



# SECURITIES AND EXCHANGE COMMISSION

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(202) 755-4846



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## COMMISSION ISSUES FINAL REPORT ON TRANSACTIONS IN NEW YORK CITY SECURITIES

The Commission transmitted to Congress today its Final Report In the Matter of Transactions in the Securities of the City of New York, and announced it is concluding its investigation of that subject. The Commission called for and said it would support, enactment of legislation to correct deficiencies in the issuance and marketing of municipal securities.

The investigation, instituted on January 5, 1976, focused on events which occurred during the period from October 1974 through April 1975, when the City faced a fiscal crisis and issued very large amounts of short-term securities. One of the largest and most complex investigations in the Commission's history, it involved the collection of more than 250,000 documents and the taking of over 12,000 pages of sworn testimony.

On August 26, 1977, the Commission issued a detailed Staff Report which described the conduct of those persons participating in the events leading to the City's fiscal crisis.

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Following release of the Staff Report, the staff proceeded to determine what corrective measures had been taken to ameliorate the problems described in the report.

The Final Report issued today called for, "an appropriate legislative solution to the deficiencies in the issuance and marketing of municipal securities, of which the New York City matter was a unique but instructive example."

"After thorough consideration of various alternatives which might be taken," the Report said, "including the possibility of enforcement actions, the staff recommended and the Commission has concluded that the public interest will best be served by Commission efforts in support of legislative solutions to the complex problems existing in the municipal securities field. The Commission has brought, and will continue to bring, enforcement action against those who violate the federal securities laws in connection with municipal securities. In the present circumstances, however, the Commission believes that enforcement proceedings should not be instituted.

"The Commission's decision was based on a number of factors. Among the factors considered were the issuance of the comprehensive Staff Report; the change in the City's

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administration since the issuance of the Staff Report; various remedial actions taken by those who were mentioned in the Staff Report, most particularly by the City itself; Congressional and State actions with respect to New York City's financial difficulties, including the federal legislation enacted in August 1978 which imposes certain financial controls over the City and requires, among other things, that the City's financial statements be audited; and, finally, the Commission's determination that enforcement action, which could well be protracted, would have limited additional remedial value and would require the commitment of substantial additional resources which, in light of the above, can be otherwise utilized more efficiently in discharging the Commission's responsibilities."

The Report said that the deficiencies uncovered in the New York investigation are "symptomatic of the inadequacies of the existing statutory framework which leaves municipal securities disclosure largely unregulated." It said voluntary efforts at reform "are salutary," but "have not been uniformly adopted,...may deteriorate in periods of stress..." and therefore are "not an adequate response to the need for investor protection...."

The Report singled out as "the most critical deficiency in existing municipal securities practices" the area of municipal accounting and financial reporting.

"The financial and disclosure problems experienced by a number of municipalities and highlighted by New York City's crisis suggest that there is a critical need to assure greater accuracy and uniformity in municipal accounting and financial reporting," it said. "The Commission believes that legislation designed to standardize the methods used in the preparation of municipal accounts and the form and context of municipalities' financial statements should be accorded the highest legislative priority."

The Report also endorsed an improved disclosure system to provide information to all participants in the underwriting of municipal securities, and in their sale in the secondary market.

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