

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9434 / July 29, 2013

SECURITIES EXCHANGE ACT OF 1934
Release No. 70056 / July 29, 2013

INVESTMENT COMPANY ACT OF 1940
Release No. 30632 / July 29, 2013

ADMINISTRATIVE PROCEEDING
File No. 3-15390

In the Matter of

**City Securities Corporation
and Randy G. Ruhl**

Respondents.

**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, 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”), and Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against City Securities Corporation (“City Securities”), and that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act, and Sections 15(b), 15B(c)(4) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against Randy G. Ruhl (“Ruhl”).

II.

In anticipation of the institution of these proceedings, City Securities and Ruhl have submitted Offers of Settlement (the “Offers”) 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 them and the subject matter of these proceedings, which are admitted, City Securities and Ruhl consent 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, 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 City Securities's and Ruhl's Offers, the Commission finds¹ that:

Summary

1. This matter involves multiple violations of the antifraud and other provisions of the federal securities laws by City Securities, a registered broker-dealer, while acting as underwriter for various municipal bond offerings by Indiana municipalities. City Securities conducted inadequate due diligence and, as a result, failed to form a reasonable basis for believing the truthfulness of material statements in an issuer's official statement, which resulted in City Securities offering and selling municipal securities on the basis of a materially misleading disclosure document. In addition, City Securities failed to enact procedures, and did not take reasonable steps to ensure it would receive prompt notice of certain submissions by municipal issuers, or notice of an issuer's failure to make required submissions. Further, City Securities fraudulently mischaracterized expenses for entertainment, charitable donations and gratuities as expenses for "Printing, Preparation and Distribution of Official Statement," so as to obtain reimbursement from bond proceeds without the knowledge of various municipal securities issuers. Finally, City Securities approved and provided improper entertainment and gratuities to representatives of issuers of municipal bonds.

2. In December 2007, City Securities acted as sole underwriter for a \$31 million negotiated municipal bond offering on behalf of the West Clark Community Schools ("West Clark" or the "School District"). In that capacity, City Securities assisted in compiling information for the Official Statement, and reviewed a near-final version of the Official Statement used in connection with the School District's offering. Ultimately, the final Official Statement contained materially false statements to the effect that the School District had substantially complied with its prior continuing disclosure undertakings pursuant to Rule 15c2-12,² when in fact it had not.

¹ The findings herein are made pursuant to City Securities's and Ruhl's Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

² Rule 15c2-12 prohibits, among other things and subject to certain exemptions, any underwriter from purchasing or selling municipal securities unless it has reasonably determined that the issuer of municipal securities, or an obligated person, has undertaken in a written agreement or contract, sometimes referred to as a Continuing Disclosure Agreement ("CDA"), to provide annual financial information and notices of certain material events ("Event Notices") to certain information repositories. An "obligated person" generally means any person or entity that is committed by contract or other arrangement to support payment of all or part of the obligations on the municipal securities being offered. The School District was an obligated person, and not the issuer, in the 2007 Offering. Additionally, Rule 15c2-12(f)(3) defines what information must be included in a final Official Statement.

3. City Securities, in its role as underwriter, conducted inadequate due diligence and, as a result, failed to form a reasonable basis for believing the truthfulness of material statements in the School District's Official Statement, and in particular the School District's assertion that it had complied with its prior continuing disclosure undertakings; a fact that City Securities could have easily verified through a review of public repositories. As a result, City Securities disseminated the materially false Official Statement to its customers in connection with the School District's 2007 municipal bond offering.

4. In addition, City Securities recommended the purchase and sale of municipal securities without implementing adequate procedures, and without taking steps required by Rule 15c2-12(c), as promulgated under Section 15(c)(2) of the Exchange Act, to reasonably ensure prompt receipt of notice of issuers' disclosure submissions.

5. Further, between at least 2007 and 2010 (the "relevant time period"), City Securities mischaracterized expenses such as charitable donations and entertainment expenses, and then billed these expenses and other purported "miscellaneous" costs back to various municipal securities issuers as costs of the "Printing, Preparation and Distribution of Official Statements," without the issuers' knowledge.

6. Finally, during the relevant time period, City Securities provided improper gifts and gratuities to personnel of certain municipal securities issuers, including multi-day, out-of-state golf trips and tickets to multiple sporting events in violation of Municipal Securities Rulemaking Board ("MSRB") Rule G-20.³

7. As a result of the conduct described above, City Securities willfully violated Section 17(a)(2) of the Securities Act, Sections 10(b), 15(c)(2) and 15B(c)(1) of the Exchange Act and Rules 10b-5(b) and 15c2-12 thereunder, and willfully violated MSRB Rules G-17 and G-20.

8. In addition, during the relevant time period, Ruhl was an executive vice president and supervisor of City Securities's Public Finance & Municipal Bond Department (the "Department"). As such, Ruhl oversaw public finance banking, municipal underwriting and municipal bond trading and was responsible for the Department's day-to-day operations. Ruhl, in his capacity as supervisor, approved of and substantially assisted in the conduct described above and, as a result, willfully aided and abetted and caused City Securities's violations of Sections 10(b), 15(c)(2) and 15B(c)(1) of the Exchange Act and Rules 10b-5(b) and 15c2-12 thereunder, and MSRB Rules G-17 and G-20, and caused City Securities's violation of Section 17(a)(2) of the Securities Act.

Among other things, this definition requires a description of the issuer's or obligated person's disclosure undertakings, as well as a description of any instances in the previous five years in which an issuer or obligated person failed to comply in all material respects with any previous disclosure undertakings.

³ West Clark was not one of the issuers whose personnel received such gifts and gratuities.

Respondents

9. City Securities Corporation is a broker-dealer headquartered in Indianapolis, Indiana, with approximately 200 employees and seven branch offices throughout Indiana. City Securities has been a registered broker-dealer with the Commission since 1936 and conducts a general securities business with an emphasis on the underwriting and sale of municipal securities by issuers located in the State of Indiana.

10. Randy G. Ruhl, age 56, is a resident of Indianapolis, Indiana. Ruhl joined City Securities in May 1988 as an assistant vice president. In January 2007, Ruhl became an executive vice president and supervisor of City Securities's Public Finance & Municipal Bond Department, reporting directly to the president. From January 2007 to April 2010, Ruhl was responsible for supervising the Department, which consisted of approximately 15 individuals located in Indianapolis and Fort Wayne.

Related Entity

11. West Clark Community Schools is a corporate entity and political subdivision, located in Clark County, Indiana, and formed under Indiana law. It employs approximately 400 staff at eight different schools to teach approximately 4,500 students. An elected, five member Board of School Trustees governs the School District.⁴

City Securities, With Ruhl's Substantial Assistance, Made Recommendations Without Forming a Reasonable Basis Regarding the Accuracy of Disclosures Because of a Lack of Due Diligence, Resulting in the Public Dissemination of a Materially False Official Statement

12. In March 2005, City Securities acted as sole underwriter for the School District's \$52 million municipal bond offering ("2005 Offering").

13. Pursuant to the requirements of Rule 15c2-12, City Securities obtained an executed Continuing Disclosure Agreement ("CDA") from the School District in connection with the 2005 Offering. As part of the CDA, the School District covenanted and agreed to, among other things, submit an annual report containing certain financial information and operating data to the appropriate national and state repositories, as well as timely notice of certain specified events pertaining to the bonds at issue.⁵ Further, the School District contracted to submit notices to each repository in the event it was unable to provide the required annual report.

⁴ The Indiana State Constitution restricts the amount of debt Indiana school districts are allowed to incur. As a result, the Indiana legislature allows school districts to create distinct legal entities called "school building corporations," through which school districts can issue debt. These school building corporations are essentially shells, created and controlled by the school district for the limited purpose of providing funding for the benefit of the school district. In this matter, the West Clark School District offered bonds through its shell conduit issuer, the West Clark 2000 School Building Corporation. Consequently, under Rule 15c2-12, the School District constitutes an obligated person with respect to the West Clark 2000 School Building Corporation municipal bond offerings.

⁵ In December 2008, Rule 15c2-12 was amended to designate the Electronic Municipal Market Access system ("EMMA") as the central repository for ongoing disclosures by municipal issuers effective July 1, 2009.

14. As the underwriter of the School District's 2005 Offering, City Securities assisted in compiling a draft 2005 Official Statement using City Securities's boilerplate language and provided the draft to the School District.

15. After the School District received and reviewed various drafts of both the preliminary, and what ultimately became the final, Official Statement for the 2005 Offering, City Securities reviewed a near-final version of the 2005 Official Statement. As required by Rule 15c2-12, the final 2005 Official Statement included a summary description of the provisions of the CDA.⁶

16. After the School District authorized and approved the Official Statement for the 2005 Offering, City Securities publicly disseminated the 2005 Official Statement in connection with its offer and sale of the bonds.

17. In December 2007, City Securities again acted as the sole underwriter for the School District, this time for a \$31 million municipal bond offering ("2007 Offering").

18. As the underwriter of the School District's 2007 Offering, City Securities again assisted in compiling a draft 2007 Official Statement using City Securities's boilerplate language and provided the draft to the School District.

19. After the School District reviewed various drafts of both the preliminary and final Official Statement for the 2007 Offering, City Securities reviewed a near-final version of the 2007 Official Statement.

20. Rule 15c2-12(f)(3) requires that a final Official Statement set forth any instances in the previous five years in which an issuer of municipal securities, or obligated person, failed to comply in all material respects with any previous continuing disclosure undertakings.

21. The final 2007 Official Statement used in connection with the School District's 2007 Offering included a section titled "Compliance with Previous Undertakings" which read: "[i]n the previous five years, the School [District] has never failed to comply, in all material respects, with any previous undertakings" After various School District officials reviewed the 2007 Official Statement, the School District authorized and approved the Official Statement for the 2007 Offering.

22. In addition, at the closing for the 2007 Offering, the School District executed a Certificate and Affidavit, attesting that the 2007 Official Statement did not "contain any untrue statements of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading." Under the terms of the Bond Purchase Contract with City Securities, execution of the

⁶ Rule 15c2-12(f)(3) delineates what information must be included in a final Official Statement. Among other things, this definition requires a description of the issuer's disclosure undertakings.

Certificate and Affidavit by the School District was a prerequisite to City Securities's obligation to purchase the 2007 Offering.

23. City Securities then publicly disseminated the 2007 Official Statement in connection with its offer and sale of the School District's 2007 Offering.

24. The School District's assertion of compliance with previous disclosure undertakings in its 2007 Official Statement was materially false. Between 2005 and 2010, the School District never submitted any annual reports, or any notices of its failure to submit annual reports, as required under the terms of its CDAs.

25. City Securities failed to form a reasonable basis through adequate due diligence for believing the truthfulness of the School District's assertions regarding compliance with its prior continuing disclosure undertakings pursuant to Rule 15c2-12. Instead, City Securities relied solely on the representations of the issuer, which came in the form of the language included in the 2007 Official Statement and the School District's Certification and Affidavit that the 2007 Official Statement did not contain any untrue statements of material fact.

26. City Securities's Written Supervisory Procedures ("Compliance Manual") designated Ruhl, as supervisor of the Department beginning in January 2007, as responsible for monitoring and ensuring compliance in the Department. Ruhl was familiar with City Securities's Compliance Manual, had input into its policies, and annually certified that he had received, and understood it.

27. Ruhl failed to take reasonable steps to ensure that Department employees comported with even their most basic due diligence requirements when City Securities acted as underwriter. Specifically, the Compliance Manual required Department employees, as part of City Securities's due diligence activities, to review designated public repositories to ensure that issuers had submitted their required public disclosures. In practice however, certain Department employees were unaware of this requirement, and instead, with Ruhl's approval and knowledge, relied solely on the assertions of the issuer that it had complied with its prior continuing disclosure undertakings.

Legal Discussion Regarding City Securities's and Ruhl's Violations of the Federal Securities Laws As a Result of Recommendations made Without Forming a Reasonable Basis for Believing the School District's Representations, Because of a Lack of Due Diligence

28. 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 10(b) and Rule 10b-5(b) of the Exchange Act prohibit the making of (1) a false statement or omission; (2) of material fact; (3) with scienter; (4) in connection with the purchase or sale of any security. See SEC v. McConville, 465 F.3d 780, 786 (7th Cir. 2006). 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 has previously 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). "Recklessness" has been

defined for purposes of liability under Section 10(b) of the Exchange Act as an “extreme departure from the standards of ordinary care, which presents a danger of misleading buyers or sellers that is either known to the defendant or is so obvious that the actor must have been aware of it.” McConville v. SEC, 465 F.3d 780, 788 (7th Cir. 2006), 2007 U.S. App. LEXIS 926 (Jan. 17, 2007). Section 17(a)(2) violations do not require proof of scienter. Aaron v. SEC, 446 U.S. 680, 697 (1980). There is a substantial likelihood that a reasonable investor determining whether to purchase the municipal securities would attach importance to the School District’s failure to comply with its prior continuing disclosure undertakings.

29. “By participating in an offering, an underwriter makes an implied recommendation about the securities [that it] . . . *has a reasonable basis for belief in the truthfulness and completeness of the key representations made in any disclosure documents used in the offerings.*” Dolphin and Bradbury, Inc. v. SEC, 512 F.3d 634, 641 (D.C. Cir. 2008) (emphasis added). An underwriter “occupies a vital position” in a securities offering because investors rely on its reputation, integrity, independence, and expertise.⁷ An underwriter must investigate and disclose material facts that are known or “reasonably ascertainable.”⁸ While broker-dealers must have a reasonable basis for recommending securities to customers, underwriters have a “heightened obligation” to take steps to ensure adequate disclosure.⁹ Thus, an underwriter may violate the antifraud provisions of the federal securities laws if it does not have a reasonable basis for believing the truthfulness of material statements in offering documents in connection with a security offering as a result of inadequate due diligence.

30. In negotiated municipal offerings, where the underwriter is involved in the preparation of the official statement, as is the case in this matter, development of a reasonable basis for belief in the accuracy and completeness of the statements therein should involve an inquiry into the key representations in the official statement. The Commission has expressly stated that “sole reliance on the representations of the issuer [will] not suffice.”¹⁰

31. The Commission has further provided under Rule 15c2-12 that an issuer’s failure to submit annual financial information is an event that requires notice pursuant to an undertaking entered into by the issuer, and is a significant factor to be taken into account when the underwriter formulates its basis for recommending securities.¹¹

⁷ See Securities Exchange Act Release No. 26100 (Sept. 22, 1988), 53 FR 37778, 37787 (Sept. 28, 1988) (“1988 Proposed Rule”).

⁸ See 1988 Proposed Rule, 53 FR at 37787.

⁹ See 1988 Proposed Rule, 53 FR at 37788, n.74.

¹⁰ See 1988 Proposed Rule, at 37789.

¹¹ See Exchange Act Rel. No. 34961 (Nov. 10, 1994), 59 FR 59590, 59602-03 (Nov. 17, 1994).

32. Rule 15c2-12 was adopted in an effort to improve the quality and timeliness of disclosures to investors in municipal securities. In recognition of the fact that disclosure of sound financial information is critical to the integrity of not just the primary market, but also the secondary markets for municipal securities,¹² Rule 15c2-12 requires an underwriter to obtain a written agreement, for the benefit of the holders of the securities, in which the issuer undertakes (among other things) to annually submit certain financial information. Rule 15c2-12 prohibits an underwriter such as City Securities from underwriting a municipal securities offering unless the issuer contractually agrees to make such annual disclosures.

33. In addition, Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer or municipal securities dealer from using the mails or any 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 violation of any MSRB rule. City Securities was subject to Section 15B(c)(1) of the Exchange Act and the MSRB rules. MSRB Rule G-17 requires brokers, dealers and municipal securities dealers to deal fairly with all persons and not to engage in any deceptive, dishonest, or unfair practice.

34. Based on the conduct described above, City Securities willfully violated Section 17(a)(2) of the Securities Act, Sections 10(b) and 15B(c)(1) of the Exchange Act and Rule 10b-5(b) thereunder, and willfully violated MSRB Rule G-17. Ruhl willfully aided and abetted and caused City Securities's violations of Sections 10(b) and 15B(c)(1) of the Exchange Act and Rule 10b-5(b) thereunder, and MSRB Rule G-17, and caused City Securities's violation of Section 17(a)(2) of the Securities Act.

City Securities Failed to Institute Procedures Pursuant to Rule 15c2-12(c) with Substantial Assistance from Ruhl

35. In addition, Rule 15c2-12(c) provides that it is unlawful for a broker, dealer, or municipal securities dealer to recommend the purchase or sale of a municipal security unless such broker, dealer or municipal security dealer has procedures in place that provide reasonable assurance it will receive prompt notice of certain required disclosure submissions by an issuer, or notice of an issuer's failure to make certain required submissions.

36. During the relevant time period, City Securities did not have procedures and policies relating to Rule 15c2-12(c) and did not take reasonable steps to ensure it would receive prompt notice of required disclosure submissions by an issuer, or notice of an issuer's failure to make required submissions. City Securities relied solely on the assertions of the issuer as to its compliance with continuing disclosure obligations.

37. Ruhl was aware of Rule 15c2-12(c), yet as supervisor of the Department he failed to take reasonable steps to ensure that City Securities had reasonable compliance procedures and failed to provide any training to Department employees regarding Rule 15c2-12. Certain Department employees, with Ruhl's approval and knowledge, relied solely on the assertions of the issuer that it had complied with its prior continuing disclosure undertakings.

¹² See Securities Exchange Act Release No. 33741 (March 9, 1994), 59 FR 12748, 12752 (March 17, 1994).

38. Based on the conduct described above, City Securities willfully violated Section 15(c)(2) of the Exchange Act and Rule 15c2-12 thereunder, and Ruhl willfully aided and abetted and caused City Securities's violation.

City Securities Fraudulently Billed Issuers for Mischaracterized Expenses with Substantial Assistance from Ruhl

39. During the relevant time period, City Securities employed standardized Bond Purchase Contracts for use with issuers when acting as an underwriter for municipal bond offerings. The Bond Purchase Contracts permitted City Securities to obtain reimbursement from bond proceeds for only certain expenses. These expenses included, among others, costs for the printing, preparation and distribution of official statements, fees of bond counsel and ratings agencies, and costs of verification services and CUSIP numbers.

40. City Securities's Compliance Manual also addressed this issue and specifically cautioned employees that "expenses which are reimbursed from bond proceeds must be reasonable and related to the municipal bond issuance process." Beginning in January 2007, the Compliance Manual designated Ruhl, as supervisor of the Department, as responsible for confirming that only those expenses "reasonably related to the offering" were reimbursed from bond proceeds.

41. In practice however, City Securities fostered a long standing and pervasive culture of lax supervision and loose internal controls as it related to expense reimbursement. As a result, City Securities, and Ruhl beginning in January 2007, routinely approved and reimbursed its employees for expenses not related to municipal bond offerings. City Securities later billed these expenses to issuers.

42. When billing expenses to issuers, City Securities's expense letters included only three categories of reimbursable expenses: (1) Printing, Preparation and Distribution of Official Statement, (2) CUSIP Fees, and (3) DTC Fees.¹³

43. However, regardless of whether expenses other than CUSIP and DTC fees in fact related to "Printing, Preparation and Distribution of Official Statement," City Securities billed them as such, thereby mischaracterizing the expense to the issuer. In doing so, City Securities billed expenses that were unrelated to the offering, and therefore not reimbursable from bond proceeds, by reallocating these costs into one of the limited categories for which it was allowed to receive reimbursement under the Bond Purchase Contract.

¹³ The Committee on Uniform Securities Identification Procedures ("CUSIP") numbers are the universally-recognized means of identification which, among other things, identifies the issuer of the security and the type of security to which it has been assigned. The Depository Trust Company ("DTC") is a securities depository that acts as a clearinghouse to settle trades in corporate and municipal securities.

44. For example, during the relevant time period, various Department employees requested, and Ruhl approved reimbursement from City Securities, for expenses relating to charitable donations, entertainment and travel. Examples include the following:

- a. Numerous reimbursements for mileage, hotels and entertainment relating to issuers;
- b. A donation of \$2,500 to a charity favored by an issuer;
- c. A donation of \$1,500 to an educational scholarship favored by an issuer;
- d. \$1,000 to sponsor of a golf outing hosted by an issuer;
- e. \$2,500 to sponsor an education foundation event hosted by an issuer which featured a “Colts Town Hall” breakfast with high profile professional football players from the Indianapolis Colts; and
- f. Reimbursement for 12 Chicago White Sox tickets.

45. City Securities later billed these expenses back to the issuers, mischaracterized as costs of “Printing, Preparation and Distribution of Official Statement.” Issuers were therefore unaware they were paying for expenses unrelated to the offering from bond proceeds.

46. During the relevant time period, Ruhl approved of the practice of mischaracterizing unrelated expenses and billing them back to issuers. Certain Department employees believed Ruhl was making an individual determination to bill expenses back to an issuer at the time he approved the expense. Ruhl however, disregarded his responsibility to determine which expenses reasonably related to the offering, resulting in the improper billing practices of Department employees.

47. In addition, City Securities, with Ruhl’s knowledge and participation, regularly added purported “miscellaneous” expenses to issuers’ expense letters without requiring any documentation from its bankers, or providing any documentation to the issuers, to support those expenses. In at least two instances, City Securities added \$10,000 in purported “miscellaneous” expenses to issuers’ expense letters, again categorizing the expenses as costs of “Printing, Preparation and Distribution of Official Statement.”

48. Finally, in certain instances Ruhl, when determining the amount of charitable and entertainment expenses he would approve for particular issuers, considered the amount of revenue he expected City Securities to receive for underwriting future bond offerings of that issuer. For example, in response to a Department employee’s email request to sponsor a foursome at a charity golf outing (which Ruhl was informed would not be attended by any representatives from City Securities), Ruhl responded: “due to our ‘slowing down’ we are in a slowdown in approving expenses unless it is directly tied to future business.”

Legal Discussion Regarding City Securities’s Mischaracterization of Expenses and Ruhl’s Substantial Assistance

49. The issuers were not aware they were subsidizing City Securities “charitable donations” or that City Securities was billing them for entertainment, travel and purported “miscellaneous” expenses, all of which were mischaracterized as the cost of “Printing, Preparation and Distribution of Official Statement.” The issuers’ payments to City Securities were made in connection with the sale of the bonds from the issuers to City Securities, in accordance with the terms of the Bond Purchase Contracts, and were material to the issuers who, had they been aware of the mischaracterized expenses, likely would not have engaged or retained City Securities as underwriter.

50. Based on the conduct described above, City Securities made materially false statements to the issuers in connection with the purchase and sale of securities and therefore willfully violated Sections 10(b) and 15B(c)(1) of the Exchange Act and Rule 10b-5(b) thereunder, and MSRB Rule G-17.¹⁴ Ruhl willfully aided and abetted and caused City Securities’s violations.

City Securities Provided Improper Gifts and Gratuities to Issuers in Violation of MSRB Rule G-20 with Substantial Assistance from Ruhl

51. During the relevant time period, City Securities provided improper entertainment, gifts and gratuities to various municipal securities issuers. For example, City Securities authorized:

- a. Frequent and excessive gifts and gratuities to representatives of one school district within a four-month period in 2007, including approximately \$1,500 in catering expenses for a lunch and an evening dinner reception at an event to celebrate the installation of a new superintendent; approximately \$800 for travel expenses for a multi-day out-of-state golf trip, including airfare, car rental and meals; and another \$140 for an overnight golf trip including hotel stays;
- b. Approximately \$1,250 for a group outing to a Chicago Cubs baseball game for six issuer officials and their guests which was not attended by representatives from City Securities; and
- c. In excess of \$200 for two issuer officials and their guests to attend a Notre Dame football game, which again was not attended by representatives from City Securities.

52. City Securities’s Compliance Manual addressed “Gifts, Gratuities and Entertainment,” “Charitable Contributions,” and applicable MSRB Rules including but not limited to MSRB Rule G-20. The Compliance Manual designated Ruhl, as supervisor of the Department, as the individual responsible for ensuring compliance with policies and procedures. In that capacity, Ruhl reviewed

¹⁴ MSRB Rule G-17 requires dealers to deal fairly with issuers in connection with all aspects of the underwriting of their municipal securities. The MSRB has noted that Rule G-17 may apply in connection with certain payments made and expenses reimbursed during the municipal bond issuance process for excessive or lavish travel or entertainment expenses. *See* MSRB Interpretive Notice Regarding Dealer Payments in Connection with the Municipal Securities Issuance Process (January 29, 2007).

reimbursement requests for entertainment, gifts and gratuities from City Securities Department employees.

53. Ruhl approved these reimbursement requests as a matter of course, without regard to limitations addressed in the Compliance Manual and without regard to the prohibitions of MSRB Rule G-20. Further, once Ruhl approved an expense, it was almost always billed back to issuers, often times mischaracterized, without the issuers' knowledge.

Legal Discussion Regarding City Securities's and Ruhl's Violations of MSRB Rule G-20

54. In general and with certain exceptions, MSRB Rule G-20 prohibits any broker, dealer, or municipal securities dealer from, directly or indirectly, giving or permitting to be given any thing or service of value, including gratuities, in excess of \$100 per year to a person other than an employee or partner of such broker, dealer, or municipal securities dealer, if such payments or services are in relation to the municipal securities activities of the recipient's employer.¹⁵

55. Based on the conduct described above, City Securities willfully violated MSRB Rule G-20 and Section 15B(c)(1) of the Exchange Act. Ruhl willfully aided and abetted and caused City Securities's violations.

City Securities Enhances Its Disclosure and Expense Reimbursement Policies

56. With the assistance of counsel, City Securities has:

a. Reviewed and amended the firm's written supervisory policies and procedures as it relates to SEC Rule 15c2-12, and has developed a certification process to ensure compliance with Rule 15c2-12. Also, the relevant City Securities's investment banker or underwriter, as well as a City Securities manager, must certify that the process has been followed and that each issuer is current in its submissions prior to the closing of an underwriting.

b. Hired a dedicated, nonproducing manager with the title of executive vice president to head a newly created Fixed Income Capital Markets Department. This new Department is comprised of the firm's Public Finance Department, Municipal Trading and Underwriting Department, Taxable Fixed Income and Trading Department, and Institutional Sales Department. In turn, registered principals were named as designated supervisors of the firm's Municipal Trading and Underwriting and Taxable Fixed Income Trading departments reporting up to the executive vice president of Fixed Income Capital Markets.

c. Reviewed and amended the firm's written supervisory policies and procedures to require the executive vice president of Fixed Income Capital Markets to review and approve all

¹⁵ MSRB Rule G-20(b) provides exceptions for "occasional gifts of meals or tickets to theatrical, sporting, and other entertainments hosted by the broker, dealer or municipal securities dealer; the sponsoring by the broker, dealer or municipal securities dealer of legitimate business functions that are recognized by the Internal Revenue Service as deductible business expenses; or gifts of reminder advertising; provided, that such gifts shall not be so frequent or so extensive as to raise any question of propriety."

municipal underwriting expense letters and supporting documents prior to billing to ensure only appropriate expenses are billed to issuers.

d. Automated the firm's expense process and amended the expense report form to require bankers and other employees to note whether or not they accompany customers to events designated as "[customer] entertainment."

e. Reviewed and amended the firm's expense report to require the names and employers of those in attendance at business functions for which an employee seeks reimbursement (to include a firm employee, if present) and to more readily identify expenses which constitute gifts.

f. Reviewed and amended the firm's written supervisory policies and procedures to ensure all municipal underwriting expense reports are reviewed and approved not only by the employee's direct manager, but also by Compliance personnel who review for evidence of gifts not previously reported to Compliance and excessive customer entertainment.

g. Reviewed and amended the firm's bond purchase agreements (based on the SIFMA model BPA) and invoices to more clearly identify expenses for which City Securities will seek reimbursement.

h. Conducted approximately seven training sessions to discuss City Securities's gift and expense policy as well as its Rule 15c2-12 compliance procedures with firm personnel in general and Public Finance & Municipal Bond Department personnel in particular. Monthly compliance meetings are scheduled with the executive vice president of Fixed Income Capital Markets and designated supervisors. Attendance at these meetings will be documented and, on an annual basis, all employees are required to certify that they have received and are familiar with the firm's policies and procedures.

i. Performed an internal audit of the Public Finance & Municipal Bond Department to assess compliance with the firm's amended policies and procedures.

j. Retained independent counsel to review numerous agreements employed by City Securities to conduct its municipal finance and underwriting business for the purpose of ensuring these documents are in accord with current industry practices and standards.

k. Completed an internal audit of municipal engagements for the period January 2005 through June 2010 for the purpose of identifying instances where the firm inappropriately billed a municipal bond issuer expenses in amounts over \$25, and reimbursed issuers for such amounts.

l. Engaged an Independent Compliance Consultant, not unacceptable to the Commission, to conduct a comprehensive review of the newly created Municipal Trading & Underwriting and Public Finance Departments to ensure compliance with the federal securities laws.

Violations

57. As a result of the conduct described above, City Securities willfully violated Section 17(a)(2) of the Securities Act, Sections 10(b), 15(c)(2) and 15B(c)(1) of the Exchange Act and Rules 10b-5(b) and 15c2-12 thereunder, which prohibit fraudulent conduct in the offer or sale of securities and in connection with the purchase or sale of securities, and violated MSRB Rules G-17 and G-20.

58. As a result of the conduct described above, Ruhl willfully aided and abetted and caused City Securities's violations of Sections 10(b), 15(c)(2) and 15B(c)(1) of the Exchange Act and Rules 10b-5(b) and 15c2-12 thereunder, and MSRB Rules G-17 and G-20, and caused City Securities's violation of Section 17(a)(2) of the Securities Act.

City Securities's Remedial Efforts

59. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by City Securities.

Undertakings

City Securities has undertaken to:

60. Within ninety (90) days of the entry of this Order, require the Independent Compliance Consultant to recommend any changes necessary to ensure City Securities's future compliance with the federal securities laws. Within one hundred and eighty (180) days of the entry of this Order, City Securities shall implement any such changes.

61. Require the Independent Compliance Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Compliance Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with City Securities, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Compliance Consultant will require that any firm with which he/she/it is affiliated or of which he/she/it is a member, and any person engaged to assist the Independent Compliance Consultant in performance of his/her/its duties under this Order shall not, without prior written consent of the Assistant Director of the Municipal Securities and Public Pensions Unit in the Chicago Regional Office of the U.S. Securities and Exchange Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with City Securities, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

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 City Securities's and Randy G. Ruhl's Offers.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b), 15B(c) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

City Securities

A. City Securities shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, and Sections 10(b), 15(c)(2) and 15B(c)(1) of the Exchange Act and Rules 10b-5 and 15c2-12 thereunder, and violations and any future violations of MSRB Rules G-17 and G-20 that would cause it to violate Section 15B(c)(1) of the Exchange Act.

B. City Securities is censured.

C. City Securities shall, within ten (10) days of the entry of this Order, pay disgorgement of \$238,000, prejudgment interest of \$41,446 and a civil money penalty in the amount of \$300,000 to the United States Treasury, of which \$60,000 shall be paid to the MSRB in accordance with Section 15B(c)(9) of the Exchange Act, representing its share of the portion of the penalty attributable to violations of MSRB rules. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 and/or 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 City 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 Elaine C. Greenberg, Chief, Municipal Securities and Public Pensions Unit, Division of Enforcement, Securities and Exchange Commission, The Mellon Independence Center, 701 Market Street, Philadelphia, PA 19106-1532.

D. City Securities shall comply with the undertakings enumerated in Section III above.

Randy G. Ruhl

E. Randy G. Ruhl shall cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Sections 10(b), 15(c)(2) and 15B(c)(1) of the Exchange Act and Rules 10b-5 and 15c2-12 thereunder, and violations and any future violations of MSRB Rules G-17 and G-20 that would cause him to violate Section 15B(c)(1) of the Exchange Act.

F. Randy G. Ruhl hereby is:

barred, with the right to apply for reentry after one (1) year to the appropriate self-regulatory organization, or if there is none, to the Commission, from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; 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 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; and

barred from association in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization.

G. Any reapplication for association by Randy G. Ruhl 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 Randy G. Ruhl, 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.

H. Randy G. Ruhl shall, within ten (10) days of the entry of this Order, pay disgorgement of \$18,155, prejudgment interest of \$2,165 and a civil money penalty in the amount of \$18,155 to the United States Treasury, of which \$3,631 shall be paid to the MSRB in accordance with Section 15B(c)(9) of the Exchange Act, representing its share of the portion of the penalty attributable to violations of MSRB rules. If timely payment is not made, additional interest shall accrue pursuant

to SEC Rule of Practice 600 and/or 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 Randy G. Ruhl 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 Elaine C. Greenberg, Chief, Municipal Securities and Public Pensions Unit, Division of Enforcement, Securities and Exchange Commission, The Mellon Independence Center, 701 Market Street, Philadelphia, PA 19106-1532.

By the Commission.

Elizabeth M. Murphy
Secretary