BILL LOCKYER
TREASURER
STATE OF CALIFORNIA

February 1, 2011

T. Timothy Ryan, Jr.
President & CEO
Securities Industry and Financial Markets Association
120 Broadway, 35th Floor
New York, NY 10271

James R. Cervantes
Chairman
California Public Securities Association
P.O. Box 2531
San Francisco, CA 94126

Dear Mr. Ryan and Mr. Cervantes:

The Financial Industry Regulatory Authority (FINRA) has launched an inquiry into, among other issues, the payment of underwriter fees to the California Public Securities Association (CalPSA). Following media reports about FINRA's January 18, 2011 letter to underwriters seeking information related to the inquiry, my staff informed me that, since 2005, the State has permitted underwriters, at their request, to include the per-bond assessment of both the CalPSA and the Securities Industry and Financial Markets Association (SIFMA) in the underwriter expense component of each bond transaction. The underwriters claimed these fees were a necessary expense of the transaction, and that the fees were routinely included in underwriters' expenses for municipal transactions. The State paid the fees out of bond sale proceeds. The assessment was \$.01 per bond for CalPSA (\$.02 effective May 1, 2010) and \$.03 per bond for SIFMA.

Based on my own review of these fees, I have concluded it is not appropriate to expend public funds to pay the CalPSA and SIFMA assessments. Effectively immediately, I am rescinding authorization for payment of these fees out of future bond sales. I also will take action to recover all taxpayer monies used to make such payments from previous sale proceeds. And I will recommend to other government issuers in California and nationwide that they review their

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policies for payment of underwriters' expenses and cease allowing the use of bond proceeds to pay for CalPSA and SIFMA fees.

To help end this practice, I request that your organization adopt rules that strictly prohibit your members from seeking payment of their membership fees from the proceeds of bonds issued by state and local governments.

Your timely review and response to this request will be appreciated. If you need further information, please contact Mark Paxson, General Counsel to the State Treasurer's Office (STO), at (916) 651-6846. Thank you for your cooperation in this matter. For your information, I have attached a letter I sent today to the underwriting firms that do business with the STO.

Sincerely,

Bill Lockyer

BILL LOCKYER
California State Treasurer

Enclosure

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STATE OF CALIFORNIA

February 1, 2011

Mr. Chris Mukai
Director
Citigroup Global Markets Inc.
444 S. Flower Street, 27th Floor
Los Angeles, CA 90071

Dear Mr. Mukai:

As you know, the Financial Industry Regulatory Authority (FINRA) has launched an inquiry into, among other issues, the payment of underwriter fees to the California Public Securities Association (CalPSA). Following media reports about FINRA's January 18, 2011 letter to underwriters seeking information related to the inquiry, my staff informed me that, since 2005, the State has permitted underwriters, at their request, to include the per-bond assessment of both CalPSA and the Securities Industry and Financial Markets Association (SIFMA) in underwriter expenses paid from state bond transactions. Underwriters claimed these fees were a necessary expense of the transaction, and that the fees were routinely included in underwriters' expenses for municipal transactions. The assessment rate was $.01 per bond for CalPSA ($.02 effective May 1, 2010) and $.03 per bond for SIFMA on sales of new-money bonds. The State paid these fees from bond sale proceeds.

I understand participation in SIFMA and CalPSA, as well as paying the fees, are voluntary on the part of your firm. Based on my own review of these fees, I have concluded it is not an appropriate use of public funds to allow these expenses. Effectively immediately, therefore, I am rescinding authorization for payment of these fees out of future bond sales. In all future State bond sales, senior managers will be solely responsible for paying any fees assessed by CalPSA or SIFMA. Senior managers will be prohibited from passing any of these costs through to the State, or to other members of the syndicate, in any bond sale.

I also will take action to recover from underwriters all taxpayer monies used to make such payments in previous sales. Finally, I will recommend to other government issuers in California

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and nationwide that they review their policies for payment of underwriters' expenses and cease paying for CalPSA and SIFMA assessments from bond proceeds.

If you have any questions regarding this new policy, please contact Blake Fowler, Director of the Public Finance Division of the State Treasurer's Office, at (916) 653-3451. I look forward to your firm's cooperation in this matter.

Sincerely,

Bill Lockyer

BILL LOCKYER
California State Treasurer