



July 9, 2010

Senator Christine Kehoe

Capitol Office  
State Capitol, Room 5050  
Sacramento, CA 95814

San Diego Office  
2445 Fifth Ave., Suite 200  
San Diego, CA 92101

Re: Opposition to California Assembly Bill 1743  
Please Oppose Unless Amended

Dear Chairman Kehoe;

This letter is written to express my views regarding CA Assembly Bill 1743 ("the Bill"), including my fear that the Bill will have a material negative effect on small, independent broker-dealers conducting placement agents services in California, firms like mine, while making no meaningful contribution to curb the abuses it seeks to address.

Since the bill was introduced, the US Securities and Exchange Commission (SEC) has approved new regulation aimed at curbing pay-to-play abuses and addressing the qualifications and requirements for placement agents<sup>1</sup>. The SEC's new regulation 206(4)-5 is robust and comprehensive, directly targeting the same abuses that AB 1743 purports to address. SEC Rule 206(4)-5 goes into affect September 13, 2010. It addresses pay-to-play within an established regulatory scheme that includes licensing and registration requirements, examination programs, and stringent enforcement for violators. In addition, the CalPERS Policy for Placement Agent Disclosure, implemented late in 2009, closes any remaining loop by requiring full disclosure of payments, relationships, and potential conflicts of interest prior to any investment by the retirement fund. In the wake of the SEC's recent action, and with the CalPERS policy in place, AB 1743 is simply obsolete.

The bill's own sponsors have acknowledged that AB 1743 is not likely to have a material affect. They have willingly incorporated amendments proposed by lobbyists representing the large firm Wall Street interests, including Blackstone and others. But, Assemblyman Hernandez' own staff has repeatedly dismissed the input from small firms, including SIFMA's proposed amendment for the addition of a sunset clause (which I strongly support, should the bill pass through your committee) on the grounds that it is unlikely the bill could show demonstrable affect on corruption, even after 5 years. While I disagree that the battle against corruption is futile, I find it extremely difficult to support a bill that has not instilled confidence in its own sponsor.

Further, please take note that placement agents do not cost taxpayers or pension beneficiaries anything, but AB 1743 will. AB 1743 will require that the state administer

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<sup>1</sup> Release No. IA-3043; File No. S7-18-09, Political Contributions by Certain Investment Advisors, full text can be found at: <http://www.sec.gov/rules/final/2010/ia-3043.pdf>

training, reporting, licensing and registration. In a fiscal environment such as we Californians find ourselves now, one in which our state-supported programs and services are being slashed or eliminated, the notion of having to pay even one dollar more for legislation that cannot demonstrate it would have any material value is absurd.


In addition to AB 1743's cost to taxpayers, the costs of its implementation to small California-based firms like mine are exorbitant. Because of AB 1743's similarity to SEC 206(4)-5, a cost comparison based on the SEC's projections for its rule is reasonable. Regarding costs, the SEC estimates that registered firms subject to its rule would incur approximately 3,394 additional hours to comply with the rule. Based on that estimate, according to the SEC, registrants would incur an aggregate cost of approximately \$200,246 per year for the total hours their personnel would spend in complying with the recordkeeping requirements. This cost estimate is in addition to the estimated start up costs ranging from \$10,000 to \$100,000.

As a stand-alone concern, the high costs to the state and its taxpayers should be enough to cause you to reconsider the merits of AB 1743. Add to this the fact that the bill is now made unnecessary to recently passed SEC Rule 206(4)-5, and I suggest that further progress of AB 1743 should be denied.

I trust that you, as my representative to the state of California, will put AB 1743 aside for now, and focus instead on restoring our state to greatness.

I hope you will feel free to contact me for clarification of my views, or for more information, if required.

Best regards,



Lisa Roth  
Chief Executive Officer  
619-283-3107

Enc. Letter dated July 9 to Chairman Kehoe

Cc: Assemblyman Hernandez  
Members, Senate Appropriations Committee  
Maureen Ortiz, Senate Appropriations Committee Consultant  
Chantele Denny, Senate Republican Policy Consultant  
Paul Navarro, Deputy Secretary Legislative Affairs, Governor Schwarzenegger