



SEC Charges GE Funding Capital Market Services with Fraud Involving Municipal Bond Proceeds

Firm Agrees to Pay \$70 Million in Settlement with SEC and Others

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Washington, D.C., Dec. 23, 2011 — The Securities and Exchange Commission today charged GE Funding Capital Market Services with securities fraud for participating in a wide-ranging scheme involving the reinvestment of proceeds from the sale of municipal securities.

Additional Materials

➤ [SEC Complaint](#)

GE Funding CMS agreed to settle the SEC's charges by paying approximately \$25 million that will be returned to affected municipalities or conduit borrowers. The firm also entered into agreements with the Department of Justice, Internal Revenue Service, and a coalition of 25 state attorneys general and will pay an additional \$45.35 million.

The settlements arise from extensive law enforcement investigations into widespread corruption in the municipal reinvestment industry. In the past year, federal and state authorities have reached settlements with four other financial firms, and 18 individuals have been indicted or pled guilty, including three former GE Funding CMS traders.

"Our in-depth investigations have uncovered pervasive corrupt practices in the municipal securities reinvestment market, and we are requiring financial firms one by one to step up and pay the price for their misconduct," said Robert Khuzami, Director of the SEC's Division of Enforcement. "More than \$743 million has been recovered from financial institutions in these settlements, much of which has been returned to municipalities that have been harmed."

Elaine C. Greenberg, Chief of the SEC's Enforcement Division's Municipal Securities and Public Pensions Unit, added, "GE Funding CMS's fraudulent practices and misrepresentations undermined the competitive bidding process and negatively impacted the prices that municipalities paid for reinvestment products. The firm's misconduct deprived municipalities of a conclusive presumption that reinvestment instruments were purchased at fair market value."

According to the SEC's complaint filed in U.S. District Court for the District of New Jersey, in addition to fraudulently manipulating bids, GE Funding CMS made improper, undisclosed payments to certain bidding agents in the form of swap fees that were inflated or unearned. These payments were in exchange for the assistance of bidding agents in controlling and manipulating the competitive bidding process.

The SEC alleges that from August 1999 to October 2004, GE Funding CMS illegally generated millions of dollars by fraudulently manipulating at least 328 municipal bond reinvestment transactions in 44 states and Puerto Rico. GE Funding CMS won numerous bids through a practice of "last looks" in which it obtained information regarding competitor bids and either raised a losing bid to a winning bid or reduced its winning bid to a lower amount so that it could make more profit on the transaction. In connection with other bids, GE Funding CMS deliberately submitted non-winning bids to facilitate bids set up in advance by certain bidding agents for other providers to win. GE Funding CMS's fraudulent conduct also jeopardized the tax-exempt status of billions of dollars in municipal securities because the supposed competitive bidding process that establishes the fair market value of the investment was corrupted.

In settling the SEC's charges without admitting or denying the allegations, GE Funding CMS agreed to pay a \$10.5 million penalty along with disgorgement of \$10,625,775 with prejudgment interest of \$3,775,987. GE Funding CMS consented to the entry of a final judgment enjoining it from future violations of Section 17(a) of the Securities Act of 1933. The settlement is subject to court approval. The Commission recognizes GE Funding CMS's cooperation in its investigation.

Other financial institutions charged prior to today's settlement with GE Funding CMS:

- [Wachovia Bank N.A.](#) – \$148 million settlement with SEC and other federal and state authorities on Dec. 8, 2011.
- [J.P. Morgan Securities LLC](#) – \$228 million settlement with SEC and other federal and state authorities on July 7, 2011.
- [UBS Financial Services Inc.](#) – \$160 million settlement with SEC and other federal and state authorities on May 4, 2011.
- [Banc of America Securities LLC](#) – \$137 million settlement with SEC and other federal and state authorities on Dec. 7, 2010.

The SEC's investigations have been conducted by Deputy Chief Mark R. Zehner and Assistant Municipal Securities Counsel Denise D. Colliers, who are members of the Municipal Securities and Public Pensions Unit in the Philadelphia Regional Office. The SEC thanks the Antitrust Division of the Department of Justice and the Federal Bureau of Investigation for their cooperation and assistance in this matter.

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