



# GLOBAL ADVOCACY NEWS AND IMPACT

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We are pleased to provide this update on our various key advocacy efforts from around the world. In this issue, we report on ways we are pushing investor protection initiatives, including the US SEC's recent proposals on broker standards and several meetings with key organizations. We also are busy digging deeper to understanding our members' views on important topics such as Brexit; environmental, social, and governance (ESG) in investing; and alternative performance measures. As always, we welcome your comments or questions.

—Kurt Schacht, CFA, Managing Director of Advocacy

### INVESTOR PROTECTION

## NEW SEC BROKER STANDARD: FIXING MIS-SELLING?

**CFA Institute advocacy at work:** On 18 April, the US SEC voted to propose three new rules dealing with standards of conduct for broker-dealers and investment advisers. Although not perfect, the proposals do reflect some of the recommendations that CFA Institute has put forth over the past several years in its effort to protect investors and clarify disclosures and relationships. The proposals are a step in the right direction, but fall short of providing the fiduciary care CFA Institute advocates. The SEC proposals include:

- **Form CRS Relationship Summary:** New and amended rules would restrict the ability of brokers to use the titles “adviser” or “advisor,” a restriction CFA Institute has advocated for since 2011. The proposals also would require brokers and investment advisers to disclose the nature of their relationships with clients, which is similar to a recommendation CFA Institute made in its 10 January letter to US SEC Chair Jay Clayton. We support in principle the title restrictions and the disclosures about the type of relationship the adviser or broker has with clients, though we believe that the proposals are unnecessarily complicated.
- **Regulation Best Interest:** This proposal establishes a standard of conduct for broker-dealers and associated persons when recommending any securities transaction or investment strategy involving securities to a retail customer. CFA Institute is concerned that use of the term “best interest” in this proposal will cause increased confusion for investors and equate this standard with a fiduciary standard of care, even though it offers minimal improvements over the current suitability standard.
- **Enhancing Investment Adviser Regulation:** This proposal puts forth the SEC’s interpretation of the standard of conduct for investment advisers. In general, CFA Institute supports regular review of existing rules. However, we are concerned the proposal may divert SEC resources and attention away from inappropriate broker-dealer advice, where we believe the larger problem exists.

PROFESSIONAL PRACTICE

## GAUGING MEMBERS' VIEWS ON ALTERNATIVE PERFORMANCE MEASURES



**New member insight:** CFA Institute recently released an informative member survey report, *Alternative Performance Measures—The Latest on Investor Use and Desire for Standardization*, to ascertain the best way forward on the contentious topic of alternative performance measures (APMs). APMs include non-GAAP financial measures (NGFMs) (e.g., earnings before interest, tax, depreciation, and amortization; adjusted net income) as well as financial and nonfinancial key performance indicators that are reported outside the primary financial statements (e.g., same-store/like-for-like sales). The prevalence of APMs, along with their often-inconsistent and not fully transparent reporting, has created a conundrum for financial, regulatory, and accounting professionals trying to determine how to ensure APMs are useful and not misleading to investors.

**Improving APM reporting:**

The CFA Institute survey found that APMs have a distinct role that investors value, and many

respondents support the expansion of these measures. At the same time, respondents also feel that more needs to be done to standardize and improve the comparability of APMs. Read more on the survey results in the Market Integrity Insights blog post, [“Investors Require Improvements in Reporting of Alternative Performance Measures.”](#)

### NEW APPOINTMENT ON APAC ADVOCACY TEAM

Rocky Tung joined CFA Institute as Director, Capital Markets Policy, Asia Pacific, in Hong Kong. Tung has more than a decade of experience in economic and policy research, working closely with business leaders, government officials, academics, and other stakeholders. He comes to CFA Institute from the Hong Kong General Chamber of Commerce (HKGCC), where he was senior economist in charge of its macroeconomic, labor, and international trade-related policy research functions. In his new role, Tung will focus on thought-leadership research that advances market integrity, speak at events to raise public and industry awareness on pertinent issues, and be a spokesperson on policy topics. He will work closely with Advocacy and other functional, national, regional, and global teams.

PROFESSIONAL PRACTICE

## MEMBER SURVEY PLANNED ON ESG IN THE EU



**Understanding ESG in investing:** The CFA Institute Europe, Middle East, and Africa (EMEA) group will embark on important research focused on the European Commission’s proposal to integrate environmental, social, and governance (ESG) considerations in investment decision-making processes. CFA Institute is preparing a global member survey on the issue of ESG

investing in order to be an active voice in the debate around the EU’s Sustainable Finance Action Plan. In particular, the survey will seek to determine the views of CFA Institute members on the role of ESG factors in the fiduciary duty of investment managers, as well as the extent to which the taxonomy of ESG investing should determine the investing actions of managers. The survey will be released in June and the results will be ready for outreach efforts in late August.

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**PROFESSIONAL PRACTICE**

## NEW BREXIT BAROMETER REVEALS DIFFERENCE OF OPINION

**Signs of optimism:** CFA Institute released the [findings of its 2018 Brexit member survey](#), revealing the latest sentiment among investment professionals about the impact of Brexit on the asset management industry. The report compares the results across regions as well as to surveys from the past three years.

This latest survey reveals a difference of opinion from around the world with some signs of optimism about a post-Brexit world. However, challenges, including costs from dislocation and uncertain investment returns, for United Kingdom investment management are anticipated. Regionally, there was more optimism from locations outside of the EU. Respondents in the EU (excluding the United Kingdom) were most likely to expect firms in their market to reduce their presence in the United Kingdom as a result of Brexit: 76% of those in the EU (excluding the United Kingdom), compared to 67% of those in the United Kingdom and 54% from the rest of the world.

“What is powerful about this research is the body of opinion it provides from a large number of investment management professionals around the world, many of whom have no emotional investment in Brexit. While we see some signs of optimism, views of CFA Institute members vary between the markets, and much uncertainty remains over the likely outcome of the Brexit negotiations,” said Gary Baker, CFA, Managing Director EMEA and Industry and Policy Research, CFA Institute.




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**PRIORITY ADVOCACY INITIATIVES**

## ADVOCACY PRIORITY PROJECT FINALISTS

**Priority project summaries:** We are homing in on the eight “finalist” projects that our two Advocacy expert volunteer groups—the Capital Markets Policy Council and the Corporate Disclosure Policy Council—selected as key initiatives. The goal is to help focus and prioritize our advocacy activities for 2018. In previous issues of *Advocacy Update*, we provided highlights of seven of the finalists. Here is a summary of the last one:

- The Future of Financial Reporting:** This project would reframe the forward-looking work of CFA Institute on financial reporting as part of a Financial Reporting Laboratory or similar entity. The lab would examine a range of issues that will advance the nature, efficiency, and format of financial reporting in the future. It will be influenced by technology, new regulatory approaches, and many of the elements CFA Institute has featured in its seminal Comprehensive Business Reporting Model (CBRM). The lab will create reports, convene events and working groups, and lead global discussion on how to advance the practice of financial reporting, audit, and oversight by standard setters and regulators. Opportunities include examining the increased use of structured data, data analytics, and technologies for preparing, filing, and retrieving financial reporting, as well as enhancements to audit practice and audit quality. CFA Institute can uniquely lead the global debate on the future of financial reporting and regulation from the investor perspective.

## GLOBAL ACTIVITIES &amp; EVENTS

## KEY ADVOCACY MEETINGS AND EVENTS

**Weighing in on fiduciary duty:** CFA Institute President and CEO Paul Smith, CFA, and the Advocacy team will meet with US SEC Chair Jay Clayton in June to discuss uniform fiduciary duty, among other topics. In particular, CFA Institute has been outspoken on the “best interest” standard being proposed by the Commission. We have consistently supported stronger investor protections against the mis-selling of financial products by brokers and a full fiduciary duty for advisors offering personalized investment advice. In addition, we have growing concerns on the proliferation of non-GAAP disclosures by public companies in the United States. Such information is used to portray a company’s financials in a better light than may be the case using accepted accounting rules. The information is unregulated and often highly misleading for analysts.

**CFA Institute offers ethics expertise to FINRA:**

On 23 May, CFA Institute presented at FINRA’s annual meeting of members in Washington, DC. FINRA is the body that oversees regulation of brokerage industry in the United States. Kurt Schacht, CFA, Managing Director of Advocacy at CFA Institute, spoke about the many complexities surrounding the issue of gifting. The giving and receiving of gifts between clients and financial service providers can create many nuances and potential conflicts that may violate firm compliance rules as well as federal and state regulations. The FINRA annual conference attracts an audience of more than 1500 members and features a range of practitioner sessions focused on ethical practice and best approaches for establishing an ethical culture at broker-dealer firms.

**Systemic Risk Council meeting and event:** On 12 April, the Systemic Risk Council (SRC) held an in-person meeting at the CFA Institute Brussels office. SRC is sponsored by CFA Institute and is a private sector, nonpartisan body of former senior government officials and financial experts committed to addressing regulatory and structural issues relating to global systemic risk. Participants met with EU officials, including Steven Maijor (Chair of ESMA), Stefan Ingves (Chair of the Basel Committee on Banking Supervision), and Andrea Enria (Chair of the European Banking Authority). Among other matters, the SRC considered the following systemic concerns: overall increases in global debt, increases in Chinese corporate debt, perceived softening bank and systemic risk regulation in the United States, perceived inattention to systemic weakness of asset management sector, and steps taken by the Basel Committee on Bank Supervision toward raising capital standards and leverage ratios.

The meeting was followed by an event, “Systemic Risk Protection: Is the Picture Complete? Did We Over or Under Regulate?” at the National Bank of Belgium. Co-hosted by CFA Society Belgium, the event featured a debate between Sir Paul Tucker, Chair of the SRC and former Deputy Governor of the Bank of England, and Vítor Constâncio, Vice President of the European Central Bank, on the state of financial stability and systemic risk regulations. The event was attended by more than 200 guests.



## PROFESSIONAL PRACTICE

## NEW VIDEO HIGHLIGHTS ADVOCACY WORK



**Promoting our advocacy:** A new [video](#) spotlighting the importance of the global advocacy work CFA Institute does made its debut at the CFA Institute Annual Meeting in Hong Kong in May 2018. The short video features the comments of policymakers and other experts who offer perspectives on how CFA Institute is an effective advocate in advancing policies, regulations, and standards that support investor protection, market transparency, and industry professionalism.

## ADVOCACY IN ACTION

### MEDIA & INDUSTRY ATTENTION

*The Hill* (5 May) carried an op-ed in which Kurt Schacht, CFA, Managing Director of Advocacy at CFA Institute, critiqued the SEC's "best interest" standard.

*Hong Kong Economic Journal* (4 May) carried an article by Rocky Tung, Director, Capital Markets Policy, Asia Pacific, at CFA Institute, about the Hong Kong Stock Exchange's decision to allow dual-class share equity structures.

*Investment News* (4 May) published criticism from Kurt Schacht, CFA, Managing Director of Advocacy at CFA Institute, about the SEC's investment advice reform proposal. "That seems more like caveat emptor than fiduciary harmony to us," said Schacht.

*AsianInvestor* (1 May) reported on CFA Institute support of the one-share-one-vote structure for Hong Kong Exchanges and Clearing. Mary Leung, CFA, Head of Advocacy, Asia Pacific, at CFA Institute, said, "We firmly support one-share-one-vote and we remain steadfast in the belief that there should not be any unequal voting rights."

*Intereconomia Radio* (26 April) and other Spanish outlets hosted discussions of the CFA Institute Brexit survey results with Josina Kamerling, Head of Regulatory Outreach EMEA, at CFA Institute.

*Financial Times* (22 April) quoted Sandra Peters, CFA, Head of the Financial Reporting Policy Group at CFA Institute, who said noncash accounting adjustments can be used to show the real implications of US tax reform.

*Accounting Today* (16 April) covered the recent CFA Institute report, *Revenue Recognition: Top 10 Questions Investors Should Ask about the Adoption of the New Standard*. Sandra Peters, Head of the Financial Reporting Policy Group at CFA Institute, discussed some of the main issues for investors regarding the new revenue recognition standard.

*Barron's* (6 April) quoted Kurt Schacht, CFA, Managing Director of Advocacy at CFA Institute, who called dual-class voting a global epidemic. Schacht said, "It's a race to the bottom for shareholder rights."

*Pensions & Investments* (2 April) quoted Jim Allen, CFA, Head of Capital Markets at CFA Institute, who said the SEC needs to get titles right. CFA Institute wants the SEC to "require broker-dealers to disclose that they are agents of their brokerage firms and not working for the investor," according to Allen.

*Investment & Pensions Europe* (31 March) referenced Josina Kamerling, Head of Regulatory Outreach, EMEA, at CFA Institute, in support of the European Commission's pan-European personal pension proposal.