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## **L.A. Wants Financial Advisors Precluded from California Broker-Dealer Work.**

LOS ANGELES — Municipal bond underwriters can now apply to two Los Angeles requests for qualifications seeking financial advisors, but they aren't likely to find the restrictions encouraging.

Los Angeles officials say a protest from Dallas, Texas-based FirstSouthwest against the exclusion of underwriting firms had nothing to do with the decision to modify the RFQs.

"We are trying to obtain as large of a pool as possible to insure that we have the best financial advisors in that pool," said Miguel Santana, Los Angeles' City Administrative Officer.

The city deleted the section that FirstSouthwest disputed in the original RFQs issued in November that excluded firms "that underwrite or otherwise trade in municipal bonds."

But it added a new section stating that applicants must submit with their proposals an affirmative statement acknowledging that their firm will be precluded from participating in the underwriting or purchasing of bonds of issuers within California during the term of the contract, plus two years after the city contract ends.

It also extended the deadline for proposals to Jan. 28.

Santana said Los Angeles changed the language to have as large a financial advisor pool as possible, while still being able to conduct competitive procurements for city bond issues.

"We wanted to provide more clarity as to what the city's expectations are, so we made some minor changes," he said.

The Los Angeles CAO did not view excluding underwriting in the entire state for selected financial advisors as particularly conservative.

"As underwriters selling bonds in California, they might be competing in the same marketplace as our bonds," Santana said. "If you look at the marketplace, it is not just exclusively related to the city."

Jack Addams, vice chairman of FirstSouthwest, said his firm doesn't agree with the stipulation that applicants agree not to underwrite bonds anywhere in California, the largest market for municipal bond issuance.

"We are not fine with the entire state of California," Addams said. "I don't understand how you get from implementing GFOA [Government Finance Officers Association] best practices to there."

FirstSouthwest intends to apply for both RFQs, but the company's affirmative statement will only state that it agrees to not act as an underwriter for Los Angeles - not all of California - if selected to act as a financial advisor for the time frame mentioned, Addams said.

"We agree with the GFOA recommendation that you can't underwrite during the period of time you are acting as financial advisor for that issuer; and even having to lock out of underwriting for a couple of years after," Addams said.

The broker-dealer acted as an underwriter on two California transactions during 2013 totaling roughly \$70 million, according to Thomson Reuters.

It was a co-manager in a syndicate that won the competitive bid for \$55.7 million of general obligation refunding bonds sold by the Los Angeles Community College District in May.

It also acted as sole underwriter on \$14.04 million of water revenue bonds sold through negotiation by the Tustin Public Financing Authority in October.

"We are not a big player on the underwriting side," Addams said. "It is the principle of the thing."

FirstSouthwest has hired two new bankers to expand its underwriting business in California. Mike Awabis as a senior vice president in Santa Monica and Ryan Chiriboga as an assistant vice president in Phoenix, but who does all of his business in California.

"It is not a business we want to give up, because we are going to go after both financial advisor and underwriting business in California," Addams said. "We have never been a major player underwriting in California, but I want to build that business."

Santana said his staff has been working with the city attorney to develop language to attract a broad pool, but they didn't want any conflicts with underwriters who do financial advisor work in California.

"This concern predates any action by the GFOA or the MSRB [Municipal Securities Rulemaking Board]", Santana said. "We have been mindful of this conflict for a long time."

The city's debt management policy, adopted in 2005, deems it a conflict of interest for firms to do business with the city as both an underwriter and financial advisor.

Los Angeles' actions come against a backdrop of regulatory changes from both the federal government and industry associations.

Regulations adopted by the MSRB, Dodd-Frank legislation, and changes proposed by the U.S. Securities and Exchange Commission that go into effect in mid-January have changed the playing field with rules regulating how FAs operate.

In November 2011, MSRB's Rule G-23 was modified to prohibit dealers from serving as FAs and underwriters on the same municipal bond deal.

The city used underwriters as co-financial advisors before the MSRB came out with its rules, but typically only in special situations where it wanted sell-side advice on an issue, city officials said.

The MSRB is holding a press conference on Jan. 9 to discuss a proposed standards to guide the conduct of municipal advisors, including regarding their fiduciary duty to put client's interests first.

Dodd-Frank legislation imposed a fiduciary duty on MAs and required for the first time that non-dealer MAs be subject to the same MSRB rules as broker-dealers.

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