021	$500,000
5/17/2011	Montrose Community Schools	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	615182AX0	2024	$500,000
5/17/2011	Montrose Community Schools	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	615182AY8	2026	$500,000
5/18/2011	Homer Community School District	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	437506CC0	2020	$500,000
5/18/2011	Homer Community School District	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	437506CD8	2021	$7,000,000
5/18/2011	Homer Community School District	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	437506CE6	2022	$200,000
5/18/2011	Homer Community School District	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	437506CG1	2024	$225,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
5/18/2011	Homer Community School District	MI	2011 School Building and Site Bonds, Series A (General Obligation - Unlimited Tax) (Federally Taxable - Qualified School Construction Bonds - Direct Payment)	437506CJ5	2026	$200,000
5/18/2011	Comstock Park Public Schools	MI	2011 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax)	205759HC0	2030	$750,000
5/18/2011	Comstock Park Public Schools	MI	2011 School Building and Site Bonds, Series B (General Obligation - Unlimited Tax)	205759HF3	2033	$150,000
7/6/2011	City of Utica	MI	2011 Unlimited Tax General Obligation Refunding Bonds	917644DC7	2019	$260,000
7/13/2011	Health and Educational Facilities Authority of the State of Missouri	MO	Educational Facilities Improvement and Refunding Revenue Bonds (Webster University Project), Series 2011	60636ABS1	2023	$245,000
7/13/2011	Health and Educational Facilities Authority of the State of Missouri	MO	Educational Facilities Improvement and Refunding Revenue Bonds (Webster University Project), Series 2011	60636ABW2	2027	$380,000
7/13/2011	Health and Educational Facilities Authority of the State of Missouri	MO	Educational Facilities Improvement and Refunding Revenue Bonds (Webster University Project), Series 2011	60636ACA9	2028	$1,135,000
7/15/2011	Muenster Independent School District	TX	Unlimited Tax School Building Bonds, Series 2011	624777EU8	2030	$280,000
7/15/2011	Muenster Independent School District	TX	Unlimited Tax School Building Bonds, Series 2011	624777EV6	2032	$515,000
7/15/2011	Muenster Independent School District	TX	Unlimited Tax School Building Bonds, Series 2011	624777EY0	2041	$500,000
8/4/2011	Mid-Plains Community College Area Facilities Corporation	NE	Building Bonds (Student Revenue Payment Source), Series 2011B	59541HBJ2	2027	$885,000
8/4/2011	Mid-Plains Community College Area Facilities Corporation	NE	Building Bonds (Student Revenue Payment Source), Series 2011B	59541HBK9	2028	$215,000
8/4/2011	Mid-Plains Community College Area Facilities Corporation	NE	Building Bonds (Student Revenue Payment Source), Series 2011B	59541HBL7	2029	$225,000
9/8/2011	Health and Educational Facilities Authority of the State of Missouri	MO	Health Facilities Revenue Bonds (St.Luke's Episcopal - Presbyterian Hospitals) Series 2011	60637ABJ0	2025	$235,000
11/15/2011	Commonwealth of Kentucky State Property and Buildings Commission	KY	Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series)	49151FAW0	2016	$995,000
11/15/2011	Commonwealth of Kentucky State Property and Buildings Commission	KY	Road Fund Revenue Refunding Bonds, Project No. 73 (Taxable Fourth Series)	49151FBB5	2021	$250,000
1/1/2012	Sharyland Independent School District	TX	Unlimited Tax School Building General Obligation, Series 2012	820123RT6	2041	$500,000
2/1/2012	Pasadena Independent School District	TX	Unlimited Tax School Building Bonds, Series 2012A	7023335W1	2041	$855,000
3/27/2012	State of Illinois	IL	General Obligation Bonds, Series of March 2012	452152LG4	2026	$1,200,000
4/26/2012	Orchard View Schools	MI	2012 Refunding Bonds (General Obligation - Unlimited Tax)	685713CL1	2021	$915,000

In the Matter of Edward D. Jones Co., L.P.

Date	Issuer	State	Issuance	Cusip	Maturity	Notional Amount Offered by Edward Jones
5/1/2012	Pearland Independent School District	TX	Unlimited Tax Refunding Bonds, Series 2012	704879Z99	2029	$890,000
5/8/2012	State of Illinois	IL	General Obligation Refunding Bonds, Series of May 2012	452152MN8	2025	$250,000
6/14/2012	Dormitory Authority of the State of New York	NY	School Districts Revenue Bond Financing Program Revenue Bonds Series, 2012E	649906D92	2039	$5,000,000
9/1/2012	City of Pearland, Texas	TX	Water and Sewer System Revenue and Refunding Bonds, Series 2012	704883MD6	2030	$1,000,000
9/1/2012	City of Pearland, Texas	TX	Water and Sewer System Revenue and Refunding Bonds, Series 2012	704883MH7	2034	$195,000
9/1/2012	City of Pearland, Texas	TX	Water and Sewer System Revenue and Refunding Bonds, Series 2012	704883ML8	2037	$325,000
10/18/2012	Dormitory Authority of the State of New York	NY	State Personal Income Tax Revenue Bonds (General Purpose), Series 2012F (Federally Taxable)	64990EJK4	2022	$425,000
12/1/2012	City of Austin, Texas	TX	Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B	052414NV7	2026	$250,000
12/1/2012	City of Austin, Texas	TX	Electric Utility System Revenue Refunding Bonds, Taxable Series 2012B	052414NR6	2027	$250,000

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9890 / August 13, 2015

SECURITIES EXCHANGE ACT OF 1934
Release No. 75689 / August 13, 2015

INVESTMENT ADVISERS ACT OF 1940
Release No. 4169/ August 13, 2015

INVESTMENT COMPANY ACT OF 1940
Release No. 31751 / August 13, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16752

In the Matter of

STINA R. WISHMAN,

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTIONS 15(b), 15B(c), AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTION 203(f) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTION 9(b) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Sections 15(b), 15B(c), and 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Section 203(f) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against Stina R. Wishman ("Wishman" or "Respondent").

II.

In anticipation of the institution of these proceedings, Wishman has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose

of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over her and the subject matter of these proceedings, which are admitted, Wishman consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b), 15B(c), and 21C of the Securities Exchange Act of 1934, Section 203(f) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds[1] that:

Summary

1. This matter concerns improper practices involving municipal securities by Wishman during her tenure as head of the municipal syndicate desk at Edward D. Jones & Co., L.P. ("Edward Jones"), a retail-oriented broker-dealer based in St. Louis, Missouri. Wishman failed to make bona fide public offerings to Edward Jones' customers at initial offering prices in certain instances when the firm acted as an underwriting co-managing syndicate member for new issue negotiated municipal securities.

2. From at least February 2009 to December 2012 (the "Relevant Period"), and in violation of her fundamental obligations as a member of the underwriting syndicate, Wishman obtained new issue municipal bonds for Edward Jones' own inventory in several negotiated offerings where the firm served as a co-manager, and then, in certain instances, offered those bonds to the firm's customers for prices higher than the initial offering prices negotiated with the issuer before the bonds began trading. In some of these instances during the Relevant Period, Wishman refrained entirely from offering new issue municipal bonds to Edward Jones' customers at any price until after the bonds began trading, at which point she offered and sold the bonds to the firm's customers at prices above the initial offering prices.

3. The sale of municipal bonds to Edward Jones' customers at prices higher than the initial offering prices increased the firm's revenues from municipal underwriting. During the Relevant Period, the firm collected at least $4.647 million in revenue with these practices through the offer and sale of about 156 different bonds in 75 negotiated offerings in which Edward Jones served as a co-manager. This amount was in addition to the fees Edward Jones earned as a member of the syndicate for certain of those offerings. Wishman's misconduct harmed Edward Jones' customers by causing them to pay prices higher than the initial offering prices for municipal bonds. In addition, in one instance, Wishman's misconduct resulted in an adverse federal tax determination for one municipal issuer, creating a risk that the issuer could lose valuable federal tax subsidies.

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[1] The findings herein are made pursuant to Wishman's Offer. These findings are not binding on any other person or entity in this or any other proceeding.

4. As a result of the conduct described herein, Wishman willfully violated Sections 17(a)(3) of the Securities Act, Rules G-17, G-11(b) and (d), and G-30(a) of the Municipal Securities Rulemaking Board ("MSRB"), and was a cause of Edward Jones' violations of Section 17(a)(2) of the Securities Act and Section 15B(c)(1) of the Exchange Act.[2]

Respondent

5. **Stina R. Wishman**, age 50, resides in Warren County, Missouri. After joining Edward Jones in 1982, Wishman started and headed the firm's municipal syndicate desk. She served in that role from 1993 until June 2013. Wishman retired from the firm in July 2014. During the relevant period, she held Series 7, 53, and 63 licenses.

Related Entity

6. **Edward D. Jones & Co., L.P.**, a Missouri limited partnership, is a retail-oriented broker-dealer based in St. Louis, Missouri, with nearly 7 million retail customers and over 12,000 registered representatives, known as financial advisors ("FAs"). Edward Jones is the principal operating subsidiary of the Jones Financial Companies, L.L.L.P., a Missouri limited partnership whose interests are registered under Section 12(g) of the Exchange Act. Edward Jones is registered with the Commission as a broker-dealer and an investment adviser, and is a municipal securities dealer under Section 3(a)(30) of the Exchange Act.

Background on Negotiated Offerings of Municipal Bonds

7. Municipalities often raise money by issuing to the public new bonds that are sold through an underwriting process. In what is known in the industry as a "negotiated" offering, the municipal issuer will choose an underwriter to act either as the sole underwriter or as the senior manager of the underwriting syndicate. A syndicate is a group of broker-dealers that join together to purchase new issue municipal securities from the issuer for the purpose of distributing those securities and consists of a senior manager, who leads the offering, and co-managing underwriters, or "co-managers." This matter involves the role of Wishman and Edward Jones as a co-manager in syndicates that underwrote and sold municipal bonds to the public through negotiated offerings.

8. The municipal issuer usually compensates the syndicate for its services in distributing the bonds by selling the bonds to the syndicate at a discount to the "initial offering price," the price at which the bonds are offered to the investing public by the syndicate at the time of original issuance. The difference between the initial offering price and the discounted price for the syndicate is the "underwriters' discount" or "underwriters' spread."

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[2] A willful violation of the securities laws means merely "'that the person charged with the duty knows what he is doing.'" Wonsover v. SEC, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting Hughes v. SEC, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "'also be aware that he is violating one of the Rules or Acts.'" Id. (quoting Gearhart & Otis, Inc. v. SEC, 348 F.2d 798, 803 (D.C. Cir. 1965)).

Formation of the Underwriting Syndicate and
Obligation to Offer Bonds At Initial Offering Prices

9. Syndicates typically have an agreement in place which sets forth the contractual relationship between the senior manager and the co-managers, known as an Agreement Among Underwriters ("AAU"). AAUs memorialize the standard terms of an underwriting for all subsequent transactions in which the parties to the AAU may participate. Template AAUs that are specifically tailored for negotiated municipal offerings are published by industry associations and are used commonly by active municipal underwriters.

10. During the Relevant Period, underwriters that used the template AAUs for negotiated municipal offerings were obliged, under those agreements, to make a public offering of all bonds at the initial offering price in effect at the time they were allocated bonds by the issuer and senior manager. Market participants have long understood the AAU to place an obligation on the syndicate members, as parties to the agreement, to offer and attempt to sell the bonds at the initial offering prices negotiated with the issuer before the bonds begin trading.

11. In addition to the agreed-upon terms of the AAU, municipal underwriters adhere to a well-established industry practice in negotiated offerings that requires them, when part of a syndicate, to offer and attempt to sell all of the bonds at the initial offering prices for a certain period of time. These limitations are known as "syndicate restrictions," and are generally in effect until the expiration of those restrictions. Among other things, syndicate restrictions ensure that the bonds are sold at the price which the issuer and the syndicate have agreed to sell them.

Pricing of Municipal Bonds

12. Once the syndicate is formed, the senior manager solicits the co-managers for their views on the prices for the various bonds to be issued. The senior manager then negotiates with the issuer over the terms of the offering, specifically the maturities, interest rates, and initial offering prices for the bonds. Thereafter, the senior manager notifies the co-managers of the preliminary pricing for the bonds and the terms of the order period(s) to be held for the bonds.

13. Generally, the syndicate is the only source of pricing and other information about the bonds to be issued before and during the order period(s). Retail investors, in particular, must rely on communications from their broker-dealer, acting in the capacity of underwriter, to learn about pricing and other offering details before the bonds begin trading. Ultimately, the initial offering prices are printed on the cover page of the final disclosure document, known as the Official Statement ("OS"), which typically is released days after the bonds begin trading.

Order Periods and the Determination of Order Priorities for Municipal Bonds

14. The "order period" in negotiated offerings is a period of time, often not longer than a few hours, during which the senior manager solicits preliminary orders known as indications of interest[3] from the syndicate members for municipal bonds on behalf of their

[3] Indications of interest are non-binding pre-sale orders for a forthcoming issue of new municipal bonds. Although contractually such orders cannot be deemed to be executed until a bond purchase agreement is entered into by the

customers. There are two types of order periods: an initial, generally longer order period for retail customers, and a subsequent, generally shorter order period for institutional investors. Although institutions are typically precluded from participating in retail order periods, syndicate members may submit orders on behalf of retail customers during either order period.

15. Often, orders for municipal bonds exceed the amount of bonds available. Although the senior manager ultimately decides which orders will, and will not, be filled, its decision-making process is governed by written "priority provisions" which, under MSRB Rule G-11, must be established and circulated to the entire syndicate by the senior manager before the first offer of any bonds. Priority provisions, also known as the "priority of orders," establish the sequence in which bonds will be allocated to specific order types.

16. One type of order, called a "group net" order,[4] typically has a higher priority and, thus, increases the likelihood that those co-managers who place them will have their order filled over competing orders. Bonds acquired in a group net order are acquired at the initial offering price. MSRB Rule G-11 requires that any syndicate member submitting an order identify whether that order is for its own dealer account, and if a "group net" order, the identity of the person for whom the order is submitted. Importantly, effective October 2010 and with some exclusions not relevant here, MSRB Rule G-11 explicitly requires that underwriters give priority to customer orders over orders for their own dealer accounts.

17. Before the AAU is executed, syndicate members typically engage in initial efforts to inform their sales force and customers of the upcoming bond offering. Once the senior manager provides preliminary pricing information, syndicate members can solicit orders from their customers and provide feedback to the senior manager, which may adjust the pricing after talks with the issuer. After the order period(s) closes, the senior manager evaluates the submitted orders, allocates bonds according to the priority provisions, and communicates the exact final prices and coupons for each maturity to the rest of the syndicate through a final pricing wire.

Bond Purchase Agreements, Underwriters' Certificates, and the Lifting of Syndicate Restrictions

18. The allocation and the pricing of the municipal bonds to be issued are conditioned upon the execution of the bond purchase agreement (the "BPA") between the issuer and the senior manager on behalf of the syndicate, which sets forth the respective responsibilities of the parties in connection with this sale, including the final negotiated price at which each bond initially will be sold to investors, known alternately as the "public offering price" or the "initial offering price." Many BPAs include an explicit agreement by the syndicate to offer all of the bonds to be issued at the final offering price negotiated with the issuer.

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issuer and the underwriters, in reality the prospective purchases are not tentative – indications of interest are often eventually filled by the underwriters without any subsequent consultation with the purchasers.

[4] A "group net" order is an order made on behalf of the syndicate account, which benefits all syndicate members according to their percentage participations in the account. If allocated, a group net order is allocated at the public offering price without deducting the concession or takedown.

19. The price at which new issue bonds are sold is important for ensuring compliance with the applicable laws governing the issuance of tax-exempt and other municipal securities. To that end, the senior manager, on behalf of the entire syndicate, typically provides a certificate on the settlement date which is relied upon by bond counsel and the issuer for tax compliance purposes. This certificate is known in the industry as the "underwriters' certificate" or the "issue price certificate."

20. Among other things, many underwriters' certificates include representations that the syndicate made a bona fide public offering of all of the bonds at the initial offering prices set forth in the OS, that the syndicate reasonably expected that all of the bonds would be initially sold to the public at the initial offering prices set forth in the OS at the time the bonds were purchased by the syndicate, and that at least ten percent of each maturity of the bonds was first sold to the public (subject to certain exclusions) at the initial offering prices set forth in the OS.

21. The senior manager promptly informs the syndicate once the BPA is executed, while syndicate restrictions are still in effect, so that the syndicate members can then execute the previously placed orders with their customers at the initial offering price. Afterward, the senior manager often, but not always, sends a communication to the rest of the syndicate called the "free-to-trade wire," which lifts the various syndicate restrictions and allows syndicate members to trade the bonds at prices other than the initial offering prices.

The Creation of Edward Jones' Municipal Syndicate Desk

22. Wishman created Edward Jones' municipal syndicate desk in 1993 so that the firm could have the opportunity to obtain better access to new issue bonds for its retail customers. Issuers often included the firm in syndicates because of the firm's well-known, geographically-dispersed retail customer base.

23. Wishman supervised the municipal syndicate desk from its creation until 2013 and was primarily responsible for overseeing Edward Jones' underwriting of new issue municipal bonds. She had responsibilities related to the syndicate desk's compliance with applicable securities laws and regulations, including MSRB rules. As part of those responsibilities, she assisted in conducting an annual review of certain written supervisory procedures that applied to the municipal syndicate desk, checking for conformity with such applicable securities laws, regulations, and MSRB rules.

24. Over the years, Wishman became familiar with, and had extensive experience with, AAUs, BPAs, and underwriters' certificates, and signed the majority of Edward Jones' AAUs. She understood that the phrase "bona fide public offering" meant that Edward Jones was required to make the bonds available at the public offering price during the order period and that no changes could be made to that price until the syndicate restrictions were lifted.

Wishman and Edward Jones Improperly Offered and Sold Certain New Issue Municipal Bonds at Prices Higher than the Initial Offering Prices

25. Despite Wishman's experience with and knowledge of the applicable standards, from at least the beginning of the Relevant Period, she and Edward Jones' municipal syndicate desk offered and sold certain new issue municipal bonds to Edward Jones' customers at prices above the initial offering prices (the "Relevant Issuances"). Between 2009 and 2012, Edward Jones collected at least $4.647 million in additional revenue through the sale of 156 different maturities in 75 different negotiated offerings at prices higher than the initial offering price.

26. In certain co-managed, negotiated transactions during the Relevant Period as further detailed below, Wishman improperly offered out particular bonds to customers from Edward Jones' inventory at prices above the initial offering prices while syndicate restrictions remained in effect. In these instances, Wishman typically placed orders with the lead underwriter for specific maturities for the firm's own inventory during the order period, but did not give the firm's customers an opportunity to similarly participate. Once Wishman obtained an allocation of those bonds and took them into inventory, and while syndicate restrictions remained in effect, she offered the securities to Edward Jones' customers from the firm's inventory at prices above the initial offering prices in these transactions. There is a substantial likelihood that these customers would have considered the pricing of these bonds by Wishman and Edward Jones to be significant.

27. For example, in November 2009, Edward Jones acted as a co-managing underwriter of a $38.83 million issuance of Taxable Sales Tax Revenue Bonds, Series 2009 (the "Amarillo Bonds") by the Amarillo Economic Development Corporation. Wishman did not inform the firm's FAs about this offering until after the order period for these bonds closed, effectively foreclosing the firm's customers from having the opportunity to place orders at the initial offering price. Nevertheless, Wishman placed an order for the firm's own inventory and obtained an allocation of $3.665 million, representing approximately 10% of the two term bonds maturing in 2019 and 2030. After the close of the order period but before the Amarillo Bonds began trading, Wishman offered the bonds out to the firm's customers at prices above the initial offering prices for those maturities.

28. In contrast to Edward Jones, the other underwriters for this deal sold their entire allocations of the 2019 and 2030 maturities at the initial offering price. Edward Jones made over $79,000 from improperly selling as principal (that is, for its own account) the 2019 and 2030 maturities of Amarillo Bonds at prices above the initial offering prices, in addition to its share of the underwriters' discount for the transaction.

29. Normally syndicate members submit orders for their own account as "member" or "stock" orders, which have lower priority. To obtain bonds for the firm's inventory when acting as a co-manager on certain of the Relevant Issuances, Wishman sometimes placed "group net" orders with the senior managers without explicitly stating that the orders were for the firm's own dealer account, in violation of MSRB Rule G-11. Pursuant to industry practice and MSRB rules, a group net order can be placed for a dealer's own account, but it would have to be disclosed that the order was for stock, that is, for the dealer's own account. For example, although the software

platform often used by Wishman to submit orders sometimes contained a field that would have allowed her to clarify to the senior manager that the group net orders were for Edward Jones' inventory, in certain instances, Wishman failed to explicitly disclose to the senior manager, at the time of submission, that these group net orders were for the firm's inventory (i.e., the firm's dealer account). This practice of placing "group net" orders not accompanied with a disclosure that they were for the firm's own inventory had the potential to mislead certain senior managers about the true nature of the orders and may have caused them to make allocations of bonds that they otherwise would not have made.

30. In July 2010, for example, although there was a priority for retail orders, Wishman offered St. Johns, Michigan Public Schools 2010 School Building and Site Bonds, Series B (the "St. Johns' Bonds") to Edward Jones' customers at prices above the initial offering price while syndicate restrictions were in effect.

31. Despite being notified by the senior manager that Michigan retail investors had priority in the offering, Wishman and Edward Jones did not offer any of the St. Johns' Bonds to the firm's Michigan customers prior to, or during, the order period for those bonds. Instead, Wishman submitted "group net" orders for the St. Johns' Bonds to the senior manager that did not specify that the orders were for the firm's own account. On the basis of these orders, on July 15, 2010, the senior manager allocated three maturities of the St. Johns' Bonds to Edward Jones.

32. The next day, July 16, 2010, while syndicate restrictions were in effect, Wishman and Edward Jones offered out all three maturities of the St. Johns' Bonds to their customers from the firm's inventory at prices above the initial offering price. Edward Jones then sold, as principal, its entire allocation of St. Johns' Bonds to its customers out of its inventory at prices above the initial offering price. No other member of the underwriting syndicate sold the 2035 and 2040 maturities of the St. Johns' Bonds at any prices other than the initial offering price.

33. In addition to its portion of the underwriters' discount from this transaction, Edward Jones earned over $190,000 from improperly selling St. Johns' Bonds that it had obtained as an allocation in the primary offering for prices above the initial offering prices.

34. In other negotiated offerings for which Edward Jones served as a co-managing underwriter during the Relevant Period, Wishman initially offered out the bonds at the correct initial offering prices to the firm's customers. However, in these instances, Wishman would then increase the prices of the bonds while syndicate restrictions were in effect, and would offer and sell the bonds to the firm's customers above the initial offering prices.

35. During the Relevant Period, Edward Jones offered a total of 90 bonds in 32 negotiated transactions to its customers at prices above the initial offering prices while syndicate restrictions were in effect, either through the initial offer or through a later price increase after an offer at the initial offering price.

Wishman and Edward Jones Improperly Failed to Offer the Firm's Customers Certain New Issue Municipal Bonds at Any Price

36. In certain negotiated municipal offerings for which Edward Jones served as a co-manager during the Relevant Period, Wishman failed to offer the new issue bonds to Edward Jones' customers at all before trading in those bonds began. Nevertheless, in these instances, Wishman obtained an allocation of new issue municipal bonds for Edward Jones' own inventory during the institutional order period and then offered them to the firm's customers at prices higher than the initial offering prices after trading began. Edward Jones thus did not provide its customers the opportunity to place orders to the syndicate account for new issue municipal bonds prior to or during the order period at the initial offering price. This is an opportunity that should have been afforded to Edward Jones' customers because the firm was a member of the underwriting syndicate.

37. During the Relevant Period, while acting as a co-manager, Edward Jones' municipal syndicate desk offered municipal bonds to its customers only after trading in the bonds began in a total of 29 negotiated transactions. In these transactions, the firm failed to offer a total of 45 bonds at any price before trading began. When Edward Jones ultimately did offer these particular bonds to its customers, it did so at prices above the initial offering prices.

38. In an additional 14 negotiated offerings involving 21 different bonds, Edward Jones could not produce any documentation, such as messages from its internal communication system or other communications, which would indicate its municipal syndicate desk took steps to make a bona fide offering of the municipal bonds before trading in the bonds began.

Wishman and Edward Jones Improperly Offered and Sold Build America Bonds in Primary Offerings

39. Wishman and Edward Jones' municipal syndicate desk also engaged in the improper offer and sale practices discussed above in connection with a specific type of taxable municipal bond called a Build America Bond ("BAB").[5] Effective between 2009 and 2010, the BAB program provided a deep federal subsidy to municipal issuers (equal to 35% of the taxable interest) in lieu of the traditional tax-exemption, and was intended to lower issuers' net borrowing costs. In April 2009, Wishman received an IRS Notice with information about BABs.

Nebraska Public Power District BAB Offering

40. In 2009, Edward Jones served as a co-managing underwriter on a $168.245 million negotiated offering of BABs and other general revenue bonds by the Nebraska Public Power District ("NPPD"). The AAU between Edward Jones and the senior manager provided that Edward Jones agreed to offer the securities at the offering price in effect at the time the

[5] The American Recovery and Reinvestment Act of 2009 authorized state and local governments to issue BABs to provide liquidity for municipal financing of capital projects in the midst of the financial crisis. See Pub. L. No. 111-5, 123 Stat. 115 (2009) (enacted Feb. 17, 2009).

bonds were sold to the firm. As discussed below, however, Wishman failed to make a bona fide public offering of the NPPD BABs to the firm's customers at the initial offering prices.

41. On the morning of June 10, 2009, after Edward Jones joined the syndicate, Wishman notified the firm's financial advisors in Nebraska (the "Nebraska FAs") that the retail order period for the non-BABs series of the NPPD bonds ran until 11:00 a.m. Central Time and asked the Nebraska FAs to offer them to their customers. However, Wishman did not inform the Nebraska FAs of the details regarding the order period for the NPPD BABs, which did not have a retail priority, either before or during the order period. As a result, the Nebraska FAs therefore did not offer the BABs to their customers at that time.

42. Instead, on June 10, 2009, Wishman placed two "group net" orders for both maturities of NPPD BABs. However, the firm's "group net" orders did not explicitly state that they were for the firm's own inventory. The senior manager employee responsible for reviewing orders and making allocations of the NPPD bonds, in conjunction with the issuer, testified that he understood from the language of Edward Jones' orders that they were group net orders on behalf of Edward Jones' retail customers.

43. The senior manager filled Edward Jones' entire orders for NPPD BABs on June 10 at par. The senior manager informed Edward Jones that it had been allocated $100,000 of the 2026 maturity and $10 million of the 2035 maturity, and that the initial offering price was 100 (i.e., par).

44. On the afternoon of June 10, after the BABs order period closed but before syndicate restrictions were lifted, Wishman informed Edward Jones' Nebraska FAs of the NPPD BAB allocations and instructed them to offer those bonds out to customers at prices higher than the initial offering prices. Edward Jones offered the 2026 maturity of NPPD BABs at 102 and the 2035 maturity of NPPD BABs at 103, both above the initial offering price.

45. On June 11, 2009, the senior manager sent a final pricing wire to the syndicate that set the initial trading time of NPPD bonds for 2:15 p.m. Eastern Time ("ET") that day. At 2:36 p.m. ET that day, the senior manager sent a free-to-trade wire to the rest of the syndicate regarding the NPPD taxable bonds and BABs which read: "Effective immediately all syndicate terms and price restrictions are removed and the bonds are free to trade."

46. Before syndicate restrictions were lifted, Edward Jones sold $97,000 of its $100,000 allocation of the 2026 NPPD BABs to customers at a price of 102. Similarly, Edward Jones ticketed the sales of $2.294 million of the 2035 NPPD BABs to customers at prices above the initial offering price (generally 103) before syndicate restrictions were lifted. Edward Jones' sales of the 2026 NPPD BABs at a price of 102 decreased the yield to customers from 6.606% to 6.323%. Its sales of the 2035 NPPD BABs at a price of 103 decreased the yield to customers from 7.399% to 6.962%.

47. In the BPA for the NPPD deal, the underwriters agreed to make a bona fide public offering of all of the NPPD bonds at prices not in excess of the initial public offering price. The underwriters' certificate for the NPPD represented that a bona fide public offering of all of the

NPPD bonds had been made at the initial offering price and that at least 10% of each NPPD maturity was sold at the initial public offering price.

48. NPPD's CFO testified that she would not have allocated any of the 2026 or 2035 NPPD BABs to Edward Jones had she known, at the time that she was making the allocations of the bonds, that Edward Jones was taking these bonds into its own inventory in order to sell to its retail customers at prices higher than the initial offering price.

49. Edward Jones' portion of the underwriters' discount from the sale of the NPPD BABs was $18,918.55. By comparison, Edward Jones made $292,524 from improperly selling the 2026 and 2035 NPPD maturities at prices above the initial offering price.

50. To qualify as BABs and thereby maintain the valuable tax subsidy offered by the program, new issue municipal bonds had to satisfy a number of requirements. Most importantly, a bond could not be treated as a BAB if the issue price had more than a de minimis amount of premium[6] over the stated principal amount of the bond.

51. On October 5, 2012, the Internal Revenue Service concluded that a portion of the NPPD 2035 BABs did not qualify as BABs because the issue price of the $10 million principal amount that Edward Jones offered and sold (of the total $32.89 million notional amount for that maturity) had more than a de minimis amount of premium over the stated principal amount of the bond. The IRS determined that those bonds offered and sold at prices higher than 102.25 did not qualify as BABs and were not entitled to the federal subsidy, which the NPPD had valued as worth $260,000 per year, or approximately $6.5 million over the BABs' stated term.

52. In July 2013, the NPPD entered into an agreement with the IRS, pursuant to which it agreed to resolve the dispute by paying $350,000 to the IRS. In return, the NPPD was allowed to continue to claim credits under the BAB program with respect to interest paid on the 2035 BABs, and the IRS agreed not to contest such credits. Edward Jones later entered into an agreement with the NPPD pursuant to which it agreed to reimburse the NPPD the amount paid to the IRS, in addition to other expenses incurred by the NPPD over the tax-related dispute.

Legal Discussion

Wishman Violated Section 17(a)(3) of the Securities Act

53. Section 17(a)(3) of the Securities Act makes it unlawful "in the offer or sale of any securities ... directly or indirectly ... to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser." Negligence is sufficient to establish a violation of Section 17(a)(3); no finding of scienter is required. Aaron v. SEC, 446 U.S. 680, 696-97 (1980).

[6] The "de minimis premium amount" is calculated by multiplying the number of complete years to maturity or redemption date by 0.25% of the stated redemption price at maturity. See 26 U.S.C. § 1273(a)(3). For example, if there are nine complete years before a bond can be called at 100, the de minimis premium amount would be 2.25%.

54. Wishman's practices as a co-managing underwriter of certain of the Relevant Issuances effectively denied Edward Jones' customers the opportunity to place orders to the syndicate account for new issue municipal bonds prior to or during the order periods at the initial offering prices. This opportunity should have been afforded to Edward Jones' customers because the firm was a member of the syndicate. These practices resulted in Edward Jones' customers paying more for the bonds than the issuers or senior managers intended.

55. Wishman's conduct was at least negligent. Her conduct was inconsistent with industry standards for, and written agreements governing, municipal underwriting.

56. As a result of the conduct described above, Wishman willfully violated Section 17(a)(3) of the Securities Act.

Wishman Was a Cause of Edward Jones' Violations of Section 17(a)(2) of the Securities Act

57. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990, Pub. L. No. 101-429, 104 Stat. 931 (1990) created a distinct class of secondary liability, causing liability, and made it subject to the administrative remedy of a cease-and-desist order. Section 8A of the Securities Act and Section 21C of the Exchange Act specify that a respondent is a cause of another's violation if the respondent knew or should have known that his or her act or omission would contribute to such violation. The Commission has determined that causing liability under these statutory provisions requires findings that: (i) a primary violation occurred; (ii) an act or omission by the respondent caused the violation; and (iii) the respondent knew, or should have known, that his or her conduct would contribute to the violation. See Robert M. Fuller, 80 SEC Docket 3539, 3545 (Aug. 25, 2003), pet. denied, 2004 U.S. App. LEXIS 12893 (D.C. Cir. Apr. 23, 2004); Erik W. Chan, 77 SEC Docket 851, 859-60 (Apr. 4, 2002).

58. Section 17(a)(2) of the Securities Act makes it unlawful "in the offer or sale of any securities ... directly or indirectly ... to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading." Negligence is sufficient to establish liability for causing a primary violation that does not require scienter. See Howard v. SEC, 376 F.3d 1136, 1141 (D.C. Cir. 2004).

59. An underwriter "occupies a vital position" in a securities offering because investors rely on its reputation, integrity, independence, and expertise. Municipal Securities Disclosure, Exchange Act Release No. 26100, 1988 WL 999989 at 20 (Sept. 22, 1988). "By participating in an offering, an underwriter makes an implied recommendation about the securities." Id. "An underwriter must investigate and disclose material facts that are known or reasonably ascertainable." Dolphin and Bradbury, Inc. v. SEC, 512 F.3d 634, 641 (D.C. Cir. 2008) (citing Municipal Securities Disclosure, Exchange Act Release No. 26100, 1988 WL 999989 at 20). "Although other broker-dealers may have the same responsibilities in certain contexts, underwriters have a 'heightened obligation' to ensure adequate disclosure." Id.

60. During the Relevant Period, through actions as discussed above, Edward Jones failed to disclose to its customers that it had agreed to make – and was expected to make under

well-established industry practice – a bona fide public offering of all the municipal bonds to be issued at the initial offering price, while acting as a co-managing underwriter in several negotiated offerings. By failing to do so, Edward Jones obtained additional revenues from the sale of new issue municipal bonds to its customers at prices above the initial offering price. These additional revenues were often greater than what the firm had contracted to earn with the municipal issuers through its share of the underwriters' discount.

61. Wishman was at least negligent. Her conduct was inconsistent with industry standards for, and written agreements governing, municipal underwriting.

62. Through the conduct described above, Wishman was a cause of Edward Jones' violations of Section 17(a)(2) of the Securities Act.

Wishman Violated MSRB Rule G-17

63. MSRB Rule G-17 provides in relevant part that, in the conduct of its municipal securities business, every broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice.[7] Negligence is sufficient to establish a violation of MSRB Rule G-17.

64. As part of a dealer's fair-dealing obligation under Rule G-17, the MSRB has repeatedly interpreted the rule to create affirmative disclosure obligations. In particular, all representations made by underwriters to municipal issuers in connection with municipal securities offerings, whether oral or written (such as, for example, those made in underwriters' certificates), must be true, accurate, and must not misrepresent or omit material facts.

65. As part of multiple underwriting syndicates during the Relevant Period, Wishman misrepresented in certain BPAs and underwriters' certificates that Edward Jones would make or had made bona fide offerings of each maturity of the bonds to be issued at the initial offering prices. Municipal issuers relied on the representations of the underwriting syndicate – of which Edward Jones was a part – to establish issue price, to ensure compliance with arbitrage restrictions and other regulations for tax-exempt bonds, and to ensure qualification of the bonds as BABs. These misstatements created a risk that the municipal issuers could lose the tax-exemption for certain issuances or the federal subsidy under the BAB program.

66. Moreover, MSRB guidance interpreting the fair practice principles of MSRB Rule G-17, as they apply to the priority of orders for new issue securities and effective October 12, 2010, required that underwriters give priority of orders to customers over orders from underwriters or their related accounts. An underwriter may violate its fair dealing duties by making commitments to the issuer regarding distribution of the issuer's securities, and then failing to honor them. When acting as a co-managing underwriter in negotiated offerings during the Relevant Period, Wishman failed to honor agreements with issuers to give priority to retail

[7] Subject to certain exceptions, MSRB Rule D-11 includes "associated persons" within the definitions of brokers, dealers, and municipal securities dealers for purposes of all other MSRB rules. See Wheat, First Securities, Inc., 80 SEC Docket 3406, 2003 WL 21990950, at *8 n. 29 (Aug. 20, 2003).

orders by not, in the first instance, informing Edward Jones' retail customers of the offerings before or during the order period.

67. As a result of the conduct described above, Wishman willfully violated MSRB Rule G-17.

Wishman Violated MSRB Rules G-11(b) and (d)

68. MSRB Rule G-11(b) required every syndicate member submitting an order to the senior manager to disclose if the securities were for its dealer account or for a related portfolio, until the rule was expanded in August 2010 to apply to all brokers, dealers, and municipal securities dealers, whether or not syndicate members. Rule G-11(d) requires all group orders to include the identity of the person for whom the order is submitted.

69. While acting as a co-manager for certain of the Relevant Issuances, Wishman placed orders, including group net orders, for municipal bonds that failed to adequately disclose, at the time of submission, that the orders were for the firm's dealer account.

70. As a result of the conduct described above, Wishman willfully violated MSRB Rules G-11(b) and (d).

Wishman Violated MSRB Rule G-30(a)

71. During the Relevant Period, MSRB Rule G-30(a) required dealers to sell municipal bonds from their own account to a customer at an aggregate price (including any markdown or markup) that was fair and reasonable, taking into consideration all relevant factors, including the resulting yield to the customer, which should have been comparable to the yield on other bonds of comparable quality, maturity, coupon rate, and block size then available in the market.

72. During the Relevant Period, Wishman and Edward Jones sold new issue municipal bonds from its inventory to customers at prices that were not fair and reasonable. Because it sold new issue municipal bonds to its customers at prices above the initial offering prices, the prices at which Wishman and Edward Jones sold those securities in the initial days of trading often were above the levels at which other underwriters, and sometimes even other investors, sold the same municipal bonds. Consequently, the yields on these bonds sold to Edward Jones customers often were below the yields of the exact same bonds being sold in the market during the initial days of trading.

73. As a result of the conduct described above, Wishman willfully violated MSRB Rule G-30(a).

Wishman Was a Cause of Edward Jones' Violations of Section 15B(c)(1) of the Exchange Act

74. Section 15B(c)(1) of the Exchange Act prohibits brokers, dealers, and municipal securities dealers from using the mails or any means or instrumentality of interstate commerce to

effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any MSRB rule. Because the conduct described above was at least negligent, Wishman was a cause of Edward Jones' violations of Section 15B(c)(1) of the Exchange Act.

IV.

In view of the foregoing, the Commission deems it appropriate, in the public interest, and for the protection of investors to impose the sanctions agreed to in the Offer by Wishman.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b), 15B(c), and 21C of the Exchange Act, Section 203(f) of the Advisers Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Wishman shall cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act, Section 15B(c)(1) of the Exchange Act, and MSRB Rules G-17, G-11, and G-30.

B. Wishman hereby is:

> barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;
>
> prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and
>
> barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent, or other person who engages in activities with a broker, dealer, or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock;

with the right to apply for reentry after two years to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by Wishman will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Wishman, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the

Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Wishman shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of $15,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Such payment shall be made in one of the following ways:

1. Wishman may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

2. Wishman may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

3. Wishman may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Wishman as a Respondent in these proceedings and the file number of these proceedings. A copy of the cover letter and check or money order must be sent to LeeAnn G. Gaunt, Chief, Municipal Securities and Public Pensions Unit, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110-1424.

By the Commission.

Brent J. Fields
Secretary