ATTORNEY GENERAL ANNOUNCES $34.25 MILLION MULTISTATE SETTLEMENT WITH GE FUNDING CAPITAL MARKET SERVICES, INC. OVER MUNICIPAL BOND DERIVATIVES SCHEME

(HARTFORD) - Attorney General George Jepsen today announced a $34.25 million multistate settlement with GE Funding Capital Market Services, Inc. ("GE Funding") as part of an ongoing nationwide investigation of alleged illegal conduct in the municipal bond derivatives industry.

Connecticut and New York led the investigation for the working group of 24 states and the District of Columbia. As part of the multistate settlement, GE Funding has agreed to pay $30 million in restitution to affected state agencies, municipalities, school districts and not-for-profit entities nationwide that entered into guaranteed investment contracts with GE Funding and two of its affiliates – Trinity Funding Company, LLC and Trinity Plus Funding Company, LLC - between 1999 and 2005.

The State of Connecticut and the Connecticut Housing Finance Authority are expected to receive approximately $185,000 in restitution under the settlement. As a lead state in the investigation, Connecticut also will receive an as-yet undetermined share of a $1.25 million civil penalty and $3 million in fees and expenses for the investigation, which GE Funding agreed to pay to the settling states.

"This is a good result for the State and the people of Connecticut. It reflects the determination of the multistate task force to investigate and take action against wrongful conduct in the municipal bond derivatives marketplace," Attorney General Jepsen said.

"GE Funding, Trinity Funding and Trinity Plus all violated the trust that bond issuers placed in them. This settlement and the accompanying federal settlements will help to compensate the issuers for their losses as a result of the wrongful conduct," Jepsen said.

The multistate settlement is one component of a coordinated, global $70 million settlement that GE Funding entered into today. GE Funding also reached agreement with the U.S. Securities and Exchange Commission, the U.S. Department of Justice’s Antitrust Division and the Internal Revenue Service.

GE Funding is the fifth financial institution to settle with the multistate working group in the ongoing municipal bond derivatives investigation following Bank of America, UBS AG, JP Morgan and Wachovia. To date, the state working group has obtained settlements worth almost $350 million for the participating states.

The states’ investigation developed evidence that certain traders at GE Funding, in concert with certain brokers, engaged in conduct that allowed the broker to determine in advance that GE Funding would win a bid for a guaranteed investment contract. The conduct allowed GE Funding to submit a “last look” bid, while the broker arranged for other financial institutions to submit purposely non-winning courtesy bids. Because of the “last look,” on many occasions GE Funding was able to lower its bid to the issuer and still win the transaction.

Jepsen acknowledged GE Funding’s cooperation, which helped the states to pursue its investigation into the municipal bond derivatives industry, and for providing restitution to those harmed by the unfair practices.

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. Guaranteed investment contracts are a specific type of municipal bond derivative.

In April 2008, the states began investigating allegations that various schemes to rig bids and commit other deceptive, unfair and fraudulent conduct in the municipal bond derivatives market, were being used by certain large financial institutions, including national banks and insurance companies, and certain brokers and swap advisors.

The ongoing broader investigation uncovered alleged collusive and deceptive conduct involving individuals at certain financial institutions, and certain brokers with whom they had working relationships. The alleged wrongful conduct took the form of bid-rigging, submission of non-competitive courtesy bids and submission of fraudulent certifications of compliance to government agencies, among others, in contravention of U.S. Treasury regulations.

The objective of the schemes was to enrich the financial institution and/or the broker at the expense of the issuer - - and ultimately
taxpayers - depriving the issuer of a competitive, transparent marketplace. As a result of the alleged wrongful conduct, state, city, local, and not-for-profit entities entered into municipal derivatives contracts on less advantageous terms than they would have otherwise.

Assistant Attorney General Michael E. Cole, chief of the Antitrust Department, along with Assistant Attorney General Christopher Haddad and Paralegal Lori Measer handled this case for the Attorney General.

View the Settlement Agreement - (PDF - 8MB)

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