

This commentary relates to the proposed banning of third-party placement agents from soliciting government business on behalf of investment advisors.

- The ban could disadvantage smaller and medium-sized investment advisors.
 - Smaller firms would be put at a disadvantage as they cannot afford to hire and retain full-time marketing and sales staff or could be forced to pass these added costs on to their fund investors
 - Competition would be reduced as this could increase the relative advantage of larger, consolidated investment firms
- The ban could reduce breadth and quality of investment options for many government pension plans as they would have reduced access to smaller investment firms that are often oversubscribed and/or have limited resources to market to a broad swathe of institutional investors.
- In addition to their role as third-party marketers for investment advisors, placement agents often have deep and knowledgeable professional staff which thoroughly vets the investment advisors' product offerings. This research and analysis can supplement the government investor's due diligence process.
- The issue of third-party placement agents differs materially from the MSRB rules/regulations implemented to curb broker-dealers' use of political consultants to solicit municipal securities underwriting business in the 1990's
 1. The third-party placement agents are broker-dealers themselves and are therefore subject to a stricter degree of regulatory oversight/enforcement vs. the municipal "consultants" that banks used to solicit underwriting business from municipalities who were not subject to similar oversight and registration with FINRA
 2. The government client base that investment advisors and third-party placement agents target is different in complexion than the typical municipality that would be addressed with the MSRB rules
 - A. Most government pension investment officers are not elected officials as opposed to many municipal county and district officials, who may benefit more directly from political contributions from consultants and third-party agents
- Increased transparency and a ban of political contributions by third-party placement agents should be effective in curbing the "pay to play" practices of recent years