

SEC Extends Compliance Date for “Pay to Play” Prohibition on Payments to Certain Third-Party Solicitors

In 2012, the Securities and Exchange Commission (“SEC”) adopted Rule 206(4)-5 and related amendments to certain other rules under the Investment Advisers Act of 1940 (the “Advisers Act”). These rule changes are intended to prevent “pay to play” practices by investment advisers seeking to manage funds for state and local governments. One element of the new rule is to prohibit an adviser and its covered associates from paying a third party, such as a solicitor or placement agent, to solicit a government client on behalf of the investment adviser unless that third party is an SEC-registered investment adviser or broker-dealer subject to similar pay to play restrictions. The compliance date for this element of the new rule was set for June 13, 2012. However, in light of pending SEC rules providing for the registration of municipal securities advisors, the SEC recently extended the compliance date for this element of the rule until nine months after the compliance date for the rules requiring municipal advisor registration with the SEC. The compliance date extension is limited to this element of the new rule, and the other elements of the rule continue to remain in effect.

The full text of the SEC’s release providing the extension of the compliance date is available at <http://www.sec.gov/rules/final/2012/ia-3418.pdf>, and the adopting release for the new rule is available at <http://www.sec.gov/rules/final/2010/ia-3043.pdf>. For additional information on the new rule and related amendments, please see our July 6, 2010, Client Alert available at <http://www.chapman.com/media/news/media.809.pdf>.

If you would like to discuss any of the issues discussed in this Client Alert, please contact any attorney in our Investment Management Group or visit us online at chapman.com.

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