Centre for Financial Market Integrity

CFA Institute Member Poll: U.S. Regulatory Reforms

Feedback on the IWG Report

October 2009

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Executive Summary

OTC Derivatives: In consideration of the IWG's proposals on OTC derivatives, 68 percent of members agree that all standardized derivative contracts that currently trade over the counter should be required to trade on regulated exchange, and 78 percent agree they should be required to clear centrally. In addition, if derivatives are permitted to continue to trade over the counter, 66 percent of members agree that electronic reporting of these trades would provide an appropriate level of transparency for all investors.

Hedge Funds: Based on the IWG's recommendations for hedge funds, 49 percent agree hedge funds should report real-time positions to regulators to help them monitor and control potential systemic risk. 56 percent agree they should report their investment positions on a delayed basis to the general public to put investors on notice of potential systemic risk conditions. Finally, 61 percent agree that requiring these disclosures will cause hedge fund managers to relocate to markets where such disclosures are not required.

Consumer Protection Agency: 41 percent agree that the proposal to create a stand-alone consumer protection agency that would oversee certain consumer products and services, including credit cards, mortgages, and consumer loans, and would set standards for financial service providers, mortgage companies, banks, and thrifts at this time is advisable, and 59 percent disagree.

Credit Ratings: 53 percent agree with the IWG's proposal to eventually abolish statutory and regulatory references to credit ratings and thinking the ratings system should be abolished in entirety. 47 percent disagree and think the law and regulations should not diminish their reliance on credit ratings.

Corporate Governance: 61 percent of members believe companies and regulators should be allowed to "claw back" pay to senior executives that was based on performance that was subsequently restated over the 2-5 year time period, with 32 percent indicating 2-3 years and 29 percent 4-5 years. Only 6 percent said companies and regulators should be allow to "claw back" pay over a time period of 1 year and 15 percent said 6-7 years. 17 percent said never; they do not think clawbacks should be permitted at all.

Systemic Risk: Based on the background above, 57 percent support the IWG's proposal for an oversight board, 26 percent support the Fed as the systemic risk regulator, and 7 percent support the "college of regulators" approach. In addition, 10 percent support some other mechanism (specified below).

74 percent believe the entity overseeing systemic risk should have limited authority until there is a better understanding of what causes systemic market failures (as suggested by the IWG), and 26 percent believe the entity should immediately have power to force regulators/institutions to implement changes based on findings.

Priorities for the U.S. Securities & Exchange Commission: The five biggest priorities for the U.S. SEC as opined by CFA Institute members are: (1) improved financial reporting for off-balance sheet entities (66% selected as a priority), (2) increased resources to help the SEC protect investors and enforce regulations (57%), (3) greater financial reporting for off-balance sheet entities (56%), (4) regulatory reforms to eliminate duplication and promote efficiency (44%), and (5) better oversight of proprietary trading activities of large banks (42%).

During the first half of 2009, the CFA Institute Centre for Financial Market Integrity (the "CFA Centre") and the Council of Institutional Investors worked together to sponsor and facilitate the creation of the Investors Working Group (the "IWG"). The Group included some of the most respected names in the investment and regulatory world and was co-chaired by former SEC Chairs Bill Donaldson, CFA, and Arthur Levitt. The IWG put together a report of its suggestions (the "Report") on how to revise and reform capital markets regulation in the United States. A copy of the Report is available here: https://www.cfainstitute.org/centre/overview/councils/iwg/index.html. While the CFA Centre facilitated the IWG's Report, it does not necessarily support all of the suggestions made, and comments from earlier surveys of members were unclear as to how the membership of CFA Institute felt about specific proposals. To help us clarify the CFA Centre's positions on these issues, CFA Institute created a survey to get the views of members on these matters.

The survey was e-mailed to a random sample of 24,975 CFA Institute members in the United States with a valid e-mail address on 29 September 2009, and the survey closed on 9 October. The survey questionnaire consisted of nine questions. 755 members responded to the survey, for an overall response rate of 3 percent. The confidence interval is ±3.5 percent at the 95 percent confidence level. Margin of error varies by question as the number responding to each question varies.

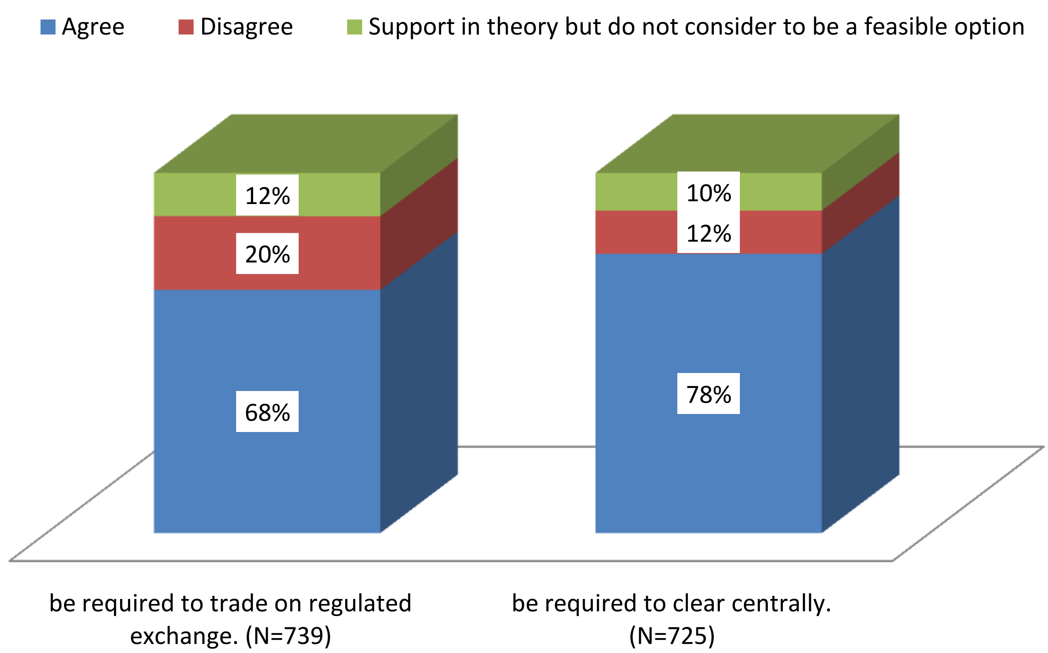
Results

<u>OTC Derivatives</u>

In the Report, the IWG suggested that only contracts where at least one party is hedging a legitimate business risk should be able to trade over the counter. Virtually every other over-the-counter derivative contract, including credit default (CDS), interest rate, commodity, and foreign exchange swaps would have to trade on regulated exchanges and clear through regulated central counterparties. The IWG believes that these proposals would provide needed transparency, solvency, and oversight to this largely unregulated market.

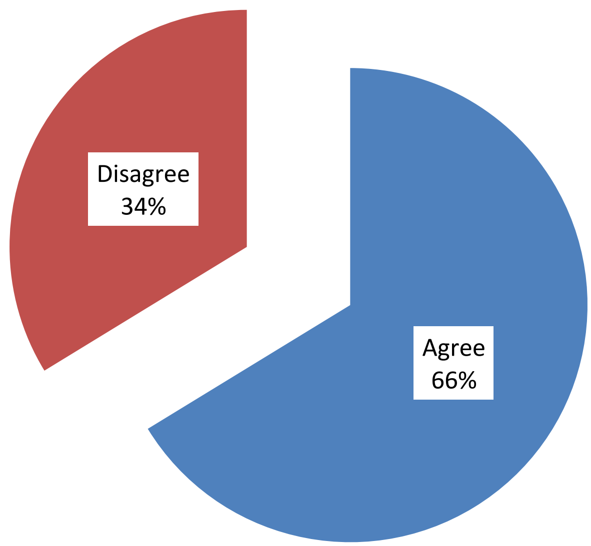
In consideration of the IWG's proposals on OTC derivatives, 68 percent of members agree that all standardized derivative contracts that currently trade over the counter should be required to trade on regulated exchange, and 78 percent agree they should be required to clear centrally.

In consideration of the IWG's proposals on OTC derivatives:
In efforts to close this regulatory "gap", all standardized (and standardizable) derivative contracts that currently trade over the counter should...



If derivatives are permitted to continue to trade over the counter, 66 percent of members agree that electronic reporting of these trades would provide an appropriate level of transparency for all investors.

If derivatives are permitted to continue to trade over the counter, would you agree or disagree that electronic reporting of all these trades would provide an appropriate level of transparency for all investors?
(N=741)

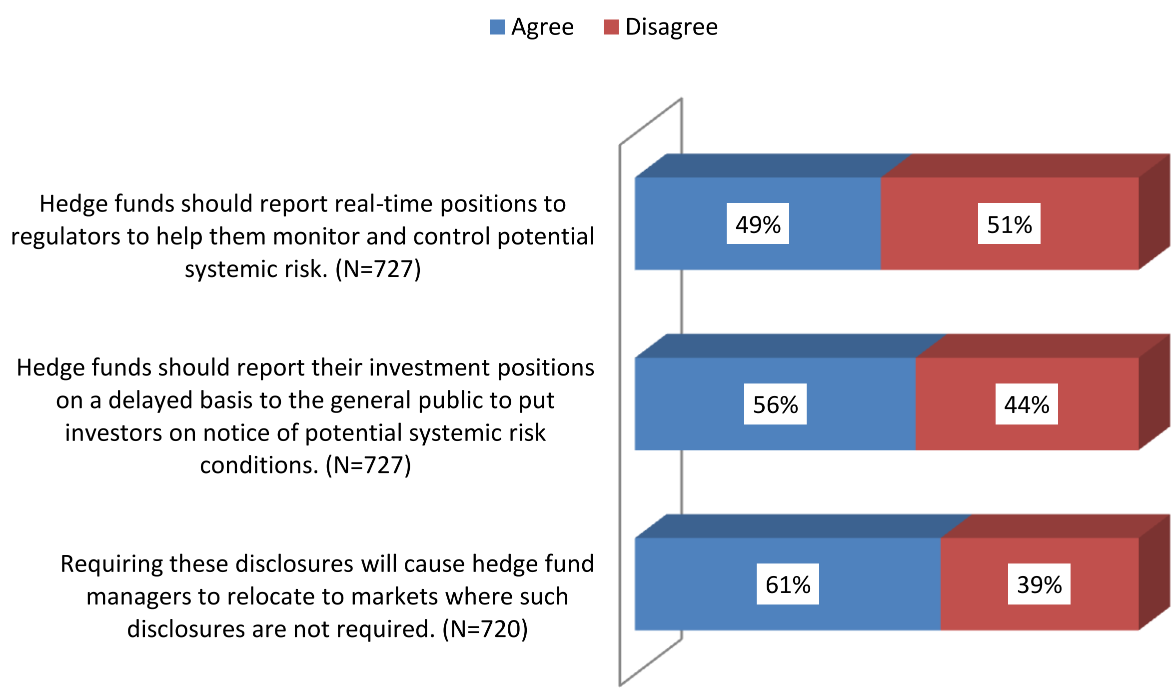


Hedge Funds

In the report, the IWG proposed to require all private investment funds, including hedge funds, to report their positions in real time to regulators and on a delayed basis to all market participants. The IWG said these funds should provide this information to enable regulators and market participants to gauge the degree of leverage in the financial system.

Based on these recommendations, 49 percent agree hedge funds should report real-time positions to regulators to help them monitor and control potential systemic risk. 56 percent agree they should report their investment positions on a delayed basis to the general public to put investors on notice of potential systemic risk conditions. Finally, 61 percent agree that requiring these disclosures will cause hedge fund managers to relocate to markets where such disclosures are not required.

Please indicate whether you agree or disagree with the following statements relating to the IWG's recommendations on hedge funds:

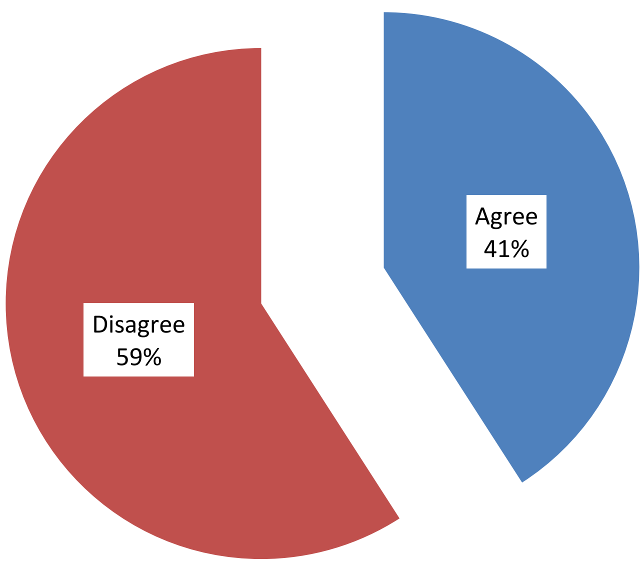


Consumer Protection Agency

The Obama Administration has proposed the creation of a stand-alone consumer protection agency that would oversee certain consumer products and services, including credit cards, mortgages, and consumer loans, and would set standards for financial service providers, mortgage companies, banks, and thrifts. While a number of existing agencies currently have jurisdiction of these, the Administration's proposal attempts to consolidate oversight of consumer protections into one dedicated agency.

41 percent agree that the proposal to create this type of separate consumer protection agency at this time is advisable, and 59 percent disagree.

Do you agree or disagree that the proposal to create this type of separate consumer protection agency at this time is advisable? (N=736)

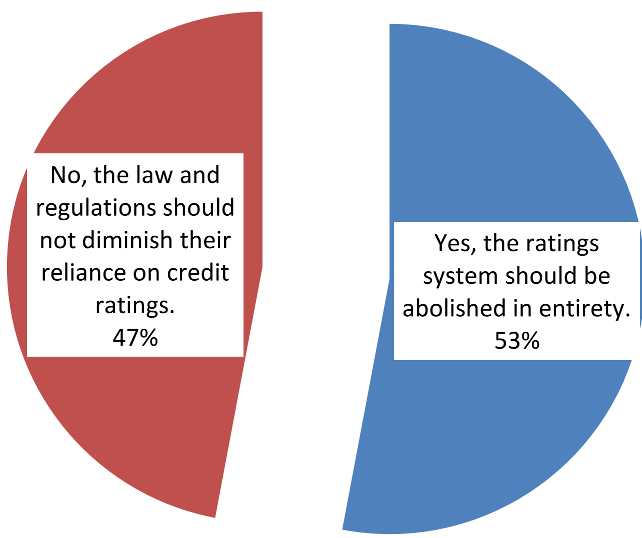


Credit Ratings

While the IWG called for greater regulatory oversight for credit rating agencies, or nationally recognized statistical rating organizations (NRSROs), the Report also urged lawmakers and regulators to greatly reduce the statutory and regulatory reliance placed upon credit ratings. The IWG believes that NRSROs' conflicted interests and poor performance have made them unreliable measures for the federal and state laws, regulations and private contracts that rely upon credit ratings to determine from capital adequacy and investment suitability to credit event triggers.

53 percent agree with the IWG's proposal to eventually abolish statutory and regulatory references to credit ratings and thinking the ratings system should be abolished in entirety. 47 percent disagree and think the law and regulations should not diminish their reliance on credit ratings.

Do you think that the IWG's proposal to eventually abolish statutory and regulatory references to credit ratings is appropriate?
(N=708)

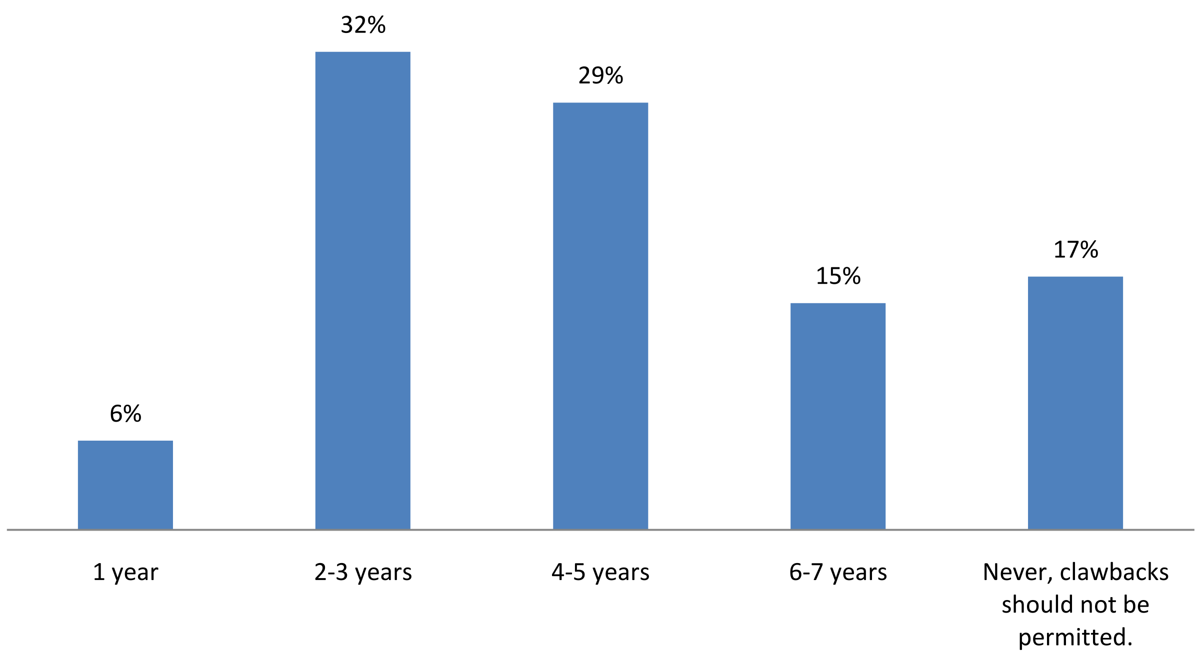


Corporate Governance

In the Report's discussion about corporate governance, the IWG suggests that "Federal clawback provisions on unearned executive pay should be strengthened." The IWG's reasoning for this suggestion is that clawbacks discourage senior executives from "taking actions that temporarily lift share prices but ultimately result in financial restatements."

61 percent of members believe companies and regulators should be allowed to "claw back" pay to senior executives that was based on performance that was subsequently restated over the 2-5 year time period, with 32 percent indicating 2-3 years and 29 percent 4-5 years. Only 6 percent said companies and regulators should be allow to "claw back" pay over a time period of 1 year and 15 percent said 6-7 years. 17 percent said never; they do not think clawbacks should be permitted at all.

Over what time period should companies and regulators be allowed to "claw back" pay to senior executives that was based on performance that was subsequently restated? (N=728)



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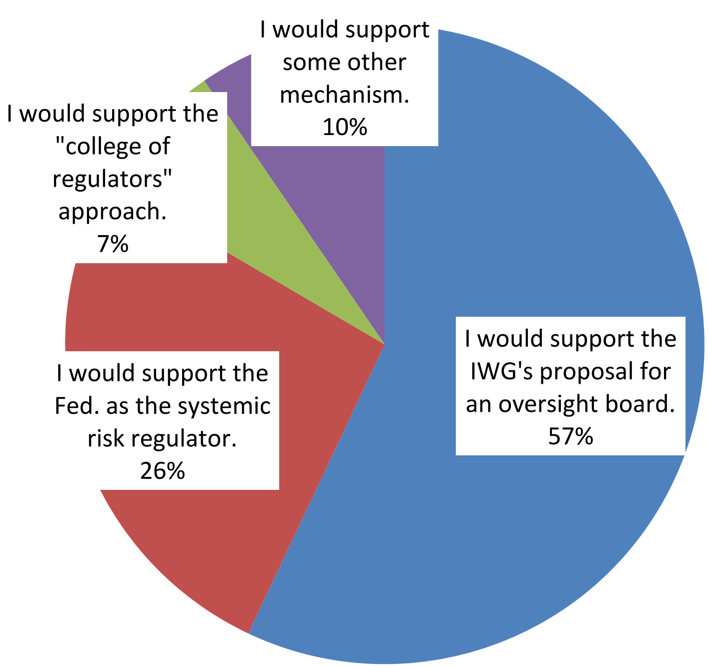
<u>Systemic Risk</u>

The IWG recommended creating an independent Systemic Risk Oversight Board (the "Board") to monitor systemic risk issues. The Board would have authority to draw upon banking, securities, and other financial regulators for information and would make substantive recommendations to them and to Congress on appropriate action to prevent systemic problems. The regulators would then choose to comply with the recommendations or publicly explain why they did not.

The IWG preferred an independent Board with expert staff to oversee systemic risk issues instead of the Fed or a "college of regulators." The IWG's reasoning was that the Fed was unable to manage the situation during this latest crisis, and that giving oversight of systemic risk would further conflict with its other, existing mandates as central bank. The IWG also believed creating a "college of regulators" would lead to turf battles among the different regulatory agencies. An independent board, the IWG reasoned, would avoid these problems while acting as a source for collecting and analyzing global data, and to make recommendations to the agencies.

Based on the background above, 57 percent support the IWG's proposal for an oversight board, 26 percent support the Fed as the systemic risk regulator, and 7 percent support the "college of regulators" approach. In addition, 10 percent support some other mechanism (specified below).

Based on this background, would you support the IWG's proposal or would you support another mechanism for monitoring systemic risk? (N=712)



Other mechanisms supported by members include:

- *A combination of Fed + a collaborative of "other regulators"*
- *A shared responsibility by the Fed and a board.*
- *Abolish the Fed which is the cause of systemic risk*
- *An oversight board is moronical. The Fed causes systemic risk. Let transparency and free market forces work out risk. Most members of Congress are incapable of digesting the true meaning of economic data.*
- *Anything not bureaucratic*
- *Central clearing of OTC derivatives with consolidated position data by firm available to respective company managers and for all companies to jurisdictional regulators. Companies and regulators to periodically disclose their leverage and risk exposure in a standardized digital database format. Then let markets deal with it.*
- *College with independent members as heads*
- *deregulation*
- *Do not think systematic risk can be adequately monitored.*
- *Elimination of regulation*
- *FINRA*
- *Free market*
- *free market capitalism*
- *free market forces*
- *Free Market or "No More Bailouts"*
- *free market,*
- *Free Markets*
- *Free markets. Let levered firms fail that make bad decisions*
- *Free Markets; reduce legislation and manipulation from politicians to avoid future catastrophes.*
- *I challenge anyone to prove that 'systemic risk' exists, and, further, that it can be mitigated by the foresight of a group of the same head-in-the-sky idiots that created the financial products that supposedly led to it.*
- *I do not support anything that creates the perception that any one company IS a systemic risk. The idea that a company is too big to fail was the driving force behind Fannie Mae/Freddie Mac's ability to lever themselves to the extent they did. No company should be immune from failure. What I would support is the proposal Congressman Hensarling had to establish another chapter in the bankruptcy code to establish a legal mechanism so as to dissolve such large financial firms in an orderly manner.*
- *I don't support another regulator. I'm concerned we're already too involved w/ setting rules and should work primarily on information dissemination and fraud prevention.*
- *If you eliminate the Fed, you eliminate most systemic risk.*
- *in a true, unhampered free market, I don't think a thing such as systemic risk is possible. support measures to get the government out of the way and let the market do its work*
- *Independence isn't guaranteed*
- *Investors as a group will do a better job than any small group of "regulators" as long as there is transparency and disclosure. Leverage seemed to be the real culprit so better regulation of those ratios seems appropriate. SEC, Fed, Congress, etc, etc can't prevent the next bubble from*

forming or bursting but more prudent systemic leverage would dampen the adverse consequences.*

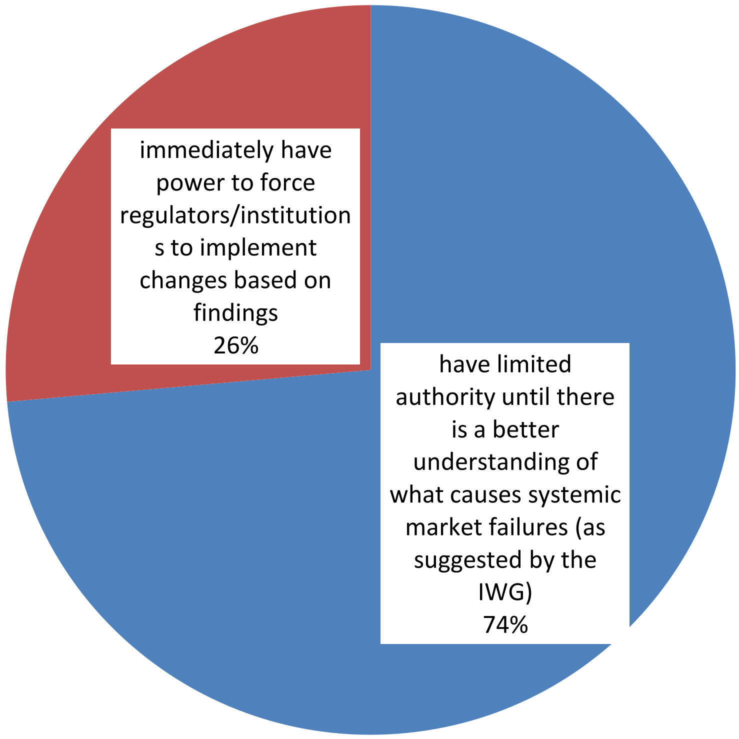
- *IWG's proposal, with CFA's & CIPM CEO's from top financial firms*
- *let the free market do it*
- *let them fail regardless of size*
- *Make the mechanism market based and published regularly. For example, based on the CDS market.*
- *Make the U.S. dollar a stable currency by returning the dollar to a specie (gold/silver) standard like it was before 1971. This will reduce systemic risk caused by the Fed's expansion of the money supply and credit in an artificial, overly intellectual manner to "stimulate growth" of the economy (it's "growth" through cheating). The systemic risk they seek to "oversee" is caused by floating currencies exposed to the whims of politicians and bureaucrats as they flail about trying to stay in power and control. A stable dollar will create stability across the economy, eliminating much of the risks and speculations we experience today.*
- *Market based; end "too big to fail" policy*
- *No mechanism*
- *No systemic risk regulation*
- *No systemic risk regulator at all*
- *none*
- *none*
- *NONE*
- *None*
- *None*
- *None*
- *none - cannot be regulated*
- *none of the above or any other such mechanism*
- *None will work*
- *None.*
- *None. Regulation never works*
- *Nothing*
- *nothing is needed*
- *President's Working Group to coordinate, but not do regulation*
- *Reduce the number of regulators and increase their expertise*
- *regulation doesn't seem to be working*
- *regulators are a nuisance*
- *see answer*
- *Single Regulatory Body*
- *The Constitution*
- *The Fed and FDIC already have the tools to regulate excessive leverage of financial institutions. They need to utilize the enforcement powers they already have*
- *The free market. I would support the abolition of central planning via central banking and government deposit insurance.*
- *the issue is enforcement of existing regulation, we don't need another government board*

- *The sec needs to start doing its job. Exchanges and regulators and Govt. need to come together to lay down the groundrules on 'too big to fail' and start 'trustbusting'. 'Too big to fail' is govt. failure to do its job. See Glass Steagall, again, again. LTCM, leverage is risk, do we need another lesson?*
- *There is no utopia - keep the Federal Government out of our business. They are the ones who created the sub-prime debacle through their interference with the charters of Fannie and Freddie.*
- *Treasury or FDIC*
- *US Treasury Department*
- *viable corporate governance whereby boards execute their oversight functions*
- *when they blow up let the company fail*
- *While the collective analysis of the market may not always warn of systemic risk at least some in the crowd will. I much prefer the odds of the risk being discovered through analysis undertaken by millions rather than a small Big Brother group of regulators.*
- *With transparent and functioning markets (when derivative investments exposure is publicly available), I don't think an advisory board would be necessary.*

The IWG suggested that the systemic risk board would only have powers to monitor systemic risks and to regularly report on their findings to Congress and on an as-needed basis to banking, insurance, and securities regulators. The IWG believed that the Board’s powers should be limited until there was a better understanding of what causes systemic market failures.

74 percent believe the entity overseeing systemic risk should have limited authority until there is a better understanding of what causes systemic market failures (as suggested by the IWG), and 26 percent believe the entity should immediately have power to force regulators/institutions to implement changes based on findings.

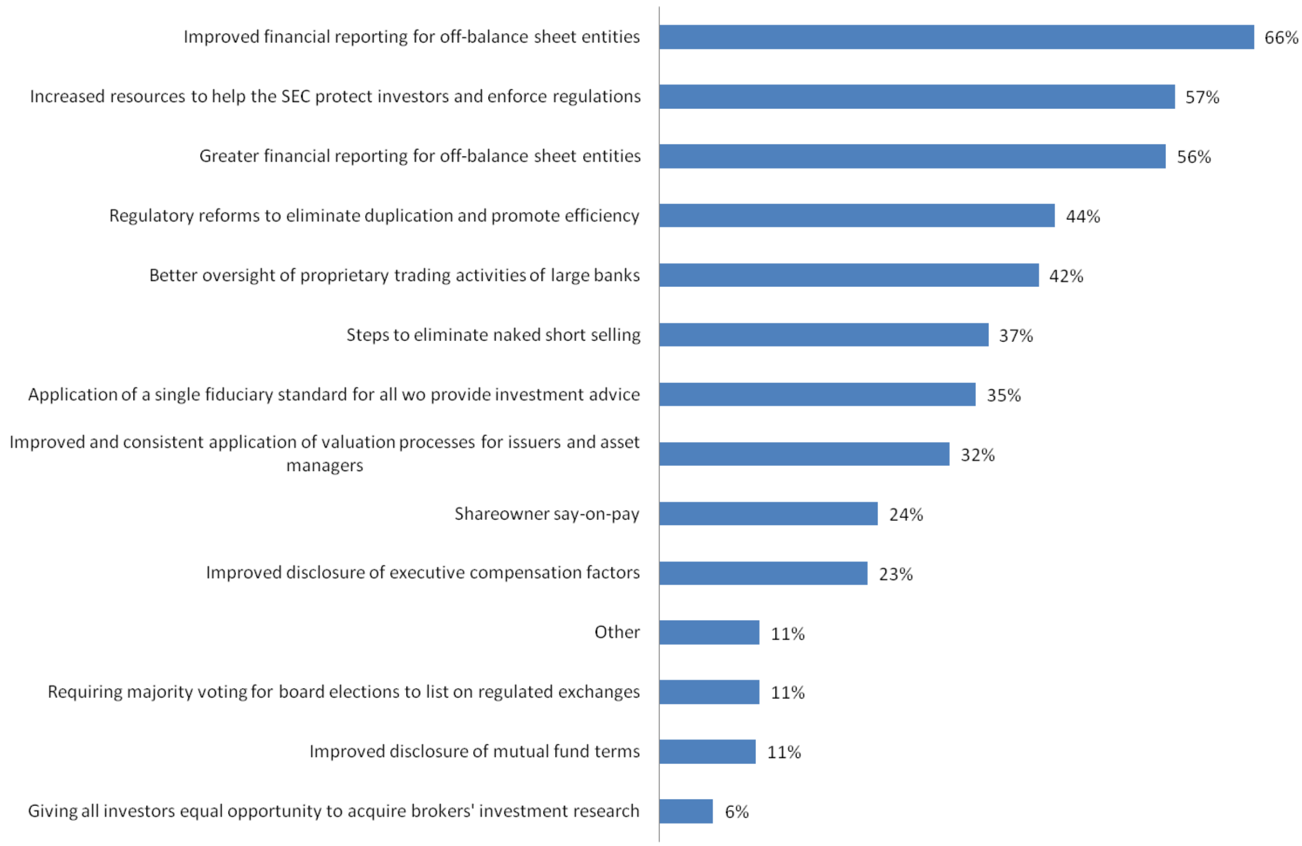
Do you believe the entity overseeing systemic risk should... (N=701)



Priorities for the U.S. Securities & Exchange Commission

The five biggest priorities for the U.S. SEC as opined by CFA Institute members are: (1) improved financial reporting for off-balance sheet entities (66% selected as a priority), (2) increased resources to help the SEC protect investors and enforce regulations (57%), (3) greater financial reporting for off-balance sheet entities (56%), (4) regulatory reforms to eliminate duplication and promote efficiency (44%), and (5) better oversight of proprietary trading activities of large banks (42%).

Biggest Priorities for the SEC in the coming year: (N=717)



"Other" priorities specified by members are:

- *Abandon the delusional belief in self correcting markets and actually enforce regulations*
- *abolish SEC; it harms the honest and doesn't catch the crooks*
- *Acquire staff that understand the system and are not beholden to the financial system's lobbying efforts.*
- *Adopt IFRS*
- *any transparency*
- *Balanced Hedge Fund Rules*
- *Close itself down in an orderly fashion*
- *Crackdown on deceptive marketing practices and promote accurate performance and benchmark reporting*

- *Creation of exchanges for derivatives*
- *device controls to mitigate systemic risk*
- *Dismantle the SEC*
- *do your job... do it well*
- *don't allow SEC employees to later work on Wall Street*
- *Eliminate lawyers on Staff and replace with financial professionals.*
- *eliminate soft dollars*
- *Eliminate staggered elections for board of directors' elections*
- *Eliminate the SEC. It give the illusion that consumers are being protected*
- *Eliminating convergence with IFRS*
- *Elimination of securitization and dismantle investment banks, reinvigorate community banks, dissolve the SEC and replace with Consumer Protection Agency*
- *Encourage risk-taking by allowing both rewards and losses in full*
- *Enforce current regulations*
- *Enforcement of existing regulations*
- *Enforcing the current laws which they are knowingly ignoring.*
- *enforcing the law that requires all fiduciaries to vote all proxies solely in beneficiaries interest*
- *For the most part, regulators have sufficient tools now. the just have not used them properly and diligently.*
- *Fraud prevention*
- *Fund supermarket marketing fees charged to mutual funds, and broker-dealer subsidies to planners who use these supermarket funds while excluding others, possibly in violation of fiduciary obligations to choose best fund available.*
- *Greater disclosure of derivative counterparties particularly with regard to swaps*
- *Greater financial reporting for derivatives.*
- *guidance on e-mail*
- *hedge fund disclosure*
- *Help force board member be accountable for company results*
- *Hire (and pay) smart financial people rather than lawyers*
- *Hiring competent examiners*
- *Hiring competent people who would have caught Bernie Madoff.*
- *I strongly oppose any additional government interference with our financial system.*
- *IFRS*
- *Improve short selling rules*
- *improved staffing and culture within the organization*
- *Improving investment knowledge (as opposed to legalistic knowledge) of SEC staff*
- *Increase disclosure/transparency on a range of sustainability issues, incl. climate change risks*
- *increased efficiency and effectiveness in dealing with issues of fraud, etc.*
- *increased financial knowledge, generally*
- *increased investory input into accounting standards*
- *increased shareowner rights across the board, incl but not limited to say-on-pay, majority voting for board members, improved proxy access, etc.*

- *Increased training for SEC staff. I've worked with a few of them, and some are an absolute embarrassment. I'm not at all surprised they repeatedly missed things like Madoff.*
- *LEVERAGE RESTRICTIONS!!!!!*
- *limit size of banks -then let them fail if needed as no one institution will upset financial system*
- *monitor penny stock pump and dump promotions*
- *No more issuer-pays for CRAs*
- *oversight of hedge funds*
- *Proxy access*
- *Proxy Access*
- *reduce regulatory burden on market participants*
- *Reform manner in which corporate board members are nominated.*
- *Reform regulations to be clear and understandable. Evaluate reg's efficacy.*
- *registration of all significant financial entities*
- *Regulate hedge funds*
- *Regulation of Hedge Funds and market manipulation by such entities*
- *Reinstate Uptick Rule*
- *reinstate uptick rule*
- *Reinstatement of Up-tick Rule*
- *Requiring better risk management of "TBTFs"*
- *root out whoever is paying paid bashers on Yahoo message boards*
- *Say on pay is insufficient. Anyone (or group of people) with more than 1-2% of the stock should be able to nominate a director for the board. There should be a target of 4 nominees for every board slot to be filled. That will help keep the board more accountable to shareholders.*
- *SEC failed to do its job. Giving the SEC more duties is not going to make them more efficient or effective.*
- *SEC replaced with new body*
- *SEC should investigate more thoroughly and prosecute to completion more often*
- *SEC used to be a highly venerable regulator. SEC can never do its job if it bows to the wishes of those who think government is bad and should be starved to death. Somehow, we need to welcome and embrace regulation as a needed, prudent and necessary function.*
- *Shareowners access to the proxy*
- *Simplify regulations*
- *Single Regulatory Body is needed*
- *Stop hiring so many attorneys at the SEC and hire skilled financial analysts -- including CFA charterholders -- instead.*
- *Strict separation between commercial deposit taking institutions and investment banks, including limits on proprietary trading operations and levels of leverage funded by wholesale deposits.*
- *swift move to IFRS; reestablish credibility and effectiveness in addressing issues and responding to tips promptly*
- *The main priority is to deregulate, increase transparency, and reduce its oversight of markets*
- *The priority should be to wind down these useless bureaucrats*
- *The SEC is a bunch of busybodies that need to stay out of people's business.*
- *unbiased consumer advocate group*

- *We still have naked short selling? What good is the IWG, do they even know what manipulation is? Sheesh. Oh and by the way, if everything isn't on the balance sheet how will the investment community even asses risk, much less the regulators? Is FASB just a gaggle of political hacks now, do they need a survey on how to pull their heads out too? There should not be anything off financial statements or selective reporting.*