

United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, DC 20510-6075

June 28, 1988

The Honorable David S. Ruder
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Ruder:

On May 25, 1988, The Wall Street Journal reported that the Securities and Exchange Commission has completed its investigation of the Washington Public Power Supply System's \$2.25 billion municipal bond default and has decided not to move against underwriters and others involved in the offerings. The Senate Banking Committee is keenly interested in this issue, and I am writing to inquire about the status of the investigation, and, if indeed it has been terminated, the reasons for the decision.

As you know, the "Whoops" fiasco has revealed some inherent flaws in the way municipal bond offerings have been conducted. To be precise, the question of investment bank "due diligence" requirements and conflicts between underwriting and research departments have been raised. Similarly, the role of ratings agencies in fostering unwarranted confidence has come under fire. The enclosed New York Times article from August 14, 1983 provides, I think, an excellent summary of these concerns. Given the size, growth, and importance of the municipal bond market, to both investors and state and local governments, the Committee feels very seriously that these are issues which must be clearly and affirmatively resolved.

Perhaps more importantly, the WPPSS bond default has resulted in enormous losses for approximately 75,000 investors. These investors have ranged from huge pension and insurance funds to small investors whose life savings were lost as a result of the default. Since investors in municipal bonds usually expect and depend upon the reliability of these securities when purchasing them, the soundness of the system must be upheld. We cannot in good conscience simply shrug off this debacle until we are sure that all possible remedial measures have been taken.

In 1975, a similar situation arose involving the municipal crisis of New York City. Two years later, the SEC issued a report dealing with the controversy and raising a striking number of similar issues. If that incident did not teach us important lessons, this one must. Because of the importance of this issue, I would appreciate a written update regarding the Commission's WPPSS investigation. We are particularly interested in the reasons for the SEC's decision in this area and whether your agency's conclusions are based on a resolution of the merits of the problem or on the complexity of the inquiry.

The article in The Wall Street Journal also indicated that funding and resources may have played a role in the Commission's decision not to pursue the investigation further. I would appreciate it if you could comment as to whether that was a factor in the agency's decision.

The Securities and Exchange Commission plays a fundamental role in safeguarding our nation's securities markets. We look forward to hearing your response to this important matter.

At the same time, I would like to commend the Commission for its investigation surrounding the Ivan Boesky insider trading scheme. We have been led to believe at public hearings before the Senate Banking Committee that the securities laws resulting violations from this investigation may prove to be the largest in the history of the Commission and I would hope that every effort will continue to be made by the Commission and the U.S. Attorney's office to bring those who have violated the law to justice.

Sincerely,

William Proxmire
Chairman

Enclosure