ADVOCACY UPDATE

YEAR-END REPORT: GLOBAL ADVOCACY

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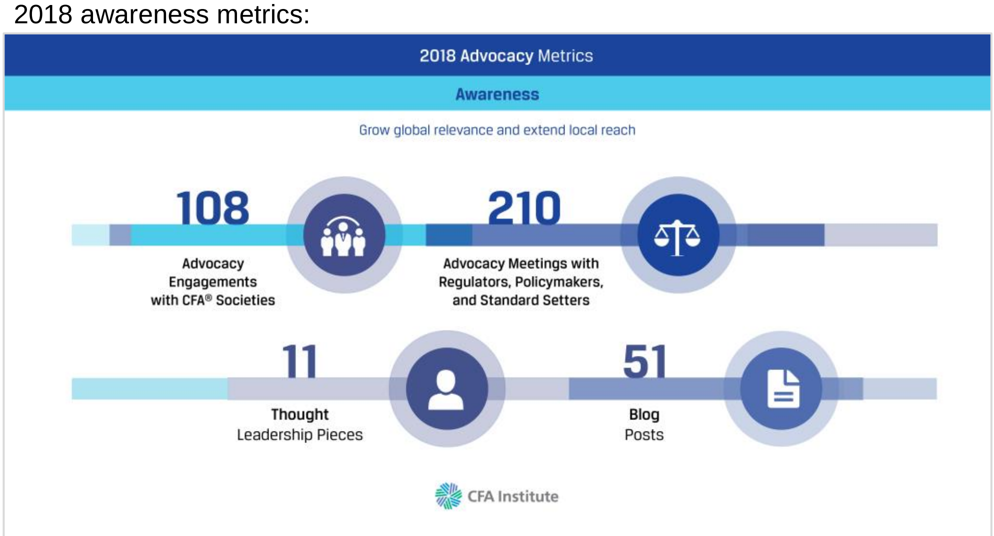
As CFA Institute begins a new fiscal year, we have crafted this issue of *Advocacy Update* to serve as an annual report on our advocacy efforts and achievements. In this issue, we review our most important areas of work to show you where we are on each issue and to highlight our successes. For each area, we provide a summary of the project and our position, a current update, and thoughts on our anticipated efforts moving forward. As we set forth on a new year, we want to remind you of and reinforce the guiding principles that drive our advocacy work every day around the globe. CFA Institute is committed to:

1. advancing and promoting policies that serve investor protection over commercial interests;
2. creating content and advancing policy research that improve market structure, transparency, and fairness for all investors; and
3. supporting the creation and adoption of rules and regulatory standards that improve and expand investment industry professionalism.

As always, we welcome your comments or questions.
—**Kurt Schacht, CFA, Managing Director of Advocacy**

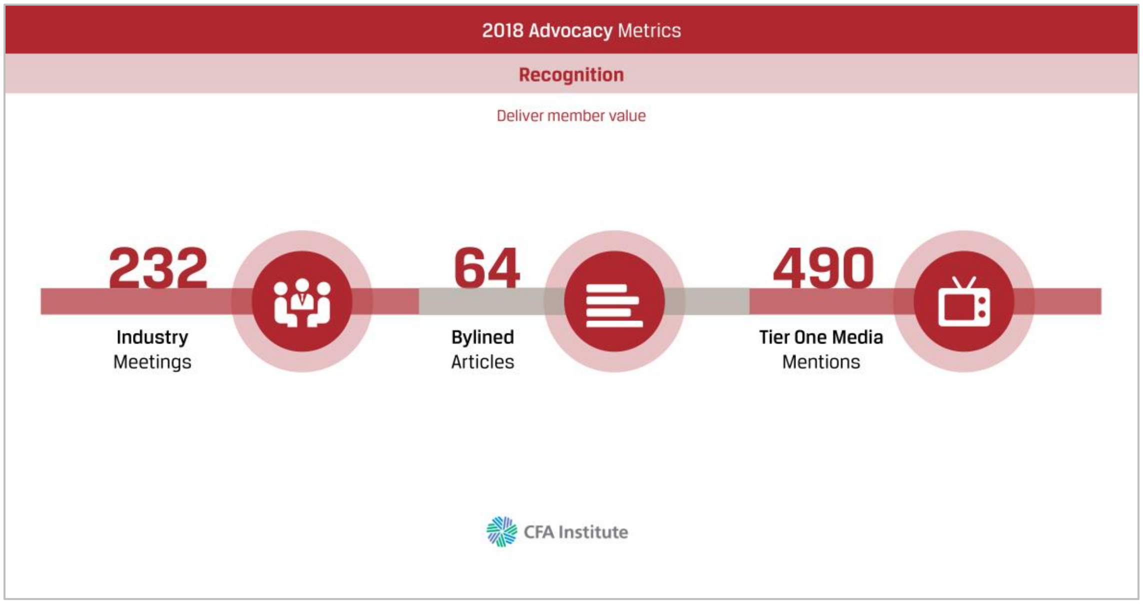
YEAR-END REVIEW BY THE NUMBERS

Awareness: Drawing attention to our Advocacy content and issues is crucial to our ability to make an impact. We generate awareness through ongoing global outreach at regulatory meetings, conference presentations, and society events, as well as by conducting high-quality policy research, and making extensive efforts to publicize and distribute our commentary. Here's an overview of our 2018 awareness metrics:

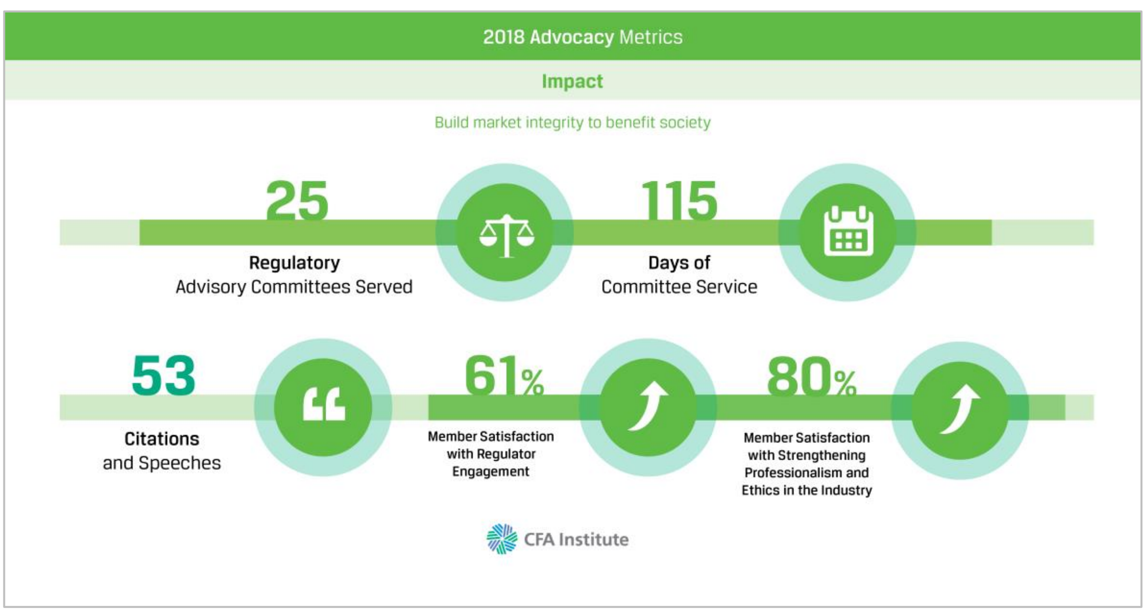


YEAR-END REVIEW BY THE NUMBERS (CONTINUED)

Recognition: The acknowledgment and recognition of our content and commentary are demonstrated by three important metrics: participation in industry meetings, publication of articles, and media pickup. Our nearly 500 media hits this year were a record for our Advocacy work. Our bylined articles in key financial media outlets combined with hundreds of global stakeholder meetings, reflect the recognition of CFA Institute as a bold policy voice.



Impact: Advocacy boils down to whether our work actually affects rules, practices, and industry conduct. We track the number of invitations we receive to serve on regulatory advisory committees where policy is framed. We call these “seats at the table.” When our content and positions are cited by other key think tanks and stakeholders, and when our recommendations are ultimately acted upon by regulators and policymakers, it reveals our true successes.



INVESTOR PROTECTION

STANDARD OF CARE FOR INVESTMENT ADVICE PROVIDERS

SEC Regulation Best Interest: CFA Institute has long supported a uniform fiduciary duty for those providing investment advice to retail investors, and over the years has called upon the SEC to create one. With the death of the US Department of Labor's fiduciary duty rule for retirement accounts this summer, the SEC finally stepped up to tackle this important issue, proposing a new standard, *Regulation Best Interest*, for broker-dealers who recommend securities investments to retail investors. Although far from a uniform fiduciary duty and in need of substantial revisions, the proposal is a step in the right direction. (We issued a comment letter summarizing our recommendations in August 2018.) At the same time, the SEC further sought to address mis-selling by proposing a rule to prohibit broker-dealers from referring to themselves as "adviser" or "advisor" unless registered as an adviser with the SEC, a step we strongly supported.

Moving forward: The required standard of care for advice providers remains important to CFA Institute as firms continue to yield to conflicts and to mis-sell financial products and services that are not in their clients' best interest. A pronounced problem in the United States, mis-selling is also an issue in Canada, the United Kingdom, and the European Union (EU).

MARKET TRANSPARENCY, STRUCTURE, & FAIRNESS

CORPORATE GOVERNANCE EVOLUTION

New guidance for investors: Much has evolved in the corporate governance landscape in the past decade. A number of issues—adoption of stewardship codes, dual-class shares, proxy access, ESG integration, and others—spurred the need for an update to the industry's comprehensive resource for investors. In September 2018, CFA Institute published the third edition of *The Corporate Governance of Listed Companies: A Manual for Investors*, updating the 2009 edition. The manual is a guide to help investors better understand the key concepts in corporate governance so they can navigate risks, opportunities, and other factors when making investment decisions. We hope that this manual will raise awareness within the investment community of governance standards.

MARKET TRANSPARENCY, STRUCTURE, & FAIRNESS

ESG IN INVESTING: MAKING STRIDES

Growth in ESG: Increasingly, environmental, social, and governance (ESG) issues are becoming part of the investment landscape. In response, CFA Institute has increased its focus on ESG education for its members and global investors. We believe that ESG information is useful in the investment decision-making process and can lead to a better understanding of a company's whole story.

Extensive study yields new reports: With a goal of better understanding how ESG integration into investment is and isn't being done around the world, CFA Institute and Principles of Responsible Investment (PRI) undertook a significant project: 23 meetings around the world, talking with investors, analysts, and asset managers about ESG integration. We sought to uncover the main drivers of and barriers to ESG integration, appreciate the differences in ESG integration practices in various regions, and highlight best practices. CFA Institute and PRI summarized the findings from the global meetings, as well as data from a survey of more than 1,100 financial professionals, in two initial reports: *ESG Integration in the Americas: Markets, Practices, and Data*, and *Guidance and Case Studies for ESG Integration: Equities and Fixed Income*. We will be publishing reports on our findings in EMEA and APAC in early 2019. The reports will show investors how they can better integrate ESG data into their analysis and investment decision making, and how their peers are already doing so.

MARKET TRANSPARENCY, STRUCTURE, & FAIRNESS

DUAL-CLASS SHARES DEBATE

New report: The CFA Institute APAC advocacy team recently published a thought-leadership report, *Dual-Class Shares: The Good, the Bad and the Ugly*, that provides a comprehensive review of the debate on dual-class shares (DCS), their emergence in the APAC region, the investor protection measures that are typically available, and where those protections might fall short. The report was prompted by significant changes made by Hong Kong and Singapore to their listing rules in 2018 to allow for DCS listings.

Our position: CFA Institute believes that “one-share, one-vote” remains the optimal market practice. Although some APAC markets argue that permitting DCS listings would enhance the attractiveness of the stock exchanges and the financial sector, we believe these markets should instead focus on strengthening market infrastructure, attracting and retaining capital, and nurturing talent. Where exchanges already permit or are considering permitting DCS listings, we urge that they implement a time-based sunset provision that would prevent investors from being permanently exposed to managerial entrenchment and other risks associated with DCS structures.

INVESTMENT INDUSTRY PROFESSIONALISM

IMPACT OF DATA AND TECHNOLOGY ON FINANCE

Advocacy at work: Structured data, data analytics, and technology can bring greater efficiency for all parties in the financial reporting chain. The CFA Institute Financial Reporting group continues to advocate for the multiple uses of data and technology in financial reporting and analysis, and has issued articles and white papers, hosted a webcast, and presented at the XBRL US Investor Forum and the National Association of State Boards of Accountancy (NASBA) annual conference.

Recent accomplishments: CFA Institute played a pivotal role in the SEC voting to adopt amendments to its rules to require the use of Inline XBRL for the submission of financial statement information. Under Inline XBRL, all XBRL data are contained in human-readable files. CFA Institute believes this requirement will increase the use of XBRL and improve the quality of the data. The SEC’s adoption of the amendments is the culmination of advocacy efforts we began over a decade ago. Additionally, a recent article by Mohini Singh, ACA, Director of Financial Reporting Policy at CFA Institute, about the reintroduction of the Hurt bill to exempt small companies from having to file in XBRL format, received widespread attention and had significant impact on the legislation, ultimately quashing the bill.

"The Systemic Risk Council is sponsored by CFA Institute, and we are really grateful to them... Because our mission is to ensure that the financial authorities, central banks, and regulators keep financial systems safe and sound, keep markets stable... It's in the interest of investor protection and a stable economy."

- Sir Paul Tucker, Chair, Systemic Risk Council

New report: CFA Institute recently release a white paper, *Data and Technology: How Information is Consumed in the New Age,* to address which data are available and how data are being consumed, and to refute the claim by some that structured data are not being used. The white paper also addresses the potential for structured data and how this potential can be realized.

MARKET TRANSPARENCY, STRUCTURE, &FAIRNESS

RISK AND FEE DISCLOSURES

SAAC priority: Disclosure of risk and fees by investment product providers and professionals is one of the most important priorities of the CFA Institute US Society Advocacy Advisory Committee (SAAC). The Investment Company Institute estimates that 55 million US households have money invested in some form of investment fund. SAAC believes it is vitally important that these investors clearly understand what kind of risks they will incur and what fees are involved.

Recent report: SAAC was particularly concerned that current disclosures on risks and fees fail to fully apprise investors about what they may experience. The CFA Institute Future of Finance team recently released *Focus on Fees*, a guide for individual investors on the fee structures used by investment managers. Aimed at protecting investors and providing useful guidance, the report analyzes fee structures and considerations for when certain fee structures are appropriate or potentially detrimental to investment performance, with a specific focus on incentives and conflicts of interest. As for the risks of different products, CFA Institute is concerned that retail investors, as well as many investment professionals, might be unaware of the structural risks from alternative products that range from real estate investment trusts to highly structured exchange-traded products. Moreover, SAAC believes that investors need better disclosure to alert them to the lack of liquidity available in some exchange-traded funds.

Moving forward: CFA Institute has largely addressed these issues by responding to regulatory consultations. Looking ahead, our advocacy efforts will raise the need for better disclosures on these instruments directly with staff and commissioners at the SEC in the hopes of encouraging action to improve the level of disclosure on these matters.

"(CFA Institute) has been right at the forefront of getting things done."

- Sir David Tweedie, Chairman, International Valuation Standards Council

MARKET TRANSPARENCY, STRUCTURE, & FAIRNESS

MIFID II: ENHANCING TRANSPARENCY

Significant changes in global practices: The Markets in Financial Instruments Directive (MiFID II) rules on investment research, which took effect 3 January 2018, have drastically changed financial markets and business practices in the EU as well as in APAC and US markets. The MiFID II rules mandate that brokers must explicitly establish a price for investment research. Because such requirements apply to all asset classes, MiFID II has had a major impact on the research budgets of asset management firms. Asset managers can now either decide to charge their clients for the costs of research or absorb such costs themselves. In September 2017, CFA Institute surveyed its EU members regarding the impact of the new rules on the unbundling of investment research.

Looking ahead: CFA Institute shares the ultimate goal of MiFID II: enhancing transparency in market research and removing potential conflicts of interests between asset managers and their clients. Nevertheless, MiFID II has brought about unintended consequences, such as a reduction of financial products offered in some national markets and a decrease in the availability of research. The survey shows that EU buy-side professionals expected a negative impact on small and medium-sized enterprises (SMEs) as they would not be able to absorb the costs of investment research, and on fixed-income investments due to the possible increase of aggregate costs in comparison to equity instruments. CFA Institute intends to conduct a new survey at the end of 2018 to determine the actual impact of the new rules several months after their implementation. The European Commission will also conduct a study, which will be published in 2019, examining the impact of the rules on SMEs and on fixed-income investment research.

INVESTMENT INDUSTRY PROFESSIONALISM

CAPITAL FORMATION: PUBLIC VS. PRIVATE

New report: Due for publication in late 2018, the Advocacy Capital Formation thought-leadership project examines the debate over public versus private capital formation, including the so-called "Death of Equity" (whether public equity is in danger of going away) and whether the lack of public equity will affect capital formation or otherwise damage retail investor opportunity and retirement savers. Listed (public) equity provides the bedrock for the valuation of many other growth assets, similar to the function sovereign debt plays for corporate bonds. It is also the focus of a huge amount of analysis and regulation.

A useful complement: CFA Institute held workshops in Hong Kong, Abu Dhabi/Dubai, London, New York, and Washington, DC, to solicit input from market participants and other stakeholders. Feedback from the workshops suggests that private markets serve as a useful complement to public markets, and need not be considered a problematic development as long as retail investors are afforded some opportunity to participate in these private markets, for example, through collective Defined Contribution pension schemes.

MARKET TRANSPARENCY, STRUCTURE, & FAIRNESS

SHORT-TERMISM: QUARTERLY REPORTING IS KEY

President Trump's tweet causes stir: In an August 2018 tweet, US President Donald Trump sent a jolt through the global investor market by raising the specter of ending quarterly financial performance and condition reporting by US public companies. Regardless of whether the tweet signaled a foundational shift in financial regulatory policy or merely an off-the-cuff remark reflecting the views of small business owners, the president's comments got the market's attention.

Transparency and timely communication: As far back as the 1970s, CFA Institute has advocated for quarterly reporting, based on investors' need for timely, accurate, and relevant financial information for investment analyses and valuation purposes. We disagree with a move to reporting every six months as it results in lack of timely communication of material events to the market and creates the potential for unequal dissemination of information to investors. In 2016, the CFA Institute Research Foundation funded a study by Robert Pozen et al. to examine the UK switch to and from quarterly reporting; the study showed that six-month reporting does not enhance long-termism.

Corporate governance: Quarterly financial reporting is also an important corporate governance tool. By ensuring management reports on a regular and timely basis, quarterly reporting guarantees insiders will have to provide regular updates by which investors can gauge how well those insiders are fulfilling their managerial obligations, and, theoretically, uncover irregularities early enough to limit any damage. Moreover, by reporting every three months, insiders have fewer opportunities to trade on non-public financial information.

Moving forward: CFA Institute has made its views known to regulators around the world. Where policymakers do decide to reduce reporting to semi-annually, such as for small companies, CFA Institute will advocate to ensure at least regular, if limited, financial information is provided to investors on a quarterly basis.

INVESTOR PROTECTION

CRITICAL AUDIT MATTERS REPORTING

CFA Institute influenced significant change in US auditor's report: In October 2017, the SEC voted to approve the Public Company Accounting Oversight Board's (PCAOB) new rule to modify the auditor's report of public companies. This is the first change to the auditor's report in 70 years and includes new information, specifically for investors, on critical audit matters and auditor tenure that we at CFA Institute have been advocating for since the 2008 financial crisis. Our recent advocacy efforts included three comment letters and three member surveys, which the PCAOB recognized as being influential in its decision and the SEC's approval of the new rules. Our member surveys are referenced in the PCAOB's final standard and our most recent comment letter is referenced in the SEC's order approving the change.

Moving forward: In 2019, the PCAOB will require auditors of US public (listed) companies to modify their auditor's report to include a discussion of the audit procedures they performed on the most subjective and challenging audit areas. This is the first ever nonstandard/nonboilerplate discussion from auditors. Similar requirements were put in place by the International Auditing and Assurance Standards Board in 2015. In the next two years, our efforts will focus on educating investors on the changes and the questions they should be asking, and assisting the PCAOB on post-implementation review.

> *"CFA Institute is an effective and influential advocate in the financial sector, because we are not afraid to take on complex issues, lay the groundwork, and tirelessly advocate for fair and well-functioning global markets."*
>
> *- Pamela Yang, CFA, Senior Vice President, Harvard Management Company*

INVESTMENT INDUSTRY PROFESSIONALISM

ALTERNATIVE PERFORMANCE AND NON-GAAP FINANCIAL MEASURES

Significant changes in global practices: The use of alternative performance measures (APMs)—including non-GAAP/non-IFRS financial measures (NGFMs) and key performance indicators (KPIs)—is rising globally at an alarming rate as firms seek and compete for investor funds. These APMs generally show better profitability than the comparable GAAP/IFRS numbers and are presented more prominently and less comparably over time. Recently, the SEC, European Securities and Markets Authority, and International Organization of Securities Commissions have updated their guidelines to attempt to curb these usages, but they still persist globally.

Moving forward: CFA Institute has advocated against APM metrics for many years, including commenting on the 2003 SEC regulation (stemming from dot.com era abuses) that first sought to curb their use. We recently issued a report on investor perspectives on these issues based upon a survey of our members and have written articles to make known the survey results. Looking ahead, we will continue to advocate for improved financial statement disaggregation and cash flow, and increased auditor involvement, and will closely follow the International Accounting Standards Board's project on management performance measures.

INVESTMENT INDUSTRY PROFESSIONALISM

INTEGRATED/ SUSTAINABILITY REPORTING

Growing trend: Reporting by companies on sustainability and ESG metrics has grown substantially over the last several years, with 20% of S&P 500 companies reporting on sustainability metrics in 2012 and 85% reporting on them in 2017. Social, regulatory, and investor pressures are driving this rise in reporting, although each region around the world has different issues surrounding sustainability and varying regulatory requirements.

Key partnership: Within the CFA Institute Financial Reporting group, we are not looking at how information is to be integrated into the investment decision-making process, but rather at the sourcing, standards, and assurances surrounding such information, with the objective of enhancing clarity to policymakers (specifically securities regulators and audit standard setters). CFA Institute has a new partnership with the International Integrated Reporting Council (IIRC) to promote integrated reporting in the financial analyst community. Our partnership will be based on collaboration through research, advocacy, and events to drive understanding of how investors can use broader and better information sets to make more informed capital allocation decisions. Commenting on the partnership, Paul Smith, President and CEO at CFA Institute, said: "CFA Institute shares the IIRC's aim of aligning capital allocation and behavior with a balanced view of investment and returns across all time frames. Through our partnership with the IIRC, we will work to ensure investors foster and encourage the principles of integrated thinking and reporting, with the goal of making a real contribution to a better future for our clients and society."