

93-41

STATEMENT BY CHAIRMAN LEVITT REGARDING POLITICAL CONTRIBUTIONS  
TO STATE AND LOCAL OFFICIALS AND CANDIDATES

Washington, D.C., October 18, 1993 -- As a result of both my political and professional experience, I know that perceptions of inappropriate political contributions can seriously threaten the integrity of the municipal securities market. Because perception often becomes accepted as reality, even the appearance of impropriety can erode public confidence in a market that depends heavily on public trust.

I am concerned that those kinds of practices have become part of the fabric of the municipal securities business, to the extent that young people coming into the business learn practices which result in the subversion of a freely competitive business, and contempt for the political process.

Some of the firms I met with today have already adopted policies which can serve as models for eliminating the culture of pay for play, and worse. By attending this meeting, they all told me that they are willing to move ahead aggressively to do something about this problem.

Today, more than 15 of our nation's largest and most important firms, are agreeing in principle to discontinue the practice of making political contributions that attempt -- or even appear to attempt -- to influence the selection of the firm as an underwriter.

While political contributions that express one's sincere support for a candidate are the lifeblood of our political process, contributions that coincide with business relationships diminish respect for elected officials and our markets. I am hopeful that the policies adopted today will strike a balance.

I applaud this agreement. It represents the kind of voluntary, independent action that we at the SEC envision as the line of first defense in the regulatory scheme. I hope others will follow this example and leadership.

I view today's announcement as a beginning -- not an end -- in a continuing process that has implications well beyond today's press conference and tomorrow's newspapers. Because while this is a significant and substantial step forward, we can have no illusions that this statement alone will solve and prevent all problems. I am concerned that the use of consultants, affiliates and employees to avoid the prohibitions of this policy, as well as other related practices which improperly influence municipal finance decisionmaking, may not be fully addressed by the statement of principle we have here today.

These firms will have hard work ahead of them in the coming months, and the SEC will closely watch their progress.

But I believe the existence of this agreement should have a broad effect, causing participants in the municipal bond market to constructively reevaluate the way they conduct business and structure relationships with issuers.

Indeed, it is my intention to bring the principles of this agreement to all participants in the municipal bond market, including securities firms, bond counsels and financial advisers, among others.

I hope the principles to which these industry leaders agree today, together with the proposed rulemaking by the MSRB, can be a model for developing the industry standards which will best protect everyone tomorrow.

I commend the leadership involved in this agreement, particularly that of Frank Zarb, who has been working on this initiative for months and talking about it even longer. He and his peers have made a valuable contribution to the industry today.

At the meeting I encouraged everyone to continue their efforts and to further define the statement of intent made today. As a practical matter, I told them I would like each firm in the next 60 days to develop a policy which fits its needs but adheres to the spirit and letter of the statement. I recognize that there may be varying approaches to achieve the result, but we all acknowledged that the result must be achieved. Exceptions, if any, must be narrow.

I pledge that the SEC will continue to work with the industry to help expand these voluntary actions. We have already begun a major effort with the private sector and the SROs to address market disclosure and transparency.

And, as you may be aware, the Division of Enforcement has a number of inquiries underway with respect to situations involving questionable activities affecting this market. Those inquiries will continue as the Commission fulfills its responsibility to determine whether there have been violations of the law, and to determine what changes, if any, need to be made in the regulatory structure.

I hope to be able to inform Congress, by year-end, that specific programs are in place. If we continue this cooperation, I fully expect to be able to do so. In the interim, I called on those represented today to act consistently with the spirit of these principles, and that they remain

aware of obligations under MSRB rule G-17 and the antifraud provisions of the federal securities laws.

The municipal securities market is absolutely essential to our nation's economic health. It provides an efficient means of financing local government needs and, on the whole, offers safe, sound and reliable investments for millions of bondholders. The SEC will continue its mission of doing all in its power to safeguard and strengthen these valuable national assets. The commitment of these firms to such goals today is a strong first step.

# # #