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30TH DISTRICT

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ENVIRONMENTAL CONSERVATION COMMITTEE

TELEFAXED

April 3, 1997

Arthur Levitt
Chair
Securities and Exchange Commission
450 Fifth St., N.W.
Washington, DC 20549

Dear Arthur:

I am writing to call to your attention how leading municipal bond firms are evading SEC rule G-37 and to urge you to expand the scope of the rule's prohibition on political contributions from municipal underwriters.

I think an important step was made under your leadership in enacting rule G-37 in seeking to eliminate the "pay-to-play" practices among municipal securities firms. However, the spirit of the rule is being violated. At least in New York, municipal bond firms are still paying to play.

A report that I am releasing next week, a copy of which I am sending to you under separate cover, shows that the State Republican Party raised nearly \$1 million in campaign contributions in 1995 and 1996 from municipal bond firms that have won underwriting business in New York. My report shows that while no municipal securities dealer made contributions directly to Governor Pataki or any other issuer of municipal bonds, the underwriting firms successfully got around rule G-37 by making contributions to a variety of political committees controlled by Pataki, U.S. Senator Al D'Amato and the State GOP. A large portion of the money contributed by municipal bond firms to these committees was later transferred to the campaigns of Republican candidates for office in New York, including Governor Pataki. Although the large amounts of contributions by municipal bond firms to the State GOP technically may not violate the SEC rule, they clearly create the impression that there is a connection between campaign donations and the awarding of municipal securities business in New York.

While Governor Pataki did not receive direct contributions from municipal underwriters, it is evident that his campaign is benefitting from the money raised by the Republican committees -- the National Republican Senatorial Committee (NRSC), two committees set up to promote the 1996 Clean Water/Clean Air Bond Act, and the Republican State Committee's "housekeeping" account.

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The NRSC, a federal committee controlled by Senator D'Amato, which raised over \$500,000 in "soft-money" contributions from underwriters in the 1996 election cycle, transferred \$1.9 million to Governor Pataki's campaign at the end of 1996. While federal law prohibits the use of soft money for federal candidates, there is no restriction against using these funds to assist State candidates.

The two bond act committees — the Clean Water/Clean Air Bond Act Committee and the Renew New York Bond Act Committee — raised nearly \$300,000 from 13 underwriters. The Clean Water/Clean Air Bond Act Committee, which raised \$265,500 from underwriters, was actually set up by Governor Pataki, while the Renew New York Bond Act Committee was controlled by Senator D'Amato. Several opinion polls have shown that the ads significantly bolstered the approval ratings of both Pataki and D'Amato.

The Republican State Committee raised several thousand dollars in "housekeeping" contributions from underwriters in 1996 after the chairman of the State GOP encouraged municipal bond firms that were restricted by rule G-37 to make contributions to the RSC housekeeping account.

In addition to these contributions, my report shows that one leading municipal bond firm made two \$1,000 contributions to the campaigns of two Republican candidates for State Supreme Court. This was a high profile race where it was well known that the Republican Party was actively involved in seeking to elect its candidates. Evidently, this contribution was solicited by Republican Party officials, and the conclusion is inescapable that it was made by the municipal bond firm to curry favor with the Republican Administration.

Municipal securities firms will continue to evade rule G-37 as long as the prohibition on campaign contributions only applies to State and local officials involved in the issuing of underwriting business. The definition between officials and party committees is illusory, and, as presently written, rule G-37 can be easily evaded and fails to achieve its purpose. Several steps must be taken by the SEC to effectively eliminate "pay-to-play" practices and the impression of a conflict in the awarding of municipal securities business.

First, the SEC should extend the G-37 ban on contributions from municipal securities firms to include all national, state, and local party committees. Unless this important step is taken, political parties will continue to act as an intermediary for contributions from underwriters to State and local candidates. The contribution ban should also be extended to cover any other political committee that spends money for purposes which benefit State candidates, like the two New York bond act committees. The SEC should also prohibit municipal bond firms from making any "soft money" contributions. This is important because, in New York and other states, federal soft money can be transferred into the campaigns of state candidates. In addition, both federal and state soft money has been spent on consultants and for other purposes that indirectly benefit state and local candidates.

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In addition to these fundamental changes, the SEC should take several steps to improve disclosure of campaign activity by municipal bond firms. Specifically, the SEC should extend G-37's reporting requirement to include any political contribution. While municipal bond firms currently report all contributions to state and local candidates who are involved in the selection of underwriters and to political parties, none of the firms that contributed to the two New York bond act committees disclosed these donations on G-37 forms. Yet, these contributions totalled nearly \$300,000 and greatly benefitted the campaign of Governor Pataki.

The SEC took a principled and important step in enacting rule G-37. I hope you will now take the steps necessary to make rule G-37 more effective.

I would be happy to provide any assistance you may need in making these important changes. Please do not hesitate to call me.

Best regards.

Sincerely,



Franz S. Leichter

FSL/jb
cc: Roger Hayes, Chair, MSRB