BOSTON – An investment broker has agreed to pay $250,000 to settle allegations that it engaged in an extensive pattern of bid-rigging with respect to presenting interest rates to municipal bond issuers in the state looking to reinvest bond proceeds, Attorney General Martha Coakley announced today.

The settlement with Tradition (North America) Inc. stems from a lawsuit filed in 2010, alleging that Capital Financial Partners, Inc. and its employees, as agents for Tradition, acted as an investment broker charged with obtaining competitive bids on interest rates to be paid to Massachusetts bond issuers on Guaranteed Investment Contracts (GICs). Used for temporarily reinvesting the proceeds of municipal bond issuances, GICs typically pay a set interest rate for a specific period of time. GIC buyers expected at the time that these products would provide a relatively safe investment for public entities while providing reasonable interest.

Tradition conducted the bidding process among the financial institutions that sought to sell GICs and certified that the bidding process was competitive. According to the complaint filed in Suffolk Superior Court, however, the investment giant allegedly told favored providers what other banks were bidding and exactly what to bid in order to win the business. This resulted in bids that offered Massachusetts less interest than it should have received if the bidding process had really been competitive, and ensured that these favored providers would get business from the Commonwealth.

“This case is part of our ongoing effort to hold financial institutions accountable for bid-rigging in the municipal bond derivatives market,” AG Coakley said. “State entities deserve restitution for any harm suffered, and we intend to make sure they get it. We will work hard to prevent this kind of activity from happening again.”

Tradition will pay $250,000 to the Commonwealth. The settlement also includes a provision to track an ongoing investment obtained through the tainted bidding process to determine whether Tradition owes additional money to the state.

This case is part of a larger effort to investigate and remedy harm caused by bid-rigging in the municipal bond derivatives markets. Massachusetts, as part of a multi-state group, has previously obtained settlements with Bank of America, UBS, J.P. Morgan Chase Co., Wachovia, GE Capital Market Services and broker Martin Kanefsky. Including the settlement with Tradition, Massachusetts has recovered more than $15.75 million for the Commonwealth and other issuers of municipal bonds in the state. Tradition is the second broker to settle with the Commonwealth individually.

Municipal bond derivatives are contracts that tax-exempt issuers use to reinvest proceeds of bond sales until the funds are needed, or to hedge interest-rate risk. In April 2008, Massachusetts and other states began investigating allegations that large financial institutions including national banks, insurance companies, certain brokers and swap advisors, engaged in various schemes to rig bids and commit other deceptive, unfair and fraudulent conduct in the municipal bond derivatives market.

This matter was handled by the staff of Attorney General Martha Coakley’s Public Protection and Advocacy Bureau and Insurance and Financial Services Division, including Assistant Attorneys General Mary Freeley, Aaron Lamb, and Melissa Swindel, with assistance from Legal Analyst Diana Hooley, paralegals Erica Harmon and Helen Hood and Legal Assistant Meaghan Dever.

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