



GLOBAL ADVOCACY NEWS AND UPDATE

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In this issue, as we kick off our new fiscal year, we slow down to assess our priorities and provide updates of where we are in our advocacy efforts and where we are headed. Our important meetings with industry regulators and key players across the globe have given us a fresh, informed perspective for looking ahead. We also weigh in on key issues affecting our investment world, including MiFID II, short-termism, dual-class shares, and proxy advisers. Highlights of our media coverage and notable industry events are also provided so you can see how we make an impact around the world.

—Kurt Schacht, CFA, Managing Director of Advocacy

INVESTOR PROTECTION

MIFID II EFFECTS ON US RESEARCH

New report: In the report, *The Future of Research in the US After MiFID II: Resolving EU/US Disparities*, issued on 27 August 2019, CFA Institute assessed the potential effects of the EU's Markets in Financial Instruments Directive (MiFID II) in the US markets. Prompted by the approaching July 2020 expiration of a series of US SEC no-action letters, the report considered the differences and conflicts between the EU directive and US laws, regulations, and regulatory interpretations. The report provided a list of recommendations for the SEC as it seeks to resolve these differences.

Our position: The report reiterated the positions held by the *CFA Institute Soft Dollar Standards* (first published in 1998)—in particular, the need for investment managers to disclose the cost of research purchased through soft-dollar and bundled brokerage arrangements. Enhancing transparency into the costs of research and the use of client commissions to pay for it has never been more essential. This position was further reinforced in a [26 June 2019 letter](#) to the SEC, signed jointly with the Council of Institutional Investors and the Healthy Markets Association.

Hard dollar payments: Most newsworthy among the recommendations was that the SEC permit broker dealers to accept cash as payment for investment research. Such "hard-dollar" payments are currently banned by the Investment Advisers Act, unless the broker dealers register as investment advisers. Given the SEC's recent redefinition of "incidental" to include virtually any activity a broker dealer performs, CFA Institute reversed its earlier opposition to the prepayment of hard dollars for investment research.

SEC meeting: CFA Institute met with representatives of the SEC to discuss the report on 18 September 2019. In that meeting, SEC staff was interested in CFA Institute members' perspectives and recommendations on changes in the market for investment research, and how to resolve the conflicts MiFID II had created.

ADVOCACY IN ACTION

MEDIA ATTENTION

Financial Investigator (NLD) (25 September): Josina Kamerling, Head of Regulatory Outreach, EMEA, at CFA Institute, wrote about the European parliamentary elections and the election of four pro-Euro candidates.

Banking Technology (UK) (20 September) cited a CFA Institute survey in a report about research unbundling under MiFID II.

LexBlog (The SEC Institute Blog) (18 September) reported on the CFA Institute member survey on quarterly reporting data.

Pensions & Investments (16 September) quoted Olivier Fines, Head of Advocacy, EMEA, at CFA Institute, on MiFID II revisions.

MarketWatch (10 September) quoted Sandra Peters, Head of Financial Reporting Policy at CFA Institute, on the replacement of a member of the Public Company Accounting Oversight Board.

Corporate Secretary and *IR Report* (5 September) cited the report from CFA Institute on how MiFID II is causing “tectonic shifts” in the US.

Asia Asset Management (3 September): Sara Cheng, Senior Director of Capital Markets and Strategy at CFA Institute, Asia Pacific, wrote about regaining trust in the financial industry.

Financial Advisor Magazine (3 September) reported that CFA Institute is working on how to best protect investors after the implementation of Regulation Best Interest and quoted Kurt Schacht, Managing Director of Advocacy at CFA Institute: “We are working in tandem with a number of groups to develop tools to help investors understand what the conflicts are and how to ask about them.”

Investment News (3 September) reported that CFA Institute continues to advocate for title reform and quoted Managing Director of Advocacy Kurt Schacht: “The recent SEC reforms have not cleared things up for investors.”

GLOBAL ACTIVITIES AND EVENTS

Technology, Investors, and the Evolving Financial Information Landscape Webcast: Mohini Singh, Director of the Financial Reporting Policy Group at CFA Institute, and John Turner, CEO of XBRL International, joined a CPA Canada webcast to discuss global digital reporting developments and how investors, lenders, and regulators are leveraging technology and interactive data to access and analyze financial information.

Morningstar Investment Conference, 17–18 September 2019, Mumbai, India: Mary Leung, Head of Advocacy, Asia Pacific, at CFA Institute, spoke about global trends in financial advice to an audience of more than 1,000 people. Leung presented the key findings from APAC Advocacy Team’s upcoming report on sales inducements in Asia Pacific—specifically, on the sale and distribution of mutual funds in four Asia-Pacific markets: Australia, Hong Kong, Singapore and India.

ESMA Workshop, 16 September 2019: Josina Kamerling, Head of Regulatory Outreach, EMEA, at CFA Institute, spoke about short-termism and fund manager remuneration—specifically, whether there are common practices in fund manager remuneration that contribute to short-termism. She discussed the position of CFA Institute that greater transparency and information on risks would boost investor trust and lead to lower information asymmetry between investors with access to management and investors without.

Asia Investment and Banking Conference, 29 August 2019, Hong Kong SAR: Mary Leung, Head of Advocacy, Asia Pacific, at CFA Institute, participated in the sustainable finance panel session. Leung shared insights on global ESG trends, firms’ practices, regulatory requirements, and the demand for talent.

Atlanta District Dialog—View from Washington, Lunch with Congressman Barry Loudermilk (R-GA), 27 August 2019, Atlanta, GA: CFA Society of Atlanta hosted Rep. Loudermilk to discuss financial policy for a “District Dialog” meeting. The three-term congressman drew a capacity crowd of more than 50 society members, speaking about Congress’s efforts to boost financing for small/mid-sized companies, among other topics.

MARKET TRANSPARENCY & FAIRNESS

RESPONSE TO ESMA ON SHORT-TERMISM IN FINANCIAL MARKETS

European Securities and Markets Authority (ESMA) survey: On 29 July 2019, CFA Institute responded to a [questionnaire](#) published by ESMA, which aimed to gather evidence on potential short-term pressures on corporations stemming from the financial sector. CFA Institute weighed in on several key areas, including environmental, sustainability, and governance (ESG) disclosure; fair value; intangible assets; remuneration of fund managers and corporate executives; long-term value maximization; and short-termism.

Our position: On short-termism, we conveyed our position that reducing the frequency of financial reporting would decrease the level of transparency and investor protection, and would not have a material impact on long-term investment by companies. CFA Institute argues that a good approach to dissuading short-termism would be to focus on companies' incentive structures. To encourage a longer-term view, companies should extend their performance periods in their incentive plans from three years to five years. Greater transparency and information on risks would boost investor trust and lead to lower information asymmetry between investors with access to management and investors without. Changes in taxation and regulatory policies are also needed to incentivize investors to make long-term investment decisions.

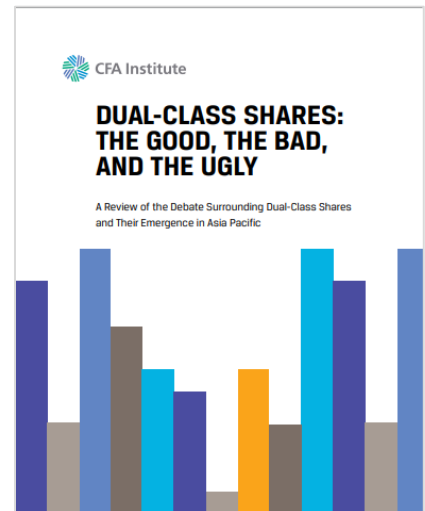
Moving forward: ESMA is expected to prepare a report for the European Commission based on the questionnaire findings and may consider policy actions.

INVESTOR PROTECTION

INDIA'S REGULATOR ISSUES DUAL-CLASS SHARE RULES IN LINE WITH CFA INSTITUTE

New SEBI rules on DCS: The Securities and Exchange Board of India (SEBI) approved a framework for issuance of differential voting rights shares (DVR), or dual-class-shares (DCS), at its board meeting on 27 June 2019. The new framework applies to technology companies and contains safeguards that are in line with the views and recommendations of CFA Institute. Most significantly, it includes a five-year sunset clause after which super voting rights will lapse, making India the only market in Asia Pacific that has mandated such a requirement.

Our position: We stand behind the principle of “one-share, one-vote” and consider DCS structures detrimental to the rights of common shareholders. However, if DCS structures are allowed, we recommend several limitations, including a mandatory time-based sunset clause of no more than five years, event-based sunsets, a limit to the voting differential, enhanced corporate governance measures, and a reversion to one vote per share in certain key circumstances. In 2018, CFA Institute published a report, [Dual-Class Shares: The Good, the Bad, and the Ugly](#), which outlined our views on DCS structures.



ADVOCACY PRIORITIES
EVALUATING NEW PRIORITIES AT CDPC SUMMIT


2019 CDPC Summit, Washington, DC

Meeting with key industry groups: On 5–6 September 2019, the CFA Institute Financial Reporting Policy Group (FRPG) met with its advisory committee, the [Corporate Disclosure Policy Council \(CDPC\)](#), for our annual summit in Washington, DC. To update strategic priorities and develop work plans for the coming year, we met with key industry regulators and stakeholders, including the US Securities and Exchange Commission’s Office of the Chief Accountant (OCA) and the Division of Economic Research and Analysis (DERA). We reviewed key current topics affecting corporate reporting, including audits, technology, and corporate governance. We also discussed the current priorities and perspectives of the OCA, the Financial Accounting Standards Board (FASB), and the Public Company Accounting Oversight Board (PCAOB), including standard setting, disclosure, UK audit reform, and sustainability. With XBRL US, the national organization for digital business-reporting standards, we discussed how technology could be better deployed for investors.

International issues: We also met with the European Securities Market Association (ESMA), the International Accounting Standards Board (IASB), and the European Financial Reporting Advisory Group (EFRAG) via video link for important updates. IASB discussed potential changes to primary financial statements, intangible assets accounting, the inclusion of goodwill, the insurance contracts standard, and the debt vs. equity project. EFRAG provided updates on intangible assets research, the IASB’s insurance contracts standard, the transition from LIBOR to a new base rate, crypto assets, fair value measurement of equity, and sustainable finance. ESMA gave us direction on European enforcement findings, the revenue recognition standard on the airline industry, the financial instrument standard on banks, and leasing issues.

In October, the CDPC and CFA Institute will meet to finalize our 2020 priorities. Stay tuned for more updates.

INVESTOR PROTECTION
SEC PROPOSES COSTLY PROXY ADVISER RESTRICTIONS

New SEC guidance: In a 21 August reinterpretation of proxy rules, the SEC announced new guidance that may require proxy firms to provide details on methodology, sources of research, and other key information used to make recommendations. It would potentially give stock issuers input into the recommendations of proxy advisers, and subject these proxy firms to greater threats of litigation.

Undue costs: CFA Institute believes the SEC’s new interpretation and guidance would lead to significant new costs for investors and the markets. Institutional investors who typically buy the services of proxy advisers to help review multiple proxy votes at thousands of companies every year would be faced with daunting, costly replication of proxy advisers’ research and analysis processes. These costs would ultimately be passed along to investors, reducing returns and impairing economic efficiency of capital markets.

Our position: CFA Institute does not support restraints on the independence of proxy advisers because they would not be in the best interests of investors. Proxy advisers’ recommendations and analyses are useful and valuable inputs to investors. The loss of this information, or even its impairment by conflicted inputs from issuers, would harm investor outcomes and market integrity.

ADVOCACY PRIORITIES

PRIORITIZING EU ADVOCACY INITIATIVES

Evaluating key activities: The latest CFA Institute EU Society Advocacy Advisory Council (EU SAAC) meeting was held on 13 September 2019 to discuss key initiatives and progress—and to continue to hone and prioritize our future activities. This meeting marked the end of the first three-year cycle for existing members. As per the council’s Terms of Reference, we indicated that we would be opening up future membership via an open call for candidacy to take place in the fall of 2019. We welcomed M. Pieter Van Putten, from CFA Society Netherlands, as the new President Council Representative for Western Europe and also as the Chair of the EU SAAC, replacing Kati Eriksson.



2019 EU SAAC Meeting, Brussels

Policy Advocacy highlights: Policy Advocacy presented its key initiatives and outreach activities over the last six months, including the results from volunteer and society surveys; the recent use of regular advocacy forum calls for tapping new ideas and local expertise for SAAC priorities; the blueprint for the next five-year legislative period in the EU; our deep-dive appendix to the Capital Formation report for the EU; Financial Reporting Policy work on leveraging, reverse factoring, audit reforms, and IFRS9; and the EU’s priorities for upcoming renewed institutions.

Society priorities: Each society presented their local work and priorities, including the need for more focus on environment, sustainability, and governance (ESG) issues and sustainable finance (specifically in the climate and environmental areas) and the need to continue and refine our work on the effects of MiFID II, especially on the production and distribution of research.

Four main pillars: Moving forward, we reiterated and reinforced our focus on four high-level priorities previously determined by the SAAC: ESG, the EU Capital Markets Union (CMU), Value for Money, and FinTech.

PROFESSIONAL PRACTICE

ERKKI LIIKANEN JOINS SYSTEMIC RISK COUNCIL



The Systemic Risk Council (SRC) announced that Erkki Liikanen, chairman of the IFRS Foundation Board of Trustees and former governor of the Bank of Finland, has become a member. Liikanen was also a member of the Governing Council of the European Central Bank from 2004 to 2018. He served two terms as a Commissioner of the European Union, where he was responsible for Enterprise and Information Society, and earlier for Budget, Personnel, and Administration. Prior to that, he was Finland’s ambassador to the European Union and its finance minister.

The SRC is supported by CFA Institute to monitor and encourage regulatory reform of US capital markets focused on systemic risk.