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FINRA Finds No Big Placement-Agent Abuses

By Lynn Hume, *Bond Buyer*
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The Financial Industry Regulatory Authority has not found any major abuses from its targeted examinations of broker-dealers that were either placement agents or worked with such agents to obtain business from municipalities and public pension funds, market sources said Tuesday.

The sources noted that FINRA chairman and chief executive officer Rick Ketchum did not include placement-agent abuses in a keynote speech at a fixed-income conference Thursday.

The speech listed a number of enforcement actions the self-regulator plans to bring against firms in the muni market over rule violations during the next few months.

FINRA officials would not comment.

The self-regulator launched targeted exams of placement-agent activity in October, sending firms a two-page request for detailed information and documents pertaining to their private-placement activities from Jan. 1, 2009, to Sept. 30, 2010.

The exams came after the Securities and Exchange Commission and former New York Attorney General Andrew Cuomo took enforcement actions against a number of firms and individuals for engaging in pay-to-play practices and kickback schemes to obtain investment business from the New York's pension system, the country's third largest.

The SEC and Cuomo charged Henry Morris, the top political adviser and chief fundraiser for former New York Comptroller Alan Hevesi, and David Loglisci, the former state deputy comptroller, steered investment business with the New York State Common Retirement Fund to private-equity firms and hedge fund managers who, in return, provided them with sham "finder" or "placement agent" fees. Cuomo reached plea agreements with both Morris and Loglisci.

The scandal led states and localities across the nation to ban or regulate pension-placement agents.

The Dodd-Frank Wall Street Reform and Consumer Protection Act requires placement agents to register as muni advisers with the SEC and Municipal Securities Rulemaking Board and comply with MSRB rules.

In its exams, FINRA asked the firms to identify the municipalities and public pension funds they provided financial services to after third parties solicited or obtained the business for them.

It also asked for detailed information about each engagement, including the type of services provided and the compensation received.

The self-regulator asked for lists of clients for which the firms served as placement agents or provided third-party marketing services.

In addition, FINRA requested firms provide written policies and procedures relating to their placement-agent business, supervision of political activities and contributions, compliance with MSRB Rules G-37 on political contributions and G-38 on consultants, supervision of municipal finance professionals, and outside business activities.

FINRA explained in its target-exam letters that third-party marketers also may be known as placement agents, solicitors or third-party intermediaries who may receive from clients reimbursements for expenses, ongoing retainers, finder's fees, or some type of continuing "trailer fees."

Financial services could include asset management, investment of proceeds, trade execution, asset valuation or appraisal, pension management or investment services, or money manager consulting services, FINRA said.