[Bond Case Briefs]

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[Study Points to Past Pay-to-Play in Public Pensions.]

The behavior was effectively curbed by the SEC's 2010 rule banning quid pro quo transactions, according to academic research.

At least up until 2010, state political donations by asset management executives appear to have been rewarded with public pension mandates, according to a [new paper] from researchers at the University of San Diego and University of Arizona.

Donations to a state government official or political action committee were linked to higher levels of government pension fund business in a study of about 22,000 investment advisory firms registered with the U.S. Securities and Exchange Commission between 2001 and 2016. A donor's client base had half a percentage point more government accounts — a number equating to about 390 moremandates for the average firm, according to authors William Beggs, a finance professor at the University of San Diego, and Thuong Harvison, a PhD candidate at the University of Arizona.

"Political donations yield a materially large number of government clients on an absolute number of accounts basis," they wrote. "Since public pension plan allocations tend to be large with regard to asset levels… this suggests that political donations may have a large economic impact on an advisor's fee revenues."

The authors suggested that asset management executives made campaign contributions to "politicians who will gain the authority to appoint trustees to public pension plans in order to win business managing plan assets." These pension trustees typically have final approval over the selection and termination of plan service providers, including asset managers.

According to the paper, the link between donations and pension mandates was most pronounced for firms offering pension consulting services, managers catering to institutional clients, and firms headquartered in states with "a high concentration of public pension plans and a culture of political corruption."

The relationship between political donations and public pension mandates was observed up until 2010, when the SEC adopted a new antifraud rule making it illegal for investment advisors to receive business from government entities within two years after making a related political contribution. The rule went into effect on March 14, 2011, effectively banning pay-to-play practices.

"We find the prevalence of pay-to-play activities declines after the adoption of SEC's rule," the authors wrote. They also observed "a sharp drop" in political contributions made by managers with a significant share of government clients following the rule's enactment.

"The SEC's rule on pay-to-play activities for investment advisors appears to have been successful in curbing the prevalence of this type of quid pro quo activity in the investment management industry," they concluded.

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by Amy Whyte

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