Dear SEC Chairman and Board Members:

I have a number of friends and/or business associates in the investment banking/financial services industry and have read about the ‘pay-to-play’ scandals affecting the New York Common pension fund. I agree that some steps should be taken to try and curb the opportunities for corrupt individuals to perpetrate these types of activities. However, I disagree with the proposed solution of banning an entire industry of placement agents.

Investment bankers/placement agents have played a value-added role in the private equity investment management business for many years and thus, the SEC’s proposed ban of their entire professional industry should not be allowed for the following reasons:

- Public pension funds represent a majority of all the capital invested in the private equity investment management business and eliminating access to this magnitude of capital will challenge the placement agent business.
- The vast majority of emerging, small and middle-market investment managers rely extensively on placement agents to gain access to pension fund capital. Without these services, many of these companies will simply not survive or be forced to operate at an untenable disadvantage.
- Pension funds will be unnecessarily harmed because without placement agents, there will be a dramatic reduction in their access to potential opportunities from emerging, small and middle-market investment managers.
- Pension funds will no longer be able to use placement agents to help them identify, pre-screen and evaluate potential investment manager candidates
- The placement agent and investment management industry will incur dramatic job losses

As I understand it, there are a number of large and highly sophisticated public pension funds, such as California State Teachers Retirement System, California Public Employees Retirement System, Texas Teachers Retirement System, etc, that have adopted extensive licensing and regulatory policies addressing ‘pay-to-play’ schemes but none of them have proposed to eliminate the use of placement agents. This would be a far better approach and emphasizes that public pension funds want to ensure their continued access to the services provided by qualified placement agents. If the SEC regulations are enacted as proposed, they would render the policies of various state pension funds void and circumvent any U.S. public pension fund from independently charting their own investment course.

I strongly urge the SEC to eliminate the ban on placement agents and instead embrace the following regulatory oversight suggestions:

- All placement agents, investment advisers and consultants are treated exactly the same regarding prohibited political contributions; i.e., a two-year ban on doing business with any governmental agency to which a prohibited political contribution is made.

- SEC ban any investment manager, consultant or placement agent from making, or soliciting to make, any contributions to any government entity from which they are soliciting business.
- SEC incorporates more regulation and oversight of government employees who control (or have influencing control over) investment decision making or alternatively, require these governmental entities to revise their investment decision-making structures to reduce the opportunity for such individuals of influence to perpetrate ‘pay-to-play’ schemes.
- SEC requires the disclosure of any compensation made to a placement agent by an investment adviser, including any political contributions.
- Placement agents are prohibited from “soliciting” any institutional investors, including public pension plans, unless it is done by: i) placement agents properly licensed with SEC and FINRA; and ii) full time employees operating through a fully licensed Broker Dealer and supervised by a properly licensed securities principal.

Thank you for considering my views on this very important matter.

Sincerely,

Larry Simon