

MSRB Proposes Pay-to-Play Rule for Municipal Advisors Comments Due October 1

September 2014

On August 18, 2014, the Municipal Securities Rulemaking Board (MSRB) followed through on its long-promised rulemaking and proposed pay-to-play rules for municipal advisors. It did so not through a new rule, but through an expansion of Rule G-37, which currently applies to brokers, dealers, and municipal finance dealers. The proposed rules can be found [here](#), and comments are due October 1, 2014.

As part of Dodd-Frank, the Securities and Exchange Commission (SEC) and MSRB have adopted a set of rules for municipal advisors, which consists of entities that provide certain types of financial advice to states and localities. As the comprehensive framework of regulations is brought online, one of the final pieces was the pay-to-play rules. Moreover, certain third parties that solicit business from states and localities for investment advisers needed, per the SEC's pay-to-play rule for investment advisers, to be subject to similar pay-to-play rules.

The MSRB's proposed Rule G-37 covers municipal advisors, their municipal advisory representatives, and their political action committees (PACs). The rule also covers municipal advisory third-party solicitors that solicit business for unaffiliated brokers, dealers, municipal advisors, and investment advisors.

The proposed rules for municipal advisors and third-party solicitors generally follow the rules currently in place for brokers and dealers, although there is one subtle change thrown in by the MSRB for all of the regulated entities. For an entity that makes a contribution prohibited by the law and that currently does business with a covered government entity, the preclusion of business—the effect of the rule—will run for 2 years from when the entity ceases to do business with

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the government entity instead of just 2 years from the date of the contribution. It is difficult to estimate the effect of the expansion of the rule in this way.