

Centre Tracking and Engaging at Highest Levels on Regulatory Reforms: Key Appointments Extend Centre Involvement

Over the past months of market crisis, we have accelerated our outreach to legislators, regulators, and other policy leaders to ensure that investors' best interests are being served in whatever legislation results from the tangle of suggestions currently in discussion. Our latest outreach includes:

1. Our cosponsored Investors' Working Group (IWG) — with the Council of Institutional Investors — has undertaken considerable outreach in efforts to represent the investor's perspective as regulatory reform legislation is being drafted. When the Investors' Working Group met with Congressional financial services leaders in Washington, DC, on 30 April, they had two goals in mind. First, they wanted to express some preliminary views on such topics as systemic risk oversight and the need to close regulatory gaps and strengthen regulatory agencies' enforcement powers. They also encouraged legislators to proceed slowly with reform initiatives, suggesting that a hasty attempt to reach reforms now could create larger problems in the future. Second, the IWG participants wished to gain a better understanding of the climate in Congress on the matter of regulatory reform.

In the end, Congressional leaders encouraged the IWG to submit its views as quickly as possible. In particular, the populist push for reform was forcing many in Congress to move faster than they felt comfortable doing. Indeed, most admitted that Congress does not have a full understanding of what went wrong and, therefore, would benefit from the independent IWG's suggestions.

As expected, proposals on regulatory reform began appearing within a month of that meeting. These proposals differed from original suggestions that made news. For instance, the Obama Administration pulled back from its original suggestion to consolidate most financial markets regulatory power and authority within the Federal Reserve Board. Although many within the Administration saw the Fed as a logical choice for systemic risk regulator given its access to the market, others saw strong conflicts of interest between its role as central banker and chief financial regulator. We will continue to monitor and assess the various proposals as they emerge and provide updates in the coming weeks.

2. Kurt Schacht, CFA, managing director of the CFA Institute Centre, has been appointed to the U.S. Securities and Exchange Commission [Investor Advisory Committee](#) to give investors a greater voice in the Commission's work. SEC Chair Mary Schapiro said, "Through this well-respected and diverse group, we are reaching out to investors in a new and significant way." Commissioner Aguilar, sponsor of the committee, added, "Investors need a greater voice at the Commission. The Commission's traditional role as the investor's advocate, as well as our deliberations, will be enhanced by the range of views the Advisory Committee will provide."

Two key CFA Institute volunteers also have been appointed to this committee, whose mission to advocate for investors closely matches our own: Mark Anson, CFA, president and executive director of investment services at Nuveen Investments, is a member of the CFA Institute Board of Governors, and Ann Yerger, CFA, executive director of the Council of Institutional Investors, serves on the Centre's Capital Markets Policy Council.

3. Patrick Finnegan, CFA, head of the Centre's Financial Reporting Policy Group, has been appointed to a five-year term on the International Accounting Standards Board (IASB)

beginning 1 July 2009. Although we are most appreciative that the IASB has made this appointment in recognition of the need to better incorporate the user's perspective in its efforts and we look forward to the opportunity to enhance the Centre's relationship with the IASB, Pat's move to London comes at considerable cost to the Centre: We will miss Pat's presence on our staff both personally and professionally. Another friend of the Centre, Patricia McConnell — former chair of the Centre's Corporate Disclosure Policy Council and a contributor to our Comprehensive Business Reporting Model — also was appointed to the IASB. Our congratulations and thanks to both Pats as they shift their considerable experience and talents toward representing investors in their new roles on the IASB. Read the [full press release](#).

4. Kurt Schacht is participating in the Project on Public Trust in Business — established by the Business Roundtable Institute for Corporate Ethics and the Arthur W. Page Society — and contributed to the recently released report "The Dynamics of Public Trust in Business — Emerging Opportunities for Leaders." In the report, the organizations offer business leaders actionable recommendations, including opportunities to build and sustain public trust in their companies, their industries, and the institutions of business at a time when the idea of trust in business is in crisis. Read [the full report](#) and learn more about the Project on Public Trust.

Measuring Market Integrity: 2009 FMI Index Released

Earlier this year, the CFA Institute Centre surveyed CFA, FSIP, and ASIP designees in six major financial markets to gauge the perceptions that investment professionals hold about market integrity. As a follow-up to the 2008 surveys, respondents rated both the integrity of the market participants and the effectiveness of the systems in the markets in which they do business. The Financial Market Integrity (FMI) Index results for 2009 are now available. Each country-specific report — on Canada, Hong Kong, Japan, Switzerland, the United Kingdom, and the United States — details current survey results and year-to-year comparisons. Rather surprisingly, given the market shifts in the past year, not all of the news was horrible.

We invite all investors to read this year's reports to better understand the unique challenges facing each market and encourage investors to follow this index in the future to ascertain whether any systematic issues develop that require the action of investment professionals, regulators, and CFA Institute. Find each report and further details about the FMI Index methodology on [our website](#).

Updated Code Addresses Risk, Repels Madoff-Type Behavior

The financial market meltdown, among other things, brought to light the unethical activities of Madoff and other asset managers — activities that had been obscured by the darkness created when markets, regulators, and investors ignored or allowed unknown and undisclosed hedge fund practices.

Unethical asset managers took advantage of that darkness to prey on uninformed and unsuspecting investors, with ruinous consequences. In the wake of this devastation, CFA Institute has published the second edition of its [Asset Manager Code of Professional Conduct](#) with new provisions that strengthen its requirements relating to risk management. The new provisions require firms complying with the AMC to establish processes to identify, monitor, and analyze a spectrum of risks relevant to the firm and portfolios managed by the firm, and these processes must be disclosed to clients. Managers must also use a new compliance statement and notify CFA Institute of their claim of compliance. The re-launch is occurring just as the regulatory reform debate is heating up with a demand for greater transparency and emphasis on protecting client interests. Adopting the AMC, which sets forth ethical principles and practices that must be abided by in full, is clearly one way firms can assure investors that their behavior is ethical and that the firms' policies are transparent.

Asia–Pacific Outreach

Sri Lanka Meetings

Lee Kha Loon, CFA, head of the Centre in the Asia–Pacific region, traveled in April to meet with representatives of the stock exchange and the Securities and Exchange Commission of Sri Lanka to discuss regulations on related-party transactions. While in Sri Lanka, Mr. Lee also made a presentation to the corporate community that was cosponsored by the regulators and the **CFA Sri Lanka** society; he conducted an ethics training workshop hosted by CFA Sri Lanka.

GIPS in Asia

While in Hong Kong as part of the CFA Institute staff international rotation program, Fannie Fang, CFA, CIPM, met with local regulators, investment professionals, asset manager associations, and asset management firms to introduce the GIPS standards and the GIPS 2010 exposure draft and to discuss implementation issues specific to the firm and local markets.

Ms. Fang and Mr. Lee visited regulators and asset management companies in Malaysia, Beijing, and Shanghai as well, and Ms. Fang called on firms in Shenzhen.

Roundtables

In May, Angela Pica, CFA, and James Lee, CFA, represented the Centre’s Asia–Pacific office at a corporate governance roundtable in Singapore that focused on emerging risks to Asian companies and governance trends. The roundtable was attended by market participants, corporate governance experts, and industry professionals.

In Hong Kong, Lee Kha Loon and Angela Pica joined regulators, auditors, legal advisers, investors, investment bankers, independent directors, and other industry professionals at the *Business Times* and Corporate Governance and Financial Reporting Centre’s corporate governance roundtable on improving governance and investor confidence at S-chip companies.

European Outreach

Vision for Europe

The European Commission published on 27 May 2009 its proposal for an integrated and consistent system of financial supervision in the European Union. The proposals are a result of the complex negotiations and extensive redrafting since the formation of the “de Larosière” consultative group in October 2008 and the group’s **report** (PDF) published in February 2009. Throughout the process, the Centre’s EMEA staff has been actively involved through both written communications and by holding high-level meetings with the European Commission and other key decision makers.

The Commission’s proposal calls for the creation of a European Systemic Risk Council, centered around the European Central Bank, that would be responsible for macro-supervision and early warning, as well as for a reform of the current framework for the design, implementation, and monitoring of micro-supervision and regulation. This aspect of the European Commission proposal is of major interest to many CFA Institute members. The Centre has supported the reform of the micro-framework, including such steps as upgrading the status of three committees—Securities, Banking, and Insurance—to be recognized as “Authorities”; consolidating community legislation in the field through the creation of a single rulebook; and a wider use of regulations. The result of this process should be a more coherent functioning of EU financial markets.

The Centre will continue with its active engagement in the definition of this legislative package in the crucial coming months and will make sure that investors' interests are fully taken into account.

EMEA Regulator Engagement

The Centre team recently submitted a number of consultations, including those to:

International Organization of Securities Commissions (IOSCO) on hedge funds oversight (PDF)

Issue: The IOSCO consultation addresses the risks posed by hedge funds; the current level and scope of hedge fund regulation; and preliminary recommendations of possible principles to mitigate the risks.

Centre Position: The Centre advocated for a combination of hedge fund manager registration, effective self-regulation (based on an industry standard code of best practice), and oversight of regulated financial counterparties, such as prime brokers. Combined, these measures should provide supervisory authorities with the information they need to monitor the buildup of risks and provide for the protection of investors.

Committee of European Securities Regulators (CESR) on technical issues relating to Key Information Document (KID) disclosures for UCITS (PDF)

Issue: The aim of the KID is to provide investors with clearer, more concise, and relevant information about the essential characteristics of a UCITS fund, over a two-page document (to replace the “Simplified Prospectus”). The CESR consultation addresses technical issues relating to (1) risk and reward disclosures, (2) past performance, and (3) charges.

Centre Position: The Centre was broadly supportive of CESR’s recommendations. Throughout, the Centre advocated that generic information should be largely removed from the KID and sign-posted to a common website. The Centre also advocated for consistency with the GIPS standards when presenting performance information.

Additionally, the Centre reached out to the following influential figures:

- Dilwyn Griffiths: head of Market Monitoring, Markets Division (FSA)
- Emil Paulis: director of Financial Services Policy and Financial Markets (DG Markt)

Maria Velentza: head of unit, Securities Markets (DG Markt)

- Patrice Berge-Vincent: Regulation of Financial Disclosures & Corporate Financing (AMF); the Centre also assisted the [CFA Society of the UK](#) and [CFA France](#) with their respective submissions on short selling to the FSA and AMF.

DG Markt-Alternative Investment Funds

In May, the Centre compiled a summary of the DG Markt-Alternative Investment Funds directive, in which we concluded that the directive is generally positive and will be good for investors. Charles Cronin was interviewed by a Brussels-based correspondent of the French publication *L'Agefi* on the subject.

Poll Results: Executive Compensation and Retail Investment Products

In recent months, the Centre has conducted CFA Institute member polls on executive compensation and on retail investment products as part of its drive to increase the member voice before the regulatory community in the European Union. At the end of April, the Centre published the poll results through press releases that were covered in the U.K. and German media, among other venues.

Regarding executive compensation, 64 percent of respondents believe that executives in practice receive the majority of their variable compensation no matter what the company's circumstances may be. This demonstrates an industry perception that despite the economic crisis, executives are still receiving rewards, and many investors feel that the variable element of executive compensation is received as an "entitlement." [Read more.](#)

Results of the retail investment products poll reveal that almost three-quarters (73 percent) of respondents based in the European Union believe fee structures of investment products drive their sales to customers rather than their actual suitability. [Read more.](#)

Swedish Presidency of EU

Martin Sjöberg, the Centre's manager of European Affairs, met in May with Charlotta Erikson, financial attaché at the Swedish permanent representation to the European Union. One of the main topics discussed — and an issue in which Sweden has kept a high profile — was financial supervision. Sweden, and its minister for finance, Anders Borg, is relatively supportive of a pan-European structure, whereas the United Kingdom is a strong opponent. If such central issues as determining the power accorded to the new EU authorities are not solved under the Czech presidency of the EU, they will clearly be top priorities during the Swedish administration beginning 1 July. The Commission's new proposal on alternative investments was also discussed.

EMEA Society News: Ethics Seminar in Stockholm

At a recent event hosted by [CFA Sweden](#), Mr. Sjöberg spoke to more than 60 attendees about ethics and financial market integrity. He also shared information about the CFA Program and the work of CFA Institute. Following the presentation, Mr. Sjöberg visited the Finansinspektionen (the Swedish Financial Services Authority) to enhance the Centre's regulatory outreach and advocacy work on the national level. The representative who met with Mr. Sjöberg, Per Håkansson, was clearly interested in the work of CFA Institute in this area and described his organization's work with consultations and working groups and explained how CFA Institute may get involved.

GIPS Standards Draft 2010: Last Call for Your Input

The public comment period to review and provide feedback on the proposed 2010 GIPS standards closes on 1 July: **Please take a moment to respond now**. The GIPS Executive Committee (and its various subcommittees) will review all comments to determine final changes to incorporate into the revised 2010 GIPS standards; the final updated Standards will be published in early 2010 and effective 1 January 2011.

Appointments

There have been a number of **key GIPS appointments in recent weeks**, including:

1. Colin Morrison to chair the Investor/Consultant Subcommittee and serve on the GIPS Executive Committee (EC).
2. Stefan Illmer as the incoming chair of the EC. Dr. Illmer is also chair of the GIPS Europe, Middle East, and Africa Regional Investment Performance Subcommittee (EMEA RIPS).
3. Trevor Persaud to chair the Asia-Pacific Regional Investment Performance Subcommittee (Asia-Pacific RIPS) and serve on the GIPS EC.

New Translations

The GIPS Executive Committee has endorsed French and Japanese translations of the GIPS standards. There are now 10 **translations of the GIPS standards** (several of which are available online): Spanish, Italian, German, Simplified Chinese, Hungarian, Korean, Ukrainian, Russian, Japanese, and French.

Country Sponsor News

The GIPS EC is pleased to **announce the official endorsement of Greece** as the 31st country sponsor to formally adopt the GIPS standards and participate in the development and promotion of the Standards.

Visit the **GIPS News and Events** web page for further details and to subscribe for regular updates.

Centre Publishes New XBRL Resource

In the evolution of eXtensible Business Reporting Language (XBRL), 2008 and 2009 will be remembered as the years when reporting frameworks moved out of concept and into practice. Prior to 2008, China was the only capital market that had implemented a requirement to provide financial reports using this new technology that makes information computer readable directly from the companies. Today, along with its use by many prudential banking regulators, XBRL has become a requirement in multiple jurisdictions, including Japan and the United States. With the goal of providing investment professionals with a quick reference guide to understanding XBRL, the CFA Institute Centre recently published *eXtensible Business Reporting Language: A Guide for Investors*.

Readers of the new guide will find, along with the discussion of the benefits and challenges, a general overview of XBRL reporting and a more complete discussion of **our recommended principles**. The journey to fully incorporating XBRL into all nature of corporate disclosures — such as financial reporting, sustainability, and corporate actions — will require the combined efforts of various regulators and private sector initiatives. The XBRL frameworks of today represent the first milestone on the roadmap to fully capturing the benefits of XBRL reporting for investors.

Latest Comment Letters

Other recent consultations on regulatory issues since our last newsletter include those to:

- **MAS on regulatory regime governing the sale and marketing of unlisted investment products** (PDF)
- **U.S. SEC: Roadmap for use of financial statements in accordance with IFRS by U.S. issuers** (PDF)
- **IASB on request for views on FASB Financial Instruments Amendments** (PDF)
- **Briefing and request for member input on mis-selling in Asia** (PDF)
- **IASB and FASB on preliminary views on financial statement presentation** (PDF)
- **European Commission on financial services supervision** (PDF)

View the full **[index of comment letters](#)**.
