

MEMO# 23930

November 5, 2009

SEC Settles Broker-Dealer Pay-to-Play Matter in Jefferson County, Alabama

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TO: MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 52-09
FIXED-INCOME ADVISORY COMMITTEE No. 25-09 RE: SEC SETTLES BROKER-DEALER PAY-TO-PLAY MATTER IN JEFFERSON COUNTY, ALABAMA

The Securities and Exchange Commission has settled a pay-to-play action against a broker-dealer ("Respondent") for its conduct in a 2002-2003 scheme that enabled the Respondent to win business involving \$5 billion in municipal bond offerings and swap agreement transactions with Jefferson County, Alabama ("County"). [\[1\]](#) In the administrative proceedings, the SEC alleged that the Respondent violated Sections 19(a)(2) and 17(a)(3) of the Securities Act of 1933, Section 15B(c)(1) of the Securities Exchange Act of 1934, and Municipal Securities Rulemaking Board Rule G-17. Respondent has agreed to settle the alleged charges without admitting or denying the allegations. In addition, the SEC has filed a complaint against two of the Respondent's former managing directors for their alleged roles in the scheme. [\[2\]](#)

Specifically, the proceedings allege that Respondent paid local firms whose principals or employees were friends of Jefferson County, Alabama public officials more than \$8.2 million to ensure the selection of the Respondent as the underwriter, and its affiliated commercial bank as the swap provider, on County transactions. The paid parties had no official role in the transactions and performed few, if any, services, and the Respondent did not disclose any of the payments or conflicts of interest in the swap confirmation agreements or bond offering documents. The Respondent then incorporated certain of the costs of these payments into higher swap interest rates it charged the County.

Respondent has consented to a censure and to a cease-and-desist order from future

violations of the provisions charged. Respondent also has agreed to pay a penalty of \$25 million, make a payment of \$50 million to Jefferson County (for the purpose of assisting displaced County employees, residents and sewer ratepayers), and forfeit more than \$647 million in claimed termination fees from obligations of the County to make payments under the swap agreements.

Heather L. Traeger
Associate Counsel

endnotes

[1] See J.P. Morgan Settles SEC Charges in Jefferson County, Ala. Illegal Payments Scheme, SEC Press Release 2009-232, November 4, 2009, available at: <http://www.sec.gov/news/press/2009/2009-232.htm>, and SEC Administrative Proceeding File No. 3-13673, In the Matter of J.P. Morgan Securities, Inc., November 4, 2009, available at: <http://www.sec.gov/litigation/admin/2009/33-9078.pdf>.

[2] See SEC v. Charles E. LeCroy and Douglas W. MacFaddin, (U.S. District Court for the Northern District of Alabama, Southern Division, CV-09-U-2238-S), available at: <http://www.sec.gov/litigation/complaints/2009/comp21280.pdf>. In its complaint, the SEC alleges that the former employees knowingly served as the conduits for the payments that secured the County's business for the broker-dealer.