

Client Alert

Current Issues Relevant to Our Clients

August 22, 2014

MSRB Issues Draft Amendments Extending the “Pay to Play” Prohibitions of Rule G-37 to Municipal Advisors

On August 18, 2014, the Municipal Securities Rulemaking Board (MSRB) released for public comment draft amendments (the Proposed Amendments) to existing Rule G-37, which restricts “pay to play” practices by regulating certain activities by brokers, dealers and municipal securities dealers (Dealers). The Proposed Amendments would extend the provisions of Rule G-37 to all municipal advisors, whether or not they are also Dealers.

The Proposed Amendments and the MSRB’s related Regulatory Notice 2014-15 can be found [here](#).

Background and Summary of Proposed Amendments

Existing Rule G-37, effective since 1994, prohibits Dealers from engaging in municipal securities business (defined as the purchase of a primary offering on other than a competitive basis) with an issuer within two years after a non-exempt political contribution* is made to an official of that issuer by (i) the Dealer, (ii) any municipal finance professional (as defined in the Rule) of the Dealer or (iii) any political action committee controlled by either of these entities. Existing Rule G-37 also imposes limitations on the solicitation and coordination of political contributions and certain disclosure and recordkeeping requirements regarding political contributions.

The Proposed Amendments extend the restrictions of existing Rule G-37 to municipal advisors by imposing a two-year ban on municipal advisory business with a municipal entity following the making of a non-exempt political contribution* to an official of such entity. “Municipal advisory business” is defined in the Proposed Amendments as the provision of advice to or on behalf of a municipal entity or an obligated person with respect to municipal financial products or the issuance of municipal securities and the solicitation of municipal entities.

The Proposed Amendments also address issues that arise with respect to firms that act as both a Dealer and a municipal advisor. Under the Proposed Amendments, if a Dealer makes a prohibited contribution to a municipal entity official that can influence the selection of Dealers and municipal advisors for that entity, the firm would incur the two-year ban on both municipal securities business and municipal advisory business. If a prohibited contribution is made by a person or entity associated with only one line of the firm’s business to an official that can influence only the selection of a provider for the firm’s other line of business, the two-year ban would only attach to the type of business that the official receiving the contribution could influence.

The Proposed Amendments apply other analogous provisions of existing Rule G-37 to municipal advisors. Municipal advisors are prohibited from soliciting or coordinating contributions from others for an official of a municipal entity with which they are providing or are seeking to provide municipal advisory services, and are required to disclose information about their political contributions, including contributions to bond ballot campaigns. The Proposed Amendments contain detailed rules regarding the exclusion of certain contributions from the ban (beyond the \$250 *de minimis* exemption described above), including modifications to the two-year look back in certain situations.

* Contributions made by a municipal finance professional or (under the Proposed Amendments) a municipal advisor professional to an official for whom the professional is entitled to vote in an amount, together with any other contributions made by the professional to that official, not in excess of \$250 per election, are exempt from the prohibition and do not trigger the two-year ban.

Next Steps

The MSRB will host a webinar on the Proposed Amendments on September 11, 2014 at 3:00 p.m., Eastern Time. Registration information is available through the MSRB's website [here](#).

Comments on the Proposed Amendments must be submitted by October 1, 2014.

For More Information

Please contact your primary attorney at Chapman and Cutler if you have any questions on the Proposed Amendments or would like our assistance in preparing comments.

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