

CHRISTOPHER J. DODD, CONNECTICUT, CHAIRMAN

TIM JOHNSON, SOUTH DAKOTA  
JACK REED, RHODE ISLAND  
CHARLES E. SCHUMER, NEW YORK  
EVAN BAYH, INDIANA  
ROBERT MENENDEZ, NEW JERSEY  
DANIEL K. AKAKA, HAWAII  
SHERROD BROWN, OHIO  
JON TESTER, MONTANA  
HERB KOHL, WISCONSIN  
MARK WARNER, VIRGINIA  
JEFF MERKLEY, OREGON  
MICHAEL BENNET, COLORADO

RICHARD C. SHELBY, ALABAMA  
ROBERT F. BENNETT, UTAH  
JIM BUNNING, KENTUCKY  
MICHAEL CRAPO, IDAHO  
MEL MARTINEZ, FLORIDA  
BOB CORKER, TENNESSEE  
JIM DEMINT, SOUTH CAROLINA  
DAVID VITTER, LOUISIANA  
MIKE JOHANNIS, NEBRASKA  
KAY BAILEY HUTCHSON, TEXAS

EDWARD SILVERMAN, STAFF DIRECTOR  
WILLIAM D. DUHNKE, REPUBLICAN STAFF DIRECTOR AND COUNSEL

## United States Senate

COMMITTEE ON BANKING, HOUSING, AND  
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

February 2, 2010

Ms. Elizabeth M. Murphy  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

RE: File Number S7-18-09, Political Contributions by Certain Investment Advisers

Dear Ms. Secretary:

This letter comments on the Commission's proposed rule "Political Contributions by Certain Investment Advisers" to curtail "pay to play" practices by financial advisors to state and local governments. I strongly support the goals of the Commission's proposal—elected officials violate the public trust when they allow political contributions to play a role in the management of public assets. Investment decisions affecting millions of taxpayers, retirees, and families saving for their children's education must be made on the basis of unbiased professional advice, free from improper political influence.

However, I believe the proposed rule could be improved in one area without weakening the protection of investors, taxpayers, retirees, and beneficiaries. The proposed rule would prohibit an investment adviser from paying a third party, such as a solicitor or placement agent, to solicit a government client on behalf of the investment adviser. Several state and local officials, including the Treasurer of my home State, have indicated in their own comments to the Commission that the employment of placement agents is often a legitimate and beneficial business practice, particularly among smaller investment funds that lack the resources to support an in-house marketing arm. In some cases, the use of third-party placement agents may be the only cost-effective way for smaller funds to get the attention of public fund managers and thereby raise needed capital. I share the concern that a ban on placement agents could reduce the amount of information available to public funds about the full range of investment opportunities.

In my view, the better way to address the issues raised by third-party placement agents is through strong regulation, rather than an across-the-board prohibition. This view is reflected in the approach taken by my draft legislation, the Restoring American Financial Stability Act. While we are still in the preliminary stages of the legislative process, Section 975 of that bill would require all municipal advisors—including financial advisors, guaranteed investment contract brokers, third-party marketers, placement agents, solicitors, and swap advisors—to register with the Commission. Municipal advisors would be subject to business conduct rules.

This approach would enable the Commission to monitor the activities of placement agents and other municipal advisors. It would also increase transparency and disclosure in the marketplace, and prevent the abuses targeted by the Commission's proposed rule without prohibiting what many in the municipal securities market describe as useful and legitimate practices.

I commend the Commission for its efforts to reform this important financial market. Thank you for giving careful consideration to an alternative approach.

Sincerely,

A handwritten signature in blue ink, appearing to read "Chris Dodd", with a stylized flourish extending to the right.

Christopher J. Dodd