

The Goldman Sachs Group, L.P. | 85 Broad Street | New York, New York 10004
Tel: 212-902-6445

David C. Clapp
Limited Partner

**Goldman
Sachs**

April 21, 1997

Mr. Arthur Levitt
Chairman
Securities & Exchange Commission
450 Fifth Street, N.W., 6th Floor
Washington, D.C. 20549

Dear Arthur:

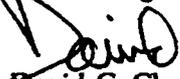
I have enclosed a letter to the Times objecting to their 4/21/97 editorial "Municipal Bond Abuses Return". The letter is self-explanatory. In fact, I was surprised (but not shocked) to find them so far off base and lacking in knowledge.

As you know, not only have contributions all but disappeared, but amounts given even to permitted causes are greatly reduced. As you once said, we actually have succeeded in doing what we set out to do. It's time that someone said so - so I am. I am sure that Kit and the MSRB will continue to monitor the situation and make changes to G-37 as needed.

Although I don't say this in the letter, the Times was actually not very interested in G-37 when we adopted it. Dow Jones was more on top of it. As one Times reporter said to me at the time (approximately) "it may not be right, but newspapers are more interested in the abuses than in the reforms.

I also think it is okay to be protective of a beleaguered, shrinking industry that has reformed many of its problems and is continuing to work to eliminate other problems (all while slowly going broke). And I think that elected officials, the vast majority of whom are hard working and honest, can use a little acknowledgment. I haven't spoken to you about this for some time (although I would be glad to). I hope you agree with me.

kindest regards,


David C. Clapp

DCC:ca

Enclosure

RECEIVED
07/935
97 MAY -5 PM 4:31
OFFICE OF THE CHAIRMAN

The Goldman Sachs Group, L.P. | 85 Broad Street | New York, New York 10004
Tel: 212-902-6445

David C. Clapp
Limited Partner

**Goldman
Sachs**

April 21, 1997

**The Editor
The New York Times
229 West 43rd Street
New York, NY 10036**

I was astounded and disappointed to read your editorial "Municipal Bond Abuses Return" (Monday, April 21, 1997). The author obviously did little or no research, seems to have almost no knowledge of the subject or its history, but then shoots from the hip and draws several unwarranted and horribly unfair conclusions.

The subject is political contributions, and I served as Chair of the Municipal Securities Rulemaking Board (MSRB) that wrote the rule in 1993 and 1994 banning all but minor contributions from municipal bond firms to elected officials or their appointees who award municipal bond business. The SEC, and its Chair Arthur Levitt, were extremely supportive and helpful at the time of the drafting of the rule (called Rule G-37). In fact, Chairman Levitt courageously campaigned for the rule and was responsible for voluntary securities industry support. Federal law created the MSRB to draft and adopt rules of conduct for Municipal Bond underwriters and dealers; the SEC approves the rules so adopted which thereafter have the force of law. In the case of G-37 the SEC approved, and in the ensuing months they were sued in an attempt to block the new regulation. The courts, including the Supreme Court of the United States, agreed with the SEC: the rule stands as adopted.

The suit, and a lot of discussion in the press at that time, centered around freedom of speech. During the time that the rule was being drafted and debated, many hours were spent discussing the advisability of broadening the rule to cover contributions to political parties' housekeeping accounts, bond issue referenda and even charities favored by politicians. At the time, our legal advice from inside and outside counsel, was to draft the rule in a somewhat narrow way. Case law was unclear at the time, but it was stated that it is one thing to ban or limit individual contributions to politicians who directly or indirectly hand out bond business; it is another matter to rule that individuals may not support a bond issue to control air and water pollution or give to a political party whose national or even local agenda is in accord with their own convictions. The striking down by a court of even a part of the rule could have had the effect of delaying the entire rule for months or even years. So the rule was drafted as it is (it will be reviewed continuously by the MSRB).

The good news, which the Times did not bother to discover, is that fully 95% (that may be a low estimate) of all political giving to candidates from municipal bond firms has been eliminated.

Ask any political fund raiser in any jurisdiction, or ask any elected official at the state or local level, and you will find that they agree. They may not like it, but they will agree. And, the contributions which remain must be disclosed to the MSRB and made part of the public record. If someone had taken the time to look at that record carefully they would have discovered that the amounts given to political parties and bond referenda are dramatically reduced since 1994, as to both the number of checks written and the amounts given.

But the worst parts of the editorial are those which describe the Municipal Bond industry as ever having been "one of the most corrupt in the United States" and then stating that the "practice remains as corrupt as ever." The Municipal bond business was never close to this unfair characterization. To state such a thing is outrageous and insults virtually all elected officials and their appointees as well as thousands of honest souls laboring in the (very tough) municipal bond business. In fact, only a small percentage of elected officials or municipal industry participants ever did anything "shady." That was the complaint most voiced about Rule G-37 when it was first published: "why implicate everyone for the misdeeds of a few?". We said then that even a relatively small number of abuses were too many. We were bombarded by comments about corruption and bribes in the construction industry, the garbage business, the meat packing business, etc. etc. We of course reminded people we don't regulate those industries.

At the time of the adoption of Rule G-37 Times financial reporters were helpful. But this editorial makes totally unsubstantiated, somewhat hysterical statements which cast aspersions on innocent people and misrepresent the facts. Before writing such an unfortunate and inaccurate piece, the editorial page might have considered consulting people knowledgeable on the subject.

Sincerely,



David C. Clapp
New York City

DCC:ca