

From The Office of:

Attorney General Louis J. Lefkowitz
Two World Trade Center
New York City

NEWS RELEASE

RELEASE A.M. NEWSPAPERS
MONDAY, SEPTEMBER 26, 1977

LEFKOWITZ PROPOSES NEW RULES TO PROTECT INVESTORS IN DEALING WITH INVESTMENT ADVISORY SERVICES

Investment advisory services, some in precarious financial condition, and others which give investors reports based on the most superficial review or long-outdated statistics are the principal targets of proposed new regulations to cover the operations of the services in New York State, Attorney General Louis J. Lefkowitz announced yesterday.

The Attorney General stated that the proposed regulations are timely in view of the recent criticism of the rating agencies by the Securities and Exchange Commission in connection with the sale of municipal bonds and notes.

They are designed to codify existing practices with respect to advisors and to simplify paperwork requirements to do business in New York. Under the proposed regulations, for the first time, all advisors must make available to subscribers on an annual basis comprehensive details about their operations, including financial statements.

“We have found advisory services issuing ratings and reports on thousands of securities based on the most superficial review. A subscriber should know that a so-called ‘current opinion’ may reflect nothing more than a cursory review three years in the past. We have at times had to get monthly financial statements from some well-known advisors to determine if they had the financial strength to stay in business another month. Investors should be alerted to decide whether it pays to subscribe to a slick looking letter that is merely copied from a statistical service or whether they want to put money in a service that does in-depth analysis”, Attorney General Lefkowitz said.

Under the proposed regulations every advisor must include a statement in reports and publications advising that New York State residents may obtain a copy of the investment advisory statement filed with the Attorney General’s office. This form would disclose, among other things, the average time devoted to each recommendation and rating and periodic review thereof; the frequency of review of a recommended or rated list; the maximum length of time a recommendation or rating can be listed without comprehensive mandatory review and the extent of verification of externally provided information and data.

The Attorney General also indicated that the availability of such information upon request by the investors and subscribers to advisory services would go a long way toward insuring the public that the investment advisors and rating services are furnishing competent services. Disclosure of the investment advisors’ background, practices, and

financial condition to the subscriber will enable the subscriber to determine for himself whether the service is worth-while.

- 30 -

From: Charles W. Stickle, Executive Assistant to the Attorney General
Telephone: Albany (518) 474-4134; New York (212) 488-3335.