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

November 2, 2026

Subject: Political Contributions by Certain Investment Advisers; File No. S7-2026-31

Dear Secretary Countryman,

On behalf of the California Public Employees' Retirement System (CalPERS), we appreciate the opportunity to comment on the Securities and Exchange Commission's (SEC or Commission) proposal to rescind Rule 206(4)-5 under the Investment Advisers Act of 1940, commonly known as the "pay-to-play" rule.

As the largest public defined benefit pension fund in the United States, CalPERS manages approximately $650 billion in global assets on behalf of nearly 2.4 million members. We seek long-term risk-adjusted investment returns through responsible stewardship and prudent investment decisions consistent with our fiduciary duty. Protecting the independence and integrity of investment decisions is essential to fulfilling that duty and safeguarding the retirement security of our members.

CalPERS respectfully urges the Commission to withdraw its proposed rescission of the pay-to-play rule, which provides important safeguards against potential corruption, conflicts of interest, and the appearance of impropriety in the award of investment advisory business and the management of governmental and public trust fund assets. In 2009, we supported[1], with some modifications, the SEC's Proposed Rules related to Political Contributions to Certain Advisors (File Number S7-18-09). This rule provided for a two-year ban or "time out" on investment advisors (IAs) that make specified political contributions from providing investment advisory services for compensation, a prohibition on bundling of campaign contributions, and a ban on IAs paying a third party, such as a solicitor or placement agent, that is not an SEC-registered IA or broker-dealer, to solicit a government client on their behalf.

[1] CalPERS comment letter to SEC, File Number S7-18-09, Release No. IA-2910, Proposed Rules related to Political Contributions to Certain Advisors, October 6, 2009.

CalPERS believes these restrictions have played a vital role in substantially reducing the number of pay-to-play scandals in the industry and ensure a level playing field where IAs can compete for investing government and trust fund assets based on their expertise, performance, fees and level of service, rather than the political influence they can bring to bear on pension fund fiduciaries. The Rule has also shielded IAs from actual or perceived pressure to make financial contributions to elected officials that control these investment decisions in order to obtain or preserve access to government business. Such practices threaten fair competition, undermine public trust, and can ultimately harm the beneficiaries whose assets these advisers are entrusted to manage.

Based on our own past history, we believe the Commission's rescission of this Rule, absent any other compensating changes, would have the potential to significantly undermine pension fund governance and increase the risk of corruption. We are committed to ensuring that such breaches of legal and ethical behavior by public officials remain a thing of the past and have dedicated ourselves as an organization to pursue all appropriate policy changes and remedies available to prevent further misconduct. While California law and CalPERS rules and regulations provide strong protections intended to prevent pay-to-play practices and regulate the activities of placement agents seeking public pension business, we believe that the Commission's continued enforcement of a consistent nationwide federal standard provides vital baseline limits on the conduct of IAs and placement agents, reduces uncertainty for IAs operating in multiple jurisdictions, and bolsters public pension fund governance nationwide.

We believe the Commission's stated examples of flaws in the existing Rule do not provide compelling support to its proposed abandonment and do not sufficiently recognize the potential corrosive influence of allowing IAs to once again make political contributions to elected officials that control governmental entities participating in the public and private markets. During the 16 years the Rule has been in effect, it has not been our experience that we have been prevented from hiring or retaining the services of the most qualified and cost-effective IAs because of contributions by an adviser's covered associates during the two-year lookback period. Although CalPERS recognizes that compliance can be burdensome and that the Rule may have unintended consequences, we believe these concerns warrant targeted improvements rather than wholesale rescission. The Rule provides advisers with a clear basis for declining to make campaign contributions that could raise concerns about their eligibility for government business, while helping protect public pension systems from improper influence. Eliminating this safeguard could weaken an important deterrent against pay-to-play practices. The Commission should therefore retain the Rule while considering practical refinements that preserve its essential protections for pension beneficiaries.

We recognize the Commission's concerns that the Rule can impose significant compliance burdens, produce disproportionate consequences for inadvertent contributions, and affect advisers' ability to hire qualified personnel. We raised related concerns in our 2009 comment letter, including the practical difficulties of applying a uniform compensation prohibition to complex, long-term private investment arrangements. We continue to believe that these challenges warrant careful consideration. However, rescinding the Rule entirely would remove an important, objective safeguard without ensuring that alternative approaches would adequately deter misconduct. Existing antifraud provisions, fiduciary obligations, and compliance procedures are important protections, but they do not necessarily provide the

same clear and preventive standard. As the Commission recognized when initially considering this issue, pay-to-play practices are often difficult to prove after the fact.

Rather than rescinding the Rule, CalPERS encourages the Commission to propose amendments to the existing Rule that preserve its core protections while improving administration and enforcement. These reforms should provide reasonable flexibility in addressing inadvertent or de minimis contributions, clarify the application of the Rule for contributions to elected officials who can influence adviser selection in their capacity as fiduciaries, and recognize the complexities of private investment partnerships and illiquid assets. For example, requiring simple disclosure by an IA to affected public pension clients may be sufficient for some strict-liability situations, such as when the IA desires to hire a qualified individual that made otherwise limited or prohibited campaign contributions during the lookback period. The Commission should also ensure that any exceptions or remedial measures protect the interests of pension beneficiaries and do not create opportunities to circumvent the Rule. Effective reform should distinguish technical violations from conduct that present a genuine risk of improper influence without weakening the Rule's deterrent effect.

Ultimately, the integrity of public pension investment decisions must remain paramount. Public retirement systems manage assets on behalf of millions of workers and retirees who depend on those funds to deliver promised benefits. Maintaining a clear federal standard helps protect beneficiaries, supports fair competition, and reinforces public confidence in the stewardship of retirement assets. CalPERS urges the Commission to retain Rule 206(4)-5 and pursue targeted improvements rather than rescinding it in its entirety. If the Commission believes the Rule should be updated, we welcome the opportunity to engage on targeted improvements that preserve a unified federal standard.

Thank you for the opportunity to share our comments. Please do not hesitate to contact Danny Brown, Chief of our Legislative Affairs Division, at (916) 795-2565, if we can be of any assistance.

Sincerely,

Marcie Frost
Chief Executive Officer