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The Office of the State Comptroller—It’s a Question of Ethics

BACKGROUND: New York State’s Common Retirement Fund (the “Fund”) is among the largest institutional investors in the nation, managing billions of dollars for over one million current and former New York government employees who rely on its assets for their financial security in retirement. As the sole trustee of these assets, the New York State Comptroller wields enormous influence over their investment. The confluence of discretion vested in the Comptroller over the Fund coupled with the size of its holdings has lent itself to considerable corruption over the years.

Most recently, senior staff from the Office of the State Comptroller (“OSC”) pled guilty to using the Fund to finance personal business ventures, while the top political advisor to the former State Comptroller was indicted on 123 counts for allegedly securing \$25 million in fees from directing business to the Fund. Ill-gotten “fees” do great damage to the integrity of our retirement system and diminish the returns on investments, depriving public employees of what is rightfully theirs. Investigations into wrongdoing by the New York State Attorney General, the Albany District Attorney and the U.S. Securities and Exchange Commission (“SEC”) are ongoing and have reached into the current Comptroller’s office.

In essence, these are cases of dishonest politicians scheming to raid State pensions for private purposes and venal greed. It is arguably the blackest mark on Albany in a startling series of deep dark stains.

OBJECTIVE: The ethical reforms outlined in this white paper are meant to ensure that the New York State Comptroller fulfills his or her fiduciary responsibility free of conflict, impropriety or fraud and thus restore faith in the office itself. They are more comprehensive than and fill gaps in the new SEC “Pay to Play” rules and would institute a greater degree of fairness, integrity and transparency to pension management. Finally, they would help ensure the future prosperity of the Fund, which over one million current and former New York government workers depend upon for their retirement security—and for which all New Yorkers are ultimately responsible, since shortfalls are borne by New York taxpayers.

MISSION: To adopt these proposals in full and, in all respects, run the most professional, transparent and forthright Comptroller’s office in the country.

Proposal I: Ban pay-to-play in earnest

Presently, there are SEC regulations preventing select professional classes that do business with New York State from contributing to the Comptroller or a candidate for Comptroller. Any contribution above *de minimis* exemptions triggers a two-year ban from dealing with the State. On June 30, 2010, the SEC voted unanimously to extend these restrictions to money managers who solicit business from public pensions. This is a step in the right direction. But other professional classes conducting business with New York’s State Comptroller receive millions of dollars in compensation and remain free to donate to the Comptroller up to New York’s legal limit—among the highest in the nation at \$37,800 per cycle for

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statewide office in the general election.¹ Just who are these professionals who reap millions from their dealings with the OSC? Most obviously they are securities class action plaintiffs' attorneys and public sector labor unions.

Consider class action plaintiffs' attorneys. As a multi-billion dollar institutional investor, the Fund often has meaningful holdings in public companies. Consequently, the Fund sometimes serves as a lead plaintiff representing shareholders in lawsuits filed against corporations accused of improper financial activities. The OSC maintains discretion to choose legal counsel on behalf of all shareholders in these cases, where success can lead to judgments that run into the tens of millions, and occasionally hundreds of millions, of dollars. Lawyers can claim a meaningful percentage of the recovery in legal fees. At the same time, and perhaps in turn, New York State Comptrollers have collected hundreds of thousands of dollars in campaign contributions from these litigators.

Accusations of impropriety have been a troubling and recurring theme. One former New York State Comptroller advocated for the selection of two law firms that had contributed \$100,000 to his campaign around the time the firms were retained to represent investors in a securities case. Other plaintiffs in the case accused the Comptroller of choosing the firms as political payback. The courts found that there was insufficient evidence, but noted that selecting counsel based on political favoritism would be injurious to the class as a whole and that public pensions should 1) disclose campaign contributions that could be linked to an attorney's selection, 2) submit a sworn declaration recounting the selection process and 3) verify that it was free of influence from elected officials. The law firms in this case received \$55 million in contingency fees and, in the months that followed, raised almost \$200,000 in campaign donations for the Comptroller.²

Contingency fees of this magnitude can create incentives to settle prematurely, rather than pursue a trial. Moreover, the contributions can become a cost of business for securities lawyers and increase litigation rates for taxpayers.³⁻⁴⁻⁵ Florida this year put a \$50 million cap on legal fees for class action plaintiffs' attorneys who represent the State's pension system after *The St. Petersburg Times* discovered that these firms spent \$850,000 on Florida politicians in a relatively short time period.

Trial lawyers that do business with the Fund clearly profit from the OSC's discretionary authority. They also have a track record of making large donations to their patron. Lawyers representing the New York State Pension Fund in class-action suits have raked in \$518.7 million in fees over the past 10 years.⁶ This

¹ www.elections.state.ny.us/NYSBOE/Finance/2010ContributionLimits050310.pdf

² The New York State Comptroller as Sole Trustee of the Common Retirement Fund: A Constitutional Guarantee, by Andria L. Bentley, Copyright 2009 Albany Law Review, pp. 4-5.

³ The Price of Pay to Play in Securities Class Actions, by Choi, Stephen J., Johnson-Skinner, Drew T. and Pritchard, Adam C., December 22, 2009, U of Michigan Law & Econ, Empirical Legal Studies Center Paper No. 09-025.

⁴ The Kings of Class Actions, by Brian Grow, *Bloomberg Business Week*, May 16, 2005.

⁵ Trial Lawyers Contribute, Shareholders Suits Follow, by Mark Maremont, Tom McGinty, and Nathan Koppel, *Wall Street Journal*, February 3, 2010.

⁶ Pension Pay-to-Play, by Kenneth Lovett, *New York Daily News*, October 8, 2009.

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exposes an obvious and lingering conflict⁷ and is precisely the kind of pay to play culture that has scandalized the Comptroller’s office and so must be prohibited. Yet, as of January 2010, Tom DiNapoli has taken at least \$105,250 in contributions from the same securities plaintiffs’ attorneys he chose to represent the Fund in class action cases.⁸ He has shown no intention of reform and refuses to discontinue exploiting the OSC’s leverage for his political benefit at the expense of New York pensioners.⁹ Just recently (June 2010), he selected Cohen Millstein Sellers & Toll to represent the Fund in a class action suit against British Petroleum. At least five Cohen Millstein partners contributed to DiNapoli in 2009, although the firm is based outside of New York.¹⁰

More than unseemly, these contributions can be a direct violation of the Private Securities Litigation Reform Act of 1995 (PSLRA), which covers securities class action lawsuits. PSLRA requires plaintiffs’ attorneys to disclose their fees and permits judges to scrutinize their conflicts of interest. The judgments themselves are regulated by the Securities and Exchange Act of 1934,¹¹ which requires that “The share of any final judgment or . . . settlement . . . shall be equal, on a per share basis . . . to all members of the class.” No bonus payments or other recoveries for favored plaintiffs are allowed.

Since political contributions can be classified as “other recoveries,” some have argued that they are violations of the pro-rata restriction and should prompt SEC enforcement action. In addition, the court approving settlements or supervising judgments generally administers the distributions and could require the lead plaintiff to certify that it did not receive non pro-rata compensation in the form of political contributions. Violators could then be held in contempt of court.

In an effort to eliminate this vexing pay to play practice—and in the absence of SEC enforcement—the OSC should stipulate that any time the Fund serves as lead plaintiff in a class action case, its attorneys will be barred from making political contributions to the New York State Comptroller or a candidate for that office for two years after the date of their selection. In addition, the Fund should apply the same contribution restrictions to these attorneys that the SEC instituted for bond underwriters and more recently investment firms, so that plaintiffs’ attorneys cannot win business from the OSC for two years after donating to the Comptroller or a candidate for that office.

Another professional class with interests closely linked to the Fund that generates large campaign contributions—and also provides in-kind campaign services—is public sector labor. The conflict for the OSC in this case is its discretion in accounting for the Fund’s obligations. Financial analysts are increasingly in uniform agreement that the methods the OSC now uses, while currently accepted under

⁷ U.S. Senator Robert Bennett (R-Utah) called for a ban on such contributions, and the Treasurer of Rhode Island saw fit to return all of his campaign money that came from securities plaintiffs’ attorneys.

⁸ New York State Board of Elections Campaign Filings.

⁹ State Comptroller DiNapoli Taps Top Donors to Defend State’s Pension in Megabucks Suits, by Kenneth Lovett, *New York Daily News*, October 6, 2009.

¹⁰ New York State Board of Elections Campaign Filings.

¹¹ The Securities and Exchange Act of 1934, Section 21D, Subsection B4.

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GASB, nevertheless substantially overstate the degree to which the Fund’s long-term liabilities are covered by its current assets.¹²⁻¹³⁻¹⁴⁻¹⁵

This distorted financial analysis obscures the true costs of the Fund’s liabilities and thus misrepresents the economic cost of the State’s contractual commitments to its unions. That is of serious benefit to these public sector unions, who in turn find it easier to negotiate for additional wage increases and pension sweeteners when existing member benefits appear affordable *or even over-covered*. The injured parties in this are all New Yorkers, since the actual math is irrefutable, and—despite temporary accounting gimmicks—pension shortfalls would be borne by unsuspecting taxpayers.

This is another case where a professional class can reap large financial gain from the OSC’s authority at the expense of the public fisc. Not surprisingly, but no less problematically, public sector labor unions have been aggressive campaign contributors to New York Comptrollers. Labor groups representing public sector employees have donated at least \$283,200 to Tom DiNapoli just since he was appointed Comptroller.¹⁶

Since the Comptroller’s responsibilities with regard to pension obligations are ongoing and continual (as opposed to episodic, as it is when awarding business to investment management firms or plaintiffs’ attorneys), a two year ban on donations is insufficient. To achieve the salutary effect of a “pay to play” ban, public sector labor unions should be prohibited from making monetary contributions to the Comptroller or a candidate for Comptroller with only a *de minimis* exception.

To close another lingering loophole, we must extend these guidelines to immediate family members (e.g., spouses and children) of these professional classes and, in accordance with new SEC rules, prohibit them from using third parties to make or conceal donations on their behalf. These restrictions should cover gifts of any value to employees—including meals—from anyone connected to business originating from the OSC. Only then can we expect to end the pay to play culture that continues to envelope this office.¹⁷

Proposal II: Adopt best practices for conflicts of interest & transparency; run a “glass wall office”

The best defense against malfeasance in public pension management is transparent governance, where those in charge are accountable to beneficiaries through procedures that strengthen the fiduciary relationship.¹⁸ Therefore, the OSC should strengthen its conflict of interest policies that staff as well as

¹² The Financial Crisis Effects on the Alternatives for Public Pensions, The Brookings Institution, by Douglas J. Elliott, April 15, 2010.

¹³ The Liabilities and Risks of State-Sponsored Pension Plans, by Robert Novy-Marx and Joshua Rauh, *Journal of Economic Perspectives*, 23(4): 191-210.

¹⁴ The Market Value of Public-Sector Pension Deficits, by Andrew G. Biggs, *American Enterprise Institute for Public Policy Research*, April 2010, No.1.

¹⁵ A New Plan for Valuing Pensions, by Mary Williams Walsh, *New York Times*, June 21, 2010, p.B1.

¹⁶ New York State Board of Elections Campaign Filings.

¹⁷ See: www.nytimes.com/2009/03/15/nyregion/15pension.html

¹⁸ The Stanford Institutional Investors’ Forum Committee on Fund Governance Best Practice Principles (“The Clapman Report”), Peter Clapman, Chair, May 31, 2007, p.19.

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consultants must follow. The policies should be published in a guideline made available online for public review and amended if and when it requires updating.

In addition, the OSC should undertake a comprehensive effort to make transparent all operational policies connected to its mission by posting them on its website. Policies falling into this category should include trading practices and procedures; the roles of external entities in setting investment strategies; material financial advice received from staff or consultants (who also must comply with OSC conflict policies); the vetting process along with the final selections of investments; guidelines for contracting, procurement and competitive bidding; the OSC senior leadership structure, which contrary to institutional investor norms isn't currently available in detailed form; and the OSC's policy on personal investment transactions for staff, advisors and consultants, which currently only require disclosure internally on a semiannual basis.¹⁹

With the advancement of technology, the OSC has the capability to make certain performance data available on-line in something close to real time; so whenever possible, it should. This includes posting the Fund's liquid positions on the OSC's website everyday and its illiquid positions as they are updated, generally quarterly. Also, the OSC should make available online regular reports of commissions paid to outside managers and broker dealers; referral fees paid by outside managers; actual or potential conflicts of interest with staff or OSC consultants, along with an explanation of how the conflicts were managed; and proxy voting policies as well as a quarterly report of all proxy votes cast.

The current Comptroller instituted monthly reports on some of these activities, but not all. Most problematically, and despite a promise of openness through these monthly reports, the Comptroller has omitted activities that were politically motivated, problematic and unpropitious.²⁰ Furthermore, the OSC's current practices do not approximate mark-to-market accounting; this level of opacity obscures the true value of the Fund's assets at any given time. Since it is likely that their current methodology substantially overstates the value of the Fund, it is even more imperative that the OSC provide transparency in the form of more frequent and more honest disclosures.

Finally, the OSC is responsible for certifying the New York State budget and should make the entire budget, meaning every line item and expenditure, available on its website. In Texas, the budget is posted online and designed to pull up-to-the-minute data directly from the State accounting system.²¹ That level of disclosure is far more comprehensive than the open book website sponsored by the current OSC, which typically only provides a few broad categories of disbursements for major agencies and summary contract information. New York should adopt best practices in disclosing State government tax revenues and expenditures.

¹⁹ With acknowledgments to "The Chapman Report" as well as "Enhancing Public Retiree Pension Plan Security: Best Practice Policies for Trustees and Pension Systems," AFSCME's guide for public pension trustees, and other institutional investors' guidelines.

²⁰ After Promises of Openness, Comptroller's Pension Fund Draws Scrutiny, by Danny Hakim, *New York Times*, March 14, 2009.

²¹ www.texastransparency.org

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Proposal III: Add checks and balances along with premier guidance to the current trustee system

The job of the New York State Comptroller is to maximize risk-adjusted investment performance in a manner consistent with the needs of the Fund. Institutionally, the best approach for accomplishing this is to access the finest outside investment counsel available, while maintaining ultimate accountability in the Comptroller.

In New York—home to the deepest repository of investor talent in the world—it is a serendipitous truth that many of our State's best investment minds would be honored to serve the Fund in an official capacity by offering guidance as a voluntary public service. Incorporating sage advice into the Comptroller's decision-making will lead to better outcomes, which is why virtually all successful investment organizations employ this approach. For the OSC, this should start by establishing a committee very different in purpose, composition and structure than the OSC's current advisory council to the Common Retirement Fund. Specifically, the new Investment Committee will comprise 7 to 9 world class investors who will work with the Comptroller on key decisions related to the Fund's management, including, but not limited to, asset allocation, manager selection, investment strategy and risk management.

Of course, the Investment Committee must follow a code of ethics, affirm a strong fiduciary responsibility to the Fund and have clear lines of authority to execute its duties free of interference from OSC staff. Collectively, the Committee should possess the financial skills required for the Fund's overall effective management, and members individually should reflect a proper balance of investment, fiscal, legal and accounting proficiency. Members should also have a thorough knowledge of the Fund's financial position, strategy and obligations through regular updates provided by OSC staff.²² The Comptroller would appoint Committee members for one or two-year terms—with an attempt made to stagger terms in order to preserve institutional memory—and retain the option of reappointment, but otherwise be prohibited from removing members mid-term.

The Committee's primary purpose would be to professionalize the investment review process in two broad and important respects:

- 1) For general strategy matters (e.g., asset allocation, accounting determinations, risk management, etc.), the OSC would review decisions with the Committee, solicit input and retain final authority.
- 2) For the selection of individual money managers, the Investment Committee would assume much broader powers. Specifically, the Committee would screen money manager recommendations from the OSC staff and have the ability to reject recommendations, through majority vote, before they ever reach the Comptroller.

In the process, the OSC staff would prepare investment memoranda for the Investment Committee's review, and the Committee would vote on each recommendation. Whenever a majority of Committee members oppose the OSC staff recommendation, the mandate would be denied without recourse. Whenever a majority of the Committee members support the OSC staff recommendation, the Comptroller would then review the recommendation and retain final decision-making authority. The effect would be

²² "The Clapman Report," p. 7.

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to institutionalize a double-veto system that creates an ethical barrier around manager selection and protects the Fund from past practices when money managers were chosen via political favoritism.

This process blends the benefits of the sole trustee system (principally, creating a bulwark against the politicization of the Fund and raids on its assets by spendthrift politicians while preserving accountability to the electorate) with the *intended* benefits of a board (principally, broader decision-making and input, greater transparency to guard against mistakes of judgment and ethical breaches) that are too often not realized in practice (witness the many abuses at CalPERS, the City of San Diego, Ohio and Illinois).²³

The above outlined dynamic between the OSC and its Investment Committee ensures that the Comptroller receives and deliberatively considers the best investment guidance available, while maintaining institutional independence. Meanwhile, the ethical guidelines outlined in this white paper should mitigate risk to the Fund inherent in the current decision-making structure. The myriad problems in State government today demand an independent and accountable Comptroller, and the rampant ethical and financial abuses in Albany have besmirched the OSC specifically, further demanding an investment process that blends broad investment expertise, political independence, accountability and transparency. In this way, a well-managed OSC can protect the Fund from performance shortfalls, ethical lapses and raids from politicians who scheme to use the Fund to make up for the consequences of their own profligate spending.

Proposal IV: The Comptroller and senior staff should be held to the highest standard

Much like a large private institutional investor, the State Pension Fund's trading strategies and decisions can create conflicts with the personal assets and investment decisions of the Comptroller and senior staff. The New York State Comptroller and senior investment staff must be free of trading conflicts and even the slightest appearance of impropriety.

To manage potential conflicts, the Comptroller and senior investment staff must go further than the current OSC's code of ethics, adopted for its less significant advisory committees, and not engage in personal trading for anything other than government bonds and broad market index funds (i.e., only investments that would not pose a conflict with the Fund—and certainly not individual debt and equity securities or actively managed investment funds). Alternatively, personal assets could be managed through individual blind trusts, where there is no investment decision-making role for the Comptroller or staff members who arrange such a trust.

This standard goes much further than the current restrictions for OSC staff, who currently must only disclose personal securities transactions on a semi-annual basis.

Just as it is right to eliminate investment conflicts and political considerations when it comes to selecting money managers or securities class action attorneys and negotiating with public sector unions, it is also critical to take the politics out of the other core Comptroller duties that have lent themselves to abuse. And recent history suggests that pension Fund beneficiaries have effectively subsidized the political

²³ Ex-Chief of S.E.C. Says Pension Funds in Danger, by Mary Williams Walsh, *New York Times*, October 31, 2007.

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agenda of the current Comptroller. There are at least two recent examples of this Comptroller using the Fund to further his own political agenda.

In one case, Comptroller DiNapoli referred menacingly to the OSC’s ownership stake in a publicly-held corporation while attempting to influence a contract negotiation between the corporation and a close labor ally. The Retail, Wholesale and Department Store Union (RWDSU) endorsed Mr. DiNapoli in February 2010. Less than two months later, in the middle of a labor dispute between the RWDSU and Dr. Pepper Snapple Group, Inc., Mr. DiNapoli wrote to Dr. Pepper’s Chief Executive Officer on April 9, 2010:

“...I am informed that ongoing contract negotiations...have grown contentious largely because...the workers are being asked to take a significant pay cut....As Comptroller of the State of New York, I am the Trustee of the New York State Common Retirement Fund currently valued at approximately \$126 billion. The Fund’s portfolio includes 938,270 shares of the Dr. Pepper’s stock with a market value of approximately \$33.2 million. The Fund is a long-term investor and in my fiduciary capacity I monitor issues that have the potential to impact the value of its investments. I am troubled by the...allegations and the opportunity they create for the Company to be perceived as ‘anti-labor’. Public perception aside, such unresolved labor issues can negatively affect the morale and productivity of the Company’s dedicated employees. A disenfranchised workforce and the associated negative publicity ultimately may impact profitability.”

If Mr. DiNapoli feared that Dr. Pepper’s labor policies might harm the value of his stake, then he had a fiduciary duty to divest of his interest to protect the value of the Fund. Note that his letter does not address the merits of the dispute. Ironically, perhaps, it does make the point that the Fund exists for the benefit of its members’ retirement plans, not to fulfill the political goals of the Comptroller.

This is not to say that the Comptroller should not weigh in with corporations in which the Fund has an investment. On the contrary, he or she absolutely should in situations where doing so will enhance the value of the Fund’s holdings. This is, of course, very different from a naked attempt to influence a corporation for political ends.

In a separate incident, the current Comptroller endorsed a candidate for East Hampton Town Supervisor at the same the time the OSC was auditing East Hampton (and the Suffolk County District Attorney was conducting its own investigation into East Hampton). Local press reports criticized the Comptroller, editorializing that the endorsement tainted his audit.²⁴ It was also a clear conflict of interest. The Comptroller must refrain from endorsements of those running for, or in, offices that are under audit.

Proposal V: End government’s lucrative “revolving door”

In past years, former Comptroller staff have left government service and soon after solicited or received pension business—a practice that cannot help but be tainted by the appearance of favoritism. Government service is just that—service—and no one should seek employment with the OSC having it in mind to later profit from their service. The OSC should establish a three-year ban on the “revolving door” that leads from State government to the private sector. No official or staff member should be eligible to win a new

²⁴ Spinning the Truth, Editorial, *East Hampton Independent*, July 5, 2010.

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mandate to manage Fund assets or secure them for a third party for three years after leaving the OSC. Current policy relies on Public Officers Law S73 (2), which bars officials and employees from receiving any compensation for two years that is dependent upon any agency.²⁵ This policy is sufficiently ambiguous that it does not necessarily cover securing a mandate for third parties.

Summary

- Extend pay to play regulations under which the current Comptroller operates to cover:
 - Class action securities plaintiffs' attorneys
 - Public sector labor unions
 - Immediate family members of all covered professional classes
- Adopt best practices for conflicts of interest and transparency
 - Publish online a conflicts guide for public review and amendment if and when required
 - Make available online data surrounding critical OSC activities and operations, including:
 - Trading practices and procedures
 - The roles of external entities in setting investment strategies
 - Material financial advice received from staff or consultants
 - The vetting process along with the final selections of investments
 - Guidelines for contracting, procurement and competitive bidding
 - The OSC's senior leadership structure
 - The OSC's policy on personal investment transactions
 - Post online in close to real time key Fund performance data, such as:
 - Liquid positions daily and illiquid positions as they are updated
 - Regular reports of commissions paid to outside managers
 - Referral fees paid by outside managers
 - Actual or potential conflicts of interest with staff or OSC consultants
 - Proxy voting policies as well as proxy votes cast
 - Make the entire budget available on the OSC's website in far greater detail, with the ultimate goal of posting every receipt and expenditure online
- Form an OSC Investment Committee to access the finest outside counsel available for the Fund's management and to:
 - Professionalize investment review
 - Blend the benefits of the sole trustee system (principally, creating a bulwark against the politicization of the Fund and raids on its assets by politicians and preserving accountability to the electorate) with the *intended* benefits of a board

²⁵ www.nyintegrity.org/law/ethc/POL73.html

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- Hold the OSC staff to the highest ethical standards
 - The Comptroller and senior investment staff must not engage in personal trading for anything other than government bonds and broad market index funds
 - Alternatively, personal assets could be managed through blind trusts
- Take the OSC out of politics and the politics out of the OSC
 - Do not leverage the assets or market power of the Fund for political gain or for the benefit of a political ally
 - Refrain from political endorsements from public figures connected to OSC audits
- End the lucrative revolving door between service in the OSC and money management

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	Category / Activity / Protocols	Current Rules/Regs/Laws Cover	Additional OSC Restrictions Applied	Harry Wilson’s Proposed Guidelines
Pay-to-play	Bond underwriters	○	○	○
	Money Managers*	○	○	○
	Securities plaintiffs’ attorneys	✗	✗	○
	Public sector labor unions	✗	✗	○
	Immediate family members of covered classes	✗	✗	○
Transparency	Post conflicts guidelines for public review and comment	✗	✗	○
	Publish trading practices and procedures	✗	✗	○
	Reveal roles of external entities in investments	✗	✗	○
	Publicize financial advice received from consultants	✗	✗	○
	Make public the vetting and selections of investments	✗	✗	○
	Mark-to-market accounting of Fund assets	✗	✗	○
	Post org chart for OSC senior leadership	✗	✗	○
Disclosure of critical OSC operations data	Post the Fund’s liquid positions daily and illiquid positions when marked to market (quarterly)	✗	✗	○
	Report all commissions to outside managers	✗	☐	○
	Make public outside managers’ referral fees	✗	☐	○
	Reveal conflicts of interest among staff or OSC consultants	✗	☐	○
	Publicize proxy voting policies as well as proxy votes cast	✗	☐	○
	Put the entire budget online	✗	☐	○
Sole trustee mitigations	Professionalize investment review via institutionalized Committee	✗	✗	○
	Create insulation for Comptroller from individual manager selections to prevent favoritism	✗	✗	○
Hold OSC staff to highest ethical standards	Restrict personal trading to avoid financial conflicts	✗	✗	○
	End the revolving door between the OSC and fund management	☐	☐	○
Take the OSC out of politics	Never leverage Fund assets or market power for political gain	✗	✗	○
	Refrain from political endorsements that conflict with OSC duties	✗	✗	○

*Rules adopted by SEC on June 30th 2010, but have yet to take effect

Key:

- - Fully functional and effective
- ☐ - Implemented, but riddled with loopholes
- ✗ - Non-existent

July 7, 2010

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Conclusion

These normative practices should be adopted by the current Comptroller and all subsequent State Comptrollers, who must seek to codify them into the laws of New York. To sacrifice the spirit of these critical reforms in the name of convenience would render them meaningless and impugn the OSC. One cannot be for reform only when it serves one’s own purposes.

Pledge

I hereby pledge to adopt these policies fully and enthusiastically upon my inauguration as Comptroller, without reservation or conditions, and without regard to their attendant political risks or disadvantages.

- Harry J. Wilson