Government Investment Officers Association

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March 7, 2014

Mr. Ronald W. Smith, Corporate Secretary
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, VA 22314

Re: Draft MSRB Rule G-42
Duties of Non-Solicitor Municipal Advisors

Comments Submitted Electronically

Dear Mr. Smith:

The Government Investment Officers Association ("GIOA") represents government investment officers across the United States. While primarily an educational institution, we felt it appropriate to comment on potential changes and proposed rules that could affect cash management practices for our organizations.

The GIOA appreciates the opportunity to provide comments to the Municipal Securities Rulemaking Board ("MSRB") on its proposed standards for non-solicitor municipal advisors. The GIOA urges the Board to consider the following thoughts on the municipal advisor rule, especially with regard to the investment of bond proceeds.

Prohibition Against Principal Transactions for Bond-Related Proceeds

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") specifically established that a fiduciary duty is owed by an advisor to its municipal entity clients. Neither the Dodd-Frank Act nor the SEC's Final Rule for municipal advisors define what is meant by the term "fiduciary duty". Your draft Rule G-42 elaborates on the role of a Municipal Advisor, including defining the fiduciary duties an advisor may have toward municipal entities such as ourselves.

We manage bond proceeds for ourselves, but also manage significant assets on a fiduciary basis for related governmental entities within our states and counties. These Local Government Investment Pools, or "LGIPs", allow our communities to enjoy the benefit of professional money management at significantly reduced costs. Our communities deposit operating as well as capital funds, such as bond proceeds, in these funds and therefore these

funds would be directly affected by the terms of draft Rule G-42.

We strongly support the MSRB's initiative to apply a fiduciary standard to issuers and borrowers in the municipal bond market. However, the proposed draft Rule G-42 specifically prohibits a municipal advisor (and any affiliate) from engaging in any transaction in a principal capacity to which municipal bond-related funds are involved.

In most cases, this prohibition would extend to our bond proceeds accounts which, of course, represent proceeds of municipal bond transactions. The draft Rule G-42 allows an exemption for activities that are permitted under Rule G-23, but those provisions do not include the typical investment activities which we perform on a daily basis.

Some unintended consequences of the draft Rule G-42 would be:

- Not allowing us to invest the proceeds of any municipal bond transaction with any broker-dealer firm acting in a principal capacity. Firms would have to consider themselves acting as fiduciaries with regard to the investment of our funds;
- Similarly, the draft Rule G-42 would not allow us to invest our Local Government Investment Pools with any broker-dealer firm acting in a principal capacity; and
- Potentially require an outside investment advisor acting as Fiduciary for our bond proceeds and Local Government Investment Pools in order to comply with the restrictions.

Each of the above scenarios represents increased costs which would ultimately be paid by state and local governments and the communities we serve through a reduction in interest earnings.

Clarification of the Role and Duties of the Securities Professional with Regard to Public Clients

As public investors, we are exempt from the registration requirements. What the rules do not specifically address are how the securities firms and banks that we utilize (as principal counterparties) are supposed to maintain their independence while acting as a fiduciary for a portion of the funds that we manage.

As mentioned above, we manage capital funds, operating funds and fiduciary funds for entities within our states. The proposed rules suggest that our investment counterparties (broker-dealers) act in the following manner with regard to our transactions:

Public Fund Type	Counterparty Role
Operating Funds	As Principal
Capital Funds	As Fiduciary
LGIPs	As Fiduciary

Thankfully, the burden of compliance is not our responsibility; however the "costs" of maintaining compliance with the proposed rules would certainly be paid by state and local governments and the communities we serve through a decrease in investment earnings.

If we were to decide that we would need to "split off" management of our capital and fiduciary funds in order to comply with the restrictions in draft G-42, we would lose oversight of those monies and increase management fees on the ultimate beneficiaries of those funds.

In 2011, the MSRB circulated draft rules which addressed the above issues and created an exemption to those firms which were swept up in the definition of municipal advisor even though there was advice only being given for investment assets.

Your draft rules at that time addressed what draft Rule G-36 called an "unmanageable conflict" with municipal advisors that acted as principals to other transactions.

As you know, draft Rule G-36 was not adopted and was superseded last year by the SEC's Municipal Advisor rule. We would urge that the MSRB include some similar language in Rule G-42 to that proposed in Rule G-36 to address the restriction on principal investment activity by municipal entities.

Thank you for the chance to comment on the draft Rule G-42. If we can offer any assistance to the MSRB in your deliberations, or if we can answer any questions concerning about the investment of bond proceeds or pooled funds by public sector entities, please don't hesitate to contact us.

Respectfully,

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