August 17, 2009

Subject: File No. S7-18-09
From: Steven Rubenstein
Affiliation: Arrow Partners, Inc.

I would like to submit comments on File No. S7-18-09 titled Political Contributions by Certain Investment Advisers.

I firmly support the proposed measures intended to curb "pay to play" practices by investment managers. I also support the proposed rules restricting political contributions as well as banning the solicitation of contributions. However, I firmly oppose the proposed banning of third-party solicitors or placement agents on behalf of an investment advisor seeking to invest public pension plan assets.

There are three main reasons why I oppose the ban on placement agents; 1) incorrect assumptions regarding third party solicitors, 2) negative impact on smaller money managers and investors 3) the existing rules and regulations are sufficient, but need to be followed.

Incorrect assumptions regarding placement agents
This proposed ban is a politically-motivated overreaction to the illegal activities and misbehavior of a few individuals. It mistakenly generalizes that the entire placement agent industry is riddled with corruption. This generalization is simply not accurate. The proposed ban, as it is currently written, incorrectly equates placement agents with lobbyists, and implies that everyone that solicits public pension plans has political connections. This "connection" is misguided and wrong.

Unintended negative impact on smaller investment managers and investors
Legitimate placement agents fill an integral value-added role within the investment management arena. One of the main benefits they offer investment advisors is a full-service "outsourced" marketing function, providing the advisor a cost effective alternative to incurring costs associated with hiring multiple full-time employees.
It is important to note that this proposed ban will have an immediate and substantial negative impact on smaller investment managers, including many woman- and minority-owned firms. These firms already face significant disadvantages when competing versus large global multi-product firms and the elimination of their sales and marketing staff can only negatively affect their viability. They also can benefit investors, including public pension funds. Many of these institutional investors have limited staffs and view the pre-screening of the manager universe as a valuable and important layer of additional due diligence.

Existing rules and regulations
After reviewing the disturbing details regarding the scandalous events surrounding the New York State and New York City pension funds, I re-read the Investment Advisers Act of 1940, particular the section titled "Cash Payments for Client Solicitations." In very basic language, Rule 206(4)-3 describes the procedures for an investment advisor regarding cash payments for client solicitations. Similar to many published regulations that address compensation, this rule focuses on transparency and disclosure. The language is crystal clear, the existing rule is not "broken" and it does not need to be replaced or rewritten, it just needs to be followed.

Perhaps more importantly, most legitimate placement agents are already regulated by FINRA and abide by their rules. FINRA's rules regarding sales of private placements, including private equity and hedge funds, are extremely well written and have been time-tested for decades.

In conclusion, I also have some suggestions regarding potential "solutions". Perhaps certain regulators and politicians should take the lead from some forward-thinking public pension fund investors, such as CalPERS and MassPRIM and learn from their efforts with respect to advocating full disclosure.

You have requested comments for the proposal and am I hopeful that this leads to a harder look in the mirror, less finger pointing and a commitment to work together to come to a fair and equitable solution for a legitimate service to advisors and public fund investors.

I am available to discuss this in further detail.

Sincerely,

Steven Rubenstein