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GFOA Seeks MA Conduct Rule Changes to Reduce Issuer Costs, Burdens.

WASHINGTON — The Government Finance Officers Association is calling for changes in the Municipal Securities Rulemaking Board’s core conduct rule for municipal advisors to reduce the costs and burdens for issuers.

The GFOA made the request in a recent two-page letter to the Securities and Exchange Commission, which has been seeking comments on Rule G-42. The letter was signed by Dustin McDonald, director of GFOA’s federal liaison center.

Some of the concerns the GFOA raised echoed those made by dealer groups in May.

The GFOA said, for example, that it is worried about language that would prohibit MAs or their affiliates such as brokers, from selling securities to issuers if they have given advice to the issuers related to the brokerage activities.

“The GFOA is concerned with this subsection because it would bar brokers from making investment recommendations and then selling the investment to an issuer,” McDonald said. “This prohibition could force small governments to open a more expensive fee-based arrangement with an investment advisor in order to receive this very limited type of advice on investments that are not risky.”

The GFOA said that while the principal ban makes sense for traditional financial advisors, “it is unclear what abuse the proposed rule is trying to solve for in the case of brokerage of bond proceeds investments.”

The Securities Industry and Financial Markets Association also told the SEC the ban was too broad.

The GFOA warned that the requirement to document the MA relationship in writing and specify where the issuer can access the advisor’s MA and MA-I forms seems “unnecessarily burdensome.” The group said the proposed rule should be amended to require MAs to provide copies of the forms and to notify issuers of any material changes to them.

The GFOA said that while it generally supports the proposed rule’s duty of care provisions, it is worried some of the provisions could lead to cost increases for issuers. “Since finance officials have a duty to their government, and most of the financial information about the government is public, adding an additional requirement on advisors to investigate the information provided to them by the client may be excessive,” the group said. “We ask that regulators be cognizant that excessive and unnecessary regulations may result in cost increases to these professions, which may be transferred to issuers.”

The group also asked for clarification of a provision of the proposed rule that would require MAs to give clients the basis for believing a recommended transaction or product was or was not suitable for the client. This provision “seems contrary to the proposed rule’s duty of care and loyalty requirements,” the GFOA said.

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