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## Investor Update: Investors Are Left in the Dust on Regulatory Reform

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CFA Institute urged members of Congress to weigh investor priorities in the final moments of crafting regulatory reforms. “We would hope that the severity of the recent financial crisis would prevent a return to business as usual where lobbyist money is able to buy a muted financial reform agenda,” said [Kurt Schacht, CFA](#), managing director at CFA Institute. “We know from experience that banks and securities firms have a reserved seat at the table as key reform issues are negotiated. The fact that investor groups have offered detailed and specific recommendations on many issues critical to avoiding a repeat of the systemic meltdown and improving the integrity and confidence in capital markets should ensure that they, too, have a seat at the table. As the Senate finalizes its reform bill, we encourage Senate Banking Committee members to give their highest priority to three of the most important issues for investors: an independent systemic risk oversight board not controlled by the Fed, a single standard of fiduciary duty for financial advisers, and meaningful limits on OTC derivatives and prop trading.”

In partnership with the Council of Institutional Investors, CFA Institute co-sponsored the [Investors’ Working Group](#) (IWG) in 2009 to analyze and recommend policy solutions to the financial crisis. The IWG, a non-partisan group of money managers, former regulators, academics, and investor advocates, recommended the following:

- **Creating an independent systemic risk oversight board** unaffiliated with existing regulators to gather information and make recommendations to functional regulators. Seventy-four percent of CFA Institute survey respondents reject the notion that the U.S. Federal Reserve or any other oversight body should have wide authority until there is a better understanding of the many complex aspects of systemic risk failure. Only seven percent support the “college of regulators” approach that was recently proposed by the House Financial Services Committee, and a majority – 57 percent – support the IWG’s proposal for an independent, non-political oversight board. ([Read more](#).)
- **OTC derivative and proprietary trading at commercial banks should be restricted** and financial institutions not be permitted to become “too big to fail.” Careful constraints on proprietary trading at depository institutions and their holding companies should be imposed. In a [recent poll](#) 68 percent out of 1,494 CFA Institute members said they strongly support/support proposals to separate proprietary trading and insured commercial banks. Standardized derivatives should trade on regulated exchanges and clear centrally and OTC derivative trading should be strictly limited and subject to robust federal regulation. [Read more](#) (PDF).

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- **All investment managers of funds available to U.S. investors should be required to register with the SEC** as investment advisers, be subject to oversight, and be held to a single fiduciary standard. In fact, CFA Institute has for more than four decades required all members and candidates in the CFA Program to adhere to its rigorous and practical *Code of Ethics and Standards of Professional Conduct* -- more than 300,000 CFA Institute members and candidates worldwide are required to adhere to the *Code and Standards*. ([Read more.](#)) A July 2009 CFA Institute member survey confirms investor support for a single fiduciary standard. Eighty percent agree in total, with 38 percent *strongly* agreeing. Fifty-nine percent believe that the SEC should continue to oversee registered investment advisers. [Read more of the survey](#) (PDF).

The CFA Institute Investor Update strives to give journalists the investor perspective on an issue-of-the-day. This communication will come to you on a regular basis and will feature CFA Institute commentary on top regulatory, legislative, and market-making activities. Suggestions and follow up questions are welcome (contact Kathy Valentine at [kathy.valentine@cfainstitute.org](mailto:kathy.valentine@cfainstitute.org)).