

“A Responsibility to Reform”
By New York City Comptroller Scott M. Stringer
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I’ve now been Comptroller a full month—and I am honored by the chance to implement my vision for what this office can and must achieve. I’ve always believed that the Comptroller has to be the primary watchdog of the City’s fiscal health—and an advocate for our economic prosperity.

It’s been that way for over two centuries, since the New York City Charter first established the office of the Comptroller:

- In 1812, the Comptroller issued its first General Obligation bond for the construction of City Hall.
- In 1873, after Boss Tweed’s removal from power, Charter reform gave the Common Council the power to appoint the Comptroller, to maintain its fiscal and political independence from the Mayor.
- A decade later, the Comptroller secured true, lasting independence by becoming an elected official.
- And by the middle of the 20th century, Wallace Sayre, author of the classic text on New York City’s municipal government, “Governing New York City,” described the Comptroller as a “potential Giant” and “an institutional rival to the Mayor.”

Needless to say, we’ve hung Mr. Sayre’s portrait in our offices and ordered enough copies of his book to keep it in print. Required reading at the Comptroller’s office!

In all seriousness, we are off to a great start. The transition committee has met my goal of recruiting the very best professionals to help us make a real difference in the economic well-being of all New Yorkers. Our eight Deputy Comptrollers—seven of whom are women—are at the top of their respective fields. They have decades of experience in both government and the private sector that will enable them to serve with distinction.

In the first month we've hit the ground running:

- **Earlier this week, I testified on the Governor's Executive Budget, highlighting the fact that the State continues to short-change the City on education funding.**
- **We've completed our first and second bond issues and engaged in another round of Transitional Finance Authority refunding, saving the City \$24 million.**
- **And we've launched the Comptroller's first-ever top-to-bottom audit of the New York City Housing Authority.**

The Comptroller is charged with protecting our City's fiscal health.

And one of this office's most sacred duties is to be a careful steward of New York City's five pension funds—valued at nearly \$150 billion in assets under management and overseen by one of the finest investment staffs in the country. These funds safeguard retirement security for over 700,000 active and retired civil servants, including police, firefighters, teachers and nurses, who form the backbone of New York's middle class.

We owe it to these women and men and every New Yorker to align pension management with best practices. As the financial capital of the world, New York City and its public pension funds should lead by example. We are entrusted with billions of dollars of worker and taxpayer monies. Managing these dollars with integrity, transparency, and accountability is not optional. It is essential—and only the highest standards of ethical conduct will do.

That's why I've come this morning to CBC—which for 80 years has been a valued watchdog of our City's economy and a powerful voice for reform—to announce a comprehensive pension ethics and oversight plan for our City.

It is a plan that will:

- **Address potential conflicts of interest**
- **Strengthen internal controls and governance**
- **And increase the transparency and efficiency of our pension fund operations**

My six-point plan starts by erecting a steel barrier against pay-to-play abuses in our pension system. In 2009, as a trustee of NYCERS, I was the first to call for a ban on private placement agents in the City's pension funds. All too often, they have provided little value at taxpayer expense. However, while Comptroller DiNapoli banned the use of placement agents at the State Pension fund five years ago, that prohibition did not extend to the City funds.

Currently, our funds only ban placement agents for private equity investments. We must have a broader, formal ban to ensure that New York City does not experience the pay-to-play scandals that have plagued other funds in recent years. These scandals cost taxpayers money and undermine public confidence in and support for pensions.

The City's pension funds and our Bureau of Asset Management (BAM) have an open-door policy. We are willing to meet with any qualified firm interested in serving as an investment manager. Nobody needs a middleman to get them in our door.

So today, as part of my reform agenda, I want to make something very clear: I will offer a resolution to my fellow trustees to ban all placement agents in New York City's public pension funds. Not just from private equity, but from all asset classes.

Second, I will dramatically reform policies and procedures governing our in-house asset management team. It starts by applying lessons learned from the recent financial crisis. All too often, in the quest for quick profits, risk managers were little more than voices crying in the wilderness—with limited access to decision makers and little power to change corporate behavior.

I will appoint senior Risk and Compliance Officers to strengthen, monitor and continually improve the risk and compliance measures throughout our asset management operations. These professionals will report directly to me, ensuring that these critical issues and concerns have an independent voice and are heard, loud and clear in my office.

Third, I will enact an investment disclosure policy that requires relevant employees to regularly report their personal trading. This policy will ensure

that, in handling investment matters for the Funds, employees are looking out only for the best interests of the Funds.

Fourth, I will redouble our efforts to develop an enhanced internal process for reviewing disability payments. We have seen how certain claims by unscrupulous actors—most recently those related to Social Security disability benefits—can cost millions of dollars and unfairly taint the whole benefits program. Our enhanced review process will protect taxpayers and honor our commitment to hardworking City employees--by preserving benefits for those who need them.

Fifth, for the first time, we will implement cutting-edge training on ethics, conflicts of interest, and financial regulation—so that our staff has the tools it needs to exercise better oversight over our external managers. This training would go beyond what they currently receive under conflicts of interest board rules and procedures. Everyone involved will know we are serious about preventing practices that may taint our funds or negatively affect shareholder value. This is particularly critical today, in an era of unprecedented complexity.

- I will work to ensure that everyone on our staff understands the operation of Foreign Asset Control compliance, as well as anti-money laundering controls designed to block funds from falling into the hands of terrorists.**
- Our personnel must also have heightened awareness of the requirements imposed upon our investment managers by the Foreign Corrupt Practices Act, which recently ensnared some of America’s best known corporations—from Wal-Mart to Pfizer.**
- We expect our investment managers to exercise due diligence with respect to their investment decision-making.**

Lastly, I will appoint an internal auditor and appoint an internal audit committee to ensure that all of these reforms operate effectively. I want to ensure that the Bureau of Asset Management complies with policies and procedures covering everything from conflicts and personal trading to cash management and bank reconciliations. The Auditors will report directly to me to provide an independent, unfiltered assessment of how well BAM is adhering to those best practices.

To emphasize just how critical these reforms are to my administration, I've designated my general counsel, Kay Diaz, to implement the six-point plan with the assistance of our Deputy Comptrollers. Before coming to the Comptroller's office, Kay was Special Counsel to Superintendent Benjamin Lawsky at the New York State Department of Financial Services, and Senior Trial counsel at the State Attorney General's Office. Her experience dovetails perfectly with the goals of these reforms. I am confident that under her leadership, we will set an example for Comptrollers and Treasurers across the country to follow.

So much of the recent financial crisis involved a lack of systemic efforts to assess and control risk, and too much effort to evade rather than implement best practices. The truth is that our pension funds share the goals of regulators – to protect the long-term health of city pensions through high ethical standards and best practices.

The measures I am enacting are central to the Comptroller's historic role as the arbiter of our City's finances, and the protector of its pension funds. And they underscore the goal of the transition, which has been to build the capacity of this great office:

- To monitor agencies and root out waste and fraud**
- To offer top-of-the-line economic analysis about the future of our City's economy and our fiscal health**
- To identify creative policy solutions to tackle our City's most pressing problems, all of which have a financial component**
- And to safeguard the retirement security of our municipal workforce**

In the coming months, you will see more ways in which we are reimagining this office--and putting it to use on behalf of the People of the City of New York. But if we're going to be the chief watchdog holding City agencies and the financial industry accountable, we must start by ensuring our own house is in order.

That's why this six-point ethics and oversight plan is such an important priority. I look forward to working with you in the months and years to come.