PUBLICCITIZEN | Common Cause

Nov. 9, 2026

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE, Washington, DC 20549-1090.

Submitted electronically

RE: Public Citizen and Common Cause Oppose the Proposed Repeal of Pay-to-Play Restrictions on Political Contributions by Certain Investment Advisers (File Number S7-2026-31)

Dear Secretary Countryman:

A stunning and completely out-of-the-blue new proposal by the Trump Administration and SEC Chair Paul Aitkins seeks to overturn a highly successful and long-standing anti-corruption rule at the Securities and Exchange Commission. Known as the "pay-to-play" Rule 206(4)-5 which was adopted over 15 years ago, investment advisers are prohibited from providing advisory services for compensation to a governmental entity for two years after the adviser or its covered associates made campaign contributions above a certain threshold to elected officials or candidates responsible for the awarding of advisory services by the governmental entity. The rule was designed and expanded over the years to combat political corruption and safeguard billions of dollars in state and local public pension funds.

This abrupt repeal effort comes on the heels of – nothing. There have been no new allegations of market disruption caused by the pay-to-play rule, no sudden outcries by investment advisers to rescind the rule, and no public complaints on the restrictions on campaign contributions from advisers vying for government contracts. In fact, the anti-corruption rule is overwhelmingly popular with the public. Furthermore, most investment advisers have learned to work with the

rule, with violations few and far between.[1] Many advisers are quite indifferent to the proposed repeal.[2]

But the pay-to-play rule has drawn the ire of SEC Chair Paul Aitkins, and thus the public is launched into a new rulemaking process in which the rule's complete revocation is being proposed.

Public Citizen and Common Cause echo the sentiment of scores of the general public as well as many within the affected profession opposing this unwarranted and uncalled for rulemaking to repeal the long-standing anti-corruption pay-to-play rule.

THE SCANDALS THAT MADE THE PAY-TO-PLAY RULE NECESSARY

The Pay-to-Play Rule 206(4)-5 at stake in this rulemaking was adopted in 2010. It was designed as a prophylactic measure to address the risk that some investment advisers might use large campaign contributions to influence the award of advisory contracts by state and local government entities, including public pension plans. This anti-corruption rule was designed along the same lines as an earlier Municipal Securities Rulemaking Board Pay-to-Play Rule G-37, promulgated by former SEC Chair Arthur Levitt in 1994. Both rules squarely came on the heals of scandals and allegations of wealthy business interests buying government contracts through large and coordinated campaign contributions.

The original MSRB Rule G-37 prohibits brokers, municipal securities dealers (firms) and municipal finance professionals (individuals) from negotiating business with an issuer of securities and bonds within two years after the dealer or one of its municipal finance professionals (or their PACs) make a political contribution to an issuer official. Municipal finance professionals may make contributions up to $250 to issuer officials for whom they can vote per election without violating the pay-to-play rule.

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[1] Chris Morris, "Trump's SEC proposes scrapping the pay-to-play rule guarding $6 trillion in public pension funds from Wall Street donors," *Yahoo Finance* (Sept. 9, 2026). **("**The SEC has brought enforcement actions only a handful of times. In 2017, 10 investment advisory firms paid tens of thousands of dollars in penalties for violating the pay-to-play rule. Four more were charged in 2022, and another two in 2024.")

[2] Edward Reuda, "Rescinding SEC 'Pay to Play' Rule Could Reduce Advisers' Compliance Burden," *PlanAdviser* (Sept. 28, 2026). ("Others cautioned that the practical impact may be limited.... Firms may determine that the proposal does not warrant changes to their existing policies and procedures, which would reduce the proposal's practical impact across portions of the industry.")

Rule G-37 and its amendments and supplementary rules were all adopted in the wake of a substantial body of evidence of pay-to-play corruption by both business entities and individuals seeking securities business and contracts. In defending Rule G-37 in court, the MSRB and the SEC documented that pay-to-play practices exist widely among both securities business entities, municipal finance professionals and financial advisors. In *Blount v. SEC*, the Commission argued, and the court agreed, that "there is virtually no dispute that pay-to-play is a widespread practice. The comment letters before the MSRB and the Commission were virtually unanimous in agreeing that municipal underwriters often must make political contributions if they are even to be considered for underwriting business."[3]

These comment letters noted that individual professionals and advisors as well as business entities and securities firms often make campaign contributions in order to receive favorable treatment in the securities business from government officials. Several individuals or firms who would not otherwise make campaign contributions said they often feel compelled to do so in order to be considered for a contract. There is no distinction between the potentially corrupting influence of campaign contributions from individual securities professionals and advisors as opposed to securities firms. Campaign contributions from any source seeking securities business to those issuing the contracts can exert undue influence.

William Blount, the petitioner in the case, conceded in a radio interview that campaign contributions "does assure you at least you can get access to someone's office," that "most likely [state and local officials] are gonna' call somebody who has been a political contributor," and that officials will give securities business to their "friends" who have contributed.[4] Several years later, Blount himself would be convicted of pay-to-play corruption. While serving as Chairman of Alabama brokerage Blount Parrish & Co., William Blount provided $156,000 in cash, jewelry and other gifts to the President of the Jefferson County Commission in exchange for $6.7 million in securities business from the county. Blount was sentenced to four years in prison and fined $1 million.[5]

Loopholes in Rule G-37 – most notably the fact that many individual players in the securities market were not covered – pushed the MSRB and SEC to expand the scope of the pay-to-play restrictions. Individual consultants, advisors, family members of covered officials and individual associates of securities firms continued the pay-to-play practices. Not long after Rule G-37 was adopted in 1994, political finance consultants and individual securities advisors multiplied in

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[3] Brief of the Securities and Exchange Commission, Blount v. SEC, No. 94-1336 (July 5, 1994), 36-37.

[4] Radio interview, National Public Radio, Morning Edition (June 1, 1994).

[5] "SEC Wins Final Consent Judgments in Alabama Municipal Bribery Case," *BNA Money and Politics Report* (July 23, 2010).

number "like amoebas."[6] At that time individual consultants and advisors were not covered under the pay-to-play rule. Many of these consultants and advisors made extensive campaign contributions to issuers of securities business and were winning contracts on behalf of their clients. In February 2003, for example, Bear Stearns was interested in a $1.6 billion New Jersey tobacco contract, and hired Jack Arseneault as a consultant. Arseneault was a close ally and fundraiser for then-Gov. James McGreevey. Bear Stearns paid Arseneault $280,000 to clinch the bond deal.[7]

The explosion in securities consultants and advisors to help win securities business led to growing suspicions that municipal firms were exploiting the ability of these individuals to win contracts through their pay-to-play practices, and so the MSRB and SEC made the first expansion of the scope of the pay-to-play restrictions explicitly to encompass these individuals in Rule G-38 adopted in 1996.[8]

An October 2002 survey of political races in Massachusetts, New York and Pennsylvania found that spouses of municipal finance professionals covered by G-37 were actively making campaign contributions to those running for office who could influence the selection of municipal bond underwriters.[9] The MSRB and SEC again expanded the scope of their pay-to-play rules to prohibit owners and senior employees of a business entity from soliciting or directing others to make contributions to an official of an issuer or to a state or local political party where the dealer is seeking to engage in municipal securities or investment adviser services. The prohibition applies to any political committee created or controlled by the dealer or municipal finance professional as well.

Applying the pay-to-play restrictions on campaign contributions to brokers, dealers and other individuals involved with the financing business or investment adviser firm is what distinguishes the MSRB and SEC Pay-to-Play Rules from most other comparable anti-corruption laws around the nation. The loophole of employees, owners and other individuals of the covered firm making the campaign contributions in the name of the firm is effectively closed. This has made the MSRB and SEC Pay-to-Play Rules highly effective.

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[6] Alexandra Peers, "Wall Street Seems to have Found a New Way to get Muni Business," *Wall Street Journal* (Aug. 11, 1994).

[7] Martin Braun, "Bear Stearns Paid McGreevey Ally $250K for NJ Tobacco Deal Help," *The Bond Buyer* (May 22, 2003), 37.

[8] Jordan, Jon, "The Regulation of pay-to-play and the Influence of Political Contributions in the Municipal Securities Industry," *Columbia Business Law Review* (1999), 529.

[9] Braun, Martin, Michael McDonald and Ryan McKaig, "A Political Family Affair?" *The Bond Buyer* (Oct. 1, 2002), 1.

Three states have followed suit. On the heals of their own corruption scandals in which the governors and elected officials of New Jersey, Connecticut and Illinois were either voted out or imprisoned for accepting campaign contributions in exchange for awarding government contracts, the states adopted strong pay-to-play measures based on the MSRB and SEC models in which the campaign contributions restrictions apply to owners, senior employees and other individuals of the contracting firm as well as the business itself.

In New Jersey, Parsons Infrastructure sought a government contract to run the state's motor vehicle inspection program. Between 1997 and 2000, Parsons-related entities gave $507,950 to political candidates and state committees, and extensively lobbied state leaders. After State Senate President Donald T. DiFrancesco came out against awarding the contract, a Parsons-sponsored lobbyist called DiFrancesco's office. The lobbyist "pointed out" that Tony Sorter, a large contributor to DiFrancesco's campaigns, was one of the main subcontractors for the project.[10] One day after Parsons had submitted the bid to the state, the program manager "was instructed by Parsons Infrastructure President Frank DeMartino "… to deliver a [$1,000 check] from Parson's California headquarters," to Donald DiFrancesco.[11] With a lackluster procurement process and no pay-to-play laws, the vehicle inspection system with Parsons and the individual subcontractors eventually cost the state of New Jersey $590 million for an ineffective program, nearly $200 million more than originally expected.[12] In reaction to the Parsons scandal, Gov. James McGreevey passed a strong pay-to-play Executive Order in 2004 that was later codified into law.[13]

In Connecticut, then-Gov. John Rowland resigned and pleaded guilty in June 2004, "acknowledg[ing] that he conspired with other public officials and state contractors to award and/or facilitate the award of state contracts" in return for free vacation stays, complimentary construction on his home, and private flights to Las Vegas.[14]

A very similar corruption scandal engulfed Illinois. In 2009, the U.S. District Attorney's Office charged Gov. Rod Blagojevich on 18 counts of corruption and extortion. This included directing the business of refinancing state Pension Obligation Bonds to a company whose lobbyist would provide funding to someone in Blagojevich's inner-circle; controlling which companies managed the investments in the state's Teacher Retirement System (TRS) based on contributions; exploiting the Children's Memorial Hospital by promising additional state funding if the

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[10] Schiller, Francis E., "N.J. Enhanced Motor Vehicle Inspection Contract," Commission of Investigation (March 2002), 51.

[11] Id., at 63.

[12] Id., at 1.

[13] Political Activity, Lobbying Laws & Gift Rules Guide, 3d § 19:14.

[14] Green Party of Connecticut v. Garfield, 537 F. Supp.2d 359, 22-23.

hospital's Chief Executive Officer provided campaign contributions; and attempting to obtain personal financial benefits in return for his appointment as a United States Senator in former President Barack Obama's vacant seat.[15] Blagojevich was also accused of telling a Democratic National Fundraiser that "it was easier for governors to solicit campaign contributions because of their ability to award contracts and give legal work, consulting work, and investment banking work to campaign contributors,"[16] highlighting his willingness to exploit the pay-to-play system. In response to the Blagojevich scandal, the state of Illinois adopted its strong pay-to-play law in 2009 based on the MSRB and SEC models.

It is precisely the same story of corruption and scandal that make the SEC Rule 206(4)-5 so necessary today. Across the United States, public pension funds alone account for about $9 trillion, making them an exceedingly lucrative market for investment adviser firms. And pay-to-play corruption is a prime tool for winning some of those government contracts.

In 2009, for example, the California Public Employees' Retirement System (CalPERS) found that one of its board members had accepted roughly $40 million from Apollo Management, a private equity business run by billionaire Leon Black. In return, the board member helped secure $3 billion of CalPERS pensions managed by Apollo. That same year, Carlyle Investments was fined $20 million for making $13 million in payments to a top aid of a New York State Comptroller to secure a government contract to manage $730 million in New York pension funds. The pay-to-play scandals kept rolling in when Elliot Broidy of Markstone Capital pleaded guilty to making $1 million in gifts and payments to the New York State Comptroller's office in exchange for government contracts to manage $250 million in New York pension funds.[17]

The investment adviser industry is by no means immune to the pay-to-play corruption scandals that plague other high-financed government contracting procedures. In fact, the industry is so lucrative that it likely faces even a greater tendency to be the target of unscrupulous bidding.

RULE 206(4)-5 IS PRUDENTLY MANAGED BY THE SEC

While the SEC consistently monitors compliance to Rule 206(4)-5, actual enforcement actions for violations of the Pay-to-Play Rule are not altogether common. Rather than constant, day-to-day enforcement actions, the SEC generally enforces the rule through periodic sweeps when a set of potential violations appear in public records.

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[15] U.S. v Blagojevich, 612 F.3d 558 (U.S Court of Appeals, 2010), 17-37.

[16] Id., at 20.

[17] Hanna Levintova, "The SEC Wants to Scrap a Key Anti-Corruption Rule Targeting Private Equity," *Mother Jones* (Sept. 24, 2026).

There were three notable sweeps since the rule took effect. In January 2017, 10 investment advisory firms were charged with making campaign contributions in violation of the rule. In September 2022, four additional firms were charged with accepting advisory fees within the two-year time period. And in April and August 2024, the SEC issued cease and desist orders or civil penalties for illicit campaign contributions.[18] Fines in the last sweep ranged from $45,000 to $95,000 per violation.

The Pay-to-Play Rule includes a variety of exceptions. The Rule allows campaign contributions up to $350 per election to officials whom the contributor is entitled to vote and $150 per election to officials whom the contributor is not entitled to vote. A contribution made more than six months before an individual becomes a "covered associate" is exempt from the contribution restriction, provided the individual does not solicit government entity clients after assuming that role.[19]

Furthermore, the campaign contribution restrictions do not apply if (i) the investment adviser discovers the triggering contribution within four months of the date it was made; and (ii) the contributor obtains a return of the contribution within 60 calendar days after the adviser discovers it.[20]

These exemptions have been carefully drawn into the Pay-to-Play Rule to respect the First Amendment rights of investment advisers. Investment advisers and their associates may still make campaign contributions, though not so large as to raise the specter of unduly influencing the awarding of government contracts. And inadvertent donations that would otherwise violate Rule 206(4)-5 may be recovered and cured from an actual violation of the Rule.

CONCLUSION: THE PROPOSED RESCISSION OF THE PAY-TO-PLAY RULE NEGLECTS TO RECOGNIZE THE RISKS OF PERCEIVED OR ACTUAL CORRUPTION AND FALSELY POSITS UNDUE BURDENS

In proposing the total rescission of the Pay-to-Play Rule 206(4)-5, the Securities and Exchange Commission – which currently is staffed exclusively by three Republican members – has justified its abrupt and sudden challenge to the anti-corruption measure on the same old grounds that every opponent to pay-to-play restrictions have staked out. The echo chamber goes: limiting campaign contributions is an abridgement of First Amendment rights; the Rule is difficult to

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[18] U.S. Securities and Exchange Commission, Press Releases, (Jan. 17, 2017), (Sept. 15, 2022) and (Aug. 19, 2024).

[19] Alston & Bird, "SEC Moves to Scrap Investment Adviser 'Pay-to-Play' Rule," Investment Funds Advisory (Oct. 8, 2026).

[20] Simpson Thacher, "The Advisers Act Pay-to-Play Rule: Timely Reminder for Investment Advisers," Memorandum (May 1, 2026).

interpret and enforce; and such pay-to-play restrictions chase away competent investment advisers. All of these arguments have been heard before and routinely rejected by the public and the courts. Whatever disadvantages that may or may not be imposed on covered officials by the pay-to-play rule are more than made up by the integrity restored in the system for a fair and open government contracting process.

And the burdens on covered officials, if any, are indeed minimal. Investments advisers may still make campaign contributions to their favored candidates and public officials. The Pay-to-Play Rule 206(4)-5 is designed to allow cures for inadvertent violations, all the while enforcement actions are not common and penalties for violations are rarely severe. The investment adviser community has largely learned how to work within the limited constraints of the Pay-to-Play Rule, further contributing to relatively few enforcement actions. And there is no evidence – absolutely none – that the investment adviser industry has seen a downturn in business activity or that investments advisers are fleeing the industry. In fact, the Investment Adviser Association reports record growth in the industry.[21] The so-called dreaded unintended consequences of the Pay-to-Play Rule simply are not reverberating in the real world.

The SEC Pay-to-Play Rule 206(4)-5 has been carefully crafted through the years to address specific and very real problems of corruption all the while respecting the needs of the investment adviser industry. The Rule is prudently enforced by the SEC and has helped restore integrity to the profession. **Public Citizen and Common Cause strongly encourage the SEC not to pursue its proposal to rescind the anti-corruption Pay-to-Play Rule.**

Sincerely,

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[21] Investment Adviser Association and Comply, *Investment Adviser Industry Snapshot 2026* (2026).