CFA Institute

ADVOCACY UPDATE

GLOBAL ADVOCACY NEWS AND UPDATE

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IN THIS ISSUE

FOR COMMENTS OR QUESTIONS, PLEASE CONTACT:

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In this issue of *Advocacy Update*, we are pleased to highlight some of our key advocacy initiatives across the globe. We have issued comment letters that reflect our positions on quarterly reporting and a new Financial Accounting Standards Board (FASB) standard, as well as new reports on lease accounting standards and on the financial and banking misconduct in Australia. You will also find a recap of our top 10 advocacy issues, showing our current focus of efforts and attention. As always, we provide an overview of our wide media coverage and our meetings and activities on behalf of our members. Feel free to contact us with questions or comments.
—**Kurt Schacht, CFA, Managing Director of Advocacy**

ADVOCACY NEWS

NEW PROJECT ON ALTERNATIVE PERFORMANCE MEASURES

Important joint project: CFA Societies Canada and the Financial Reporting Group at CFA Institute are teaming up to help support a project to assess the feasibility of standardizing one or more non-Generally Accepted Accounting Principles (GAAPs) or alternative performance measures (APMs) in the Canadian market. The use of APMs by corporate issuers has increased dramatically and include things like "estimated reserves" for oil producers and "same store sales" among retailers. This information is not audited or reviewed by audit firms, nor is it standardized. Investors are increasingly concerned that such information can be highly manipulated and believe there should be a greater degree of standardization and oversight. The group working on this includes the Bank of Canada and will focus on measures routinely used by the real estate and oilfield services industry. The project is to run for 18 months.

UPDATE ON REGULATION BEST INTEREST

Final rules coming soon: Rumors in Washington, DC indicate that the US Securities Exchange Commission (SEC) Best Interest final rules are likely coming this summer for brokers and financial product sales. CFA Institute and a number of other institutions are hoping that the final rules will reduce conflicts, improve disclosure, and clarify the duties owed to retail investors. CFA Institute was concerned that the original proposal surfaced by the SEC last fall did not go far enough on certain issues.

Our position: We continue to urge limits on the use of the title "adviser" by sales people, more specific guidance on what conflicts are prohibited, and most importantly, use of a legend on every communication from a broker indicating that they are the sales agent of the brokerage firm, and not the customer. Meanwhile, several states are considering their own "Uniform Fiduciary Duty" should the SEC proposals come up short on investor protection. Battle lines on a state-based approach are forming.

ADVOCACY IN ACTION

MEDIA ATTENTION

CFO (9 May) featured a piece by Sandy Peters, CFA, Head of Financial Reporting Policy at CFA Institute, on the new lease standard, comparing International Financial Reporting Standards (IFRS) and US GAAP.

Financial Times (7 May) reported that in the first year of MiFID II, there was a decrease in coverage of small and mid-cap stocks and a reduction in research, according to a CFA Institute survey.

Accounting Today (7 May) featured a white paper: *Data and Technology: How Information Is Consumed in the New Age* by Mohini Singh, Director of Financial Reporting Policy at CFA Institute.

Financial Times (6 May) reported that in the US, only 11 percent of women are responsible for auditing companies in the S&P 100, and 15 percent of the S&P 500, according to a CFA Institute study.

Financial Times (5 May) mentioned that only 16.4 percent of CFA charterholders in the US are women, according to a 2016 survey by CFA Institute.

Financial Times (29 April) published a piece by Kurt Schacht, CFA, Managing Director of Advocacy at CFA Institute, blasting Lyft's decision to go public using a dual-class share structure.

AccountingWeb (29 April) featured an article from Sandy Peters, CFA, Head of Financial Reporting Policy at CFA Institute, about the new leasing standards issued by FASB and IASB.

El Economista (26 April) featured an interview with Josina Kamerling, CFA, Head of Regulatory Outreach at CFA Institute EMEA.

FinancialAdvisor Magazine (23 April) quoted Jim Allen, CFA, Head of Capital Markets Policy for the Americas at CFA Institute: "US investors should benefit from disclosures similar to those mandated by MiFID II," he said.

Rankia Pro (16 April) published an article by Sviatoslav Rosov, CFA, Director of Capital Market Policy at CFA Institute, and Enrique Marazuela, President of CFA Society Spain, about the importance of sustainable investment.

Funds Society (15 April) reported on ESG integration according to a report from CFA Institute and PRI.

GLOBAL ACTIVITIES AND EVENTS

Sixth Annual Conference on Financial Market Regulation, 9-10 May, New York: Jointly hosted by CFA Institute, SEC Division of Economic Research and Analysis (DERA), Lehigh University's Center for Financial Services, and the University of Maryland's Center for Financial Policy, the conference included representation from SEC, FINRA, the Office of Financial Research, and the UK Financial Conduct Authority and remarks from two SEC commissioners, Jay Clayton and Hester Peirce.

2019 EMEA Economic Forum, 7 May, Cyprus: Josina Kamerling, CFA, Head of Regulatory Outreach, EMEA at CFA Institute, gave a keynote speech on the current state of EU capital markets, and the implications of Brexit on the EU financial markets.

CFA Society Cyprus event, 6 May, Cyprus: Josina Kamerling, CFA, Head of Regulatory Outreach, EMEA at CFA Institute, gave a speech on the future of capital markets in the EU focused on the current financing issues for European small and medium enterprises (SMEs) and the other challenges that EU policy-makers should address.

Cyprus Securities and Exchange Commission meeting, 6 May, Cyprus: Josina Kamerling, CFA, Head of Regulatory Outreach, EMEA at CFA Institute, and Marios Georgiades, President of CFA Society Cyprus, met with Demetra Kalogerou, Chairman of the Cyprus Securities and Exchange Commission, to discuss the current issues for the development of the local capital market in Cyprus.

European Commission workshop on Added Value of a Green Bond Prospectus, 3 April, Brussels: Josina Kamerling, CFA, Head of Regulatory Outreach, EMEA at CFA Institute, participated in an invitation-only workshop to foster a non-public discussion with relevant stakeholders that would help the Commission consider all the different aspects of creating a green bond prospectus.

ESG Focus Group for Investment Professionals, 15 March, Hong Kong: CFA Institute APAC Advocacy team co-hosted a roundtable focus group on principles and adoption of ESG investment practices, organized with Friends of the Earth, Hong Kong Society of Financial Analysts (HKSFA), and the Hong Kong Polytechnic University.

MARKET TRANSPARENCY & FAIRNESS

IN SUPPORT OF QUARTERLY REPORTING

Comment on Earnings Releases and Quarterly Reports: Prompted by President Trump's call to study quarterly reporting, the SEC requested comments on a series of issues related to frequency of reporting and earnings guidance. In response, CFA Institute issued a comment letter, showing our strong support in continuing the practice of quarterly reporting as a way to provide greater transparency for financial earnings and risks, and promote overall investor confidence.

Our position: CFA Institute's long-held position is that fully functioning capital markets rely on complete, timely, and accurate information. We believe all companies with any type of securities listed on regulated markets should have to publish financial information quarterly, as it creates a more level playing field for access to financial information between insiders and outside investors and shareowners, and ultimately promotes greater investor confidence. CFA Institute does not agree with moving to semi-annual reporting.

Survey and roundtable: We have also conducted a survey of our global membership and hosted roundtable discussions to gain investors' views on quarterly reports, earnings release, the implications of reporting frequency, and earnings guidance. Results are due out soon. We also recorded a brief interview on quarterly versus semi-annual reporting at NASDAQ.

INVESTOR PROTECTION

POLICY RECOMMENDATIONS IN RESPONSE TO THE HAYNE ROYAL COMMISSION

New report: Following the publication of the final report of the *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia (Hayne Royal Commission)*, CFA Institute partnered with CFA Societies Australia to issue a policy response that addressed the many issues in Australia's financial services where the rights of investors have been compromised. These include advisers failing to act in the best interest of their clients, conflicted remuneration structures that lead to poor or inappropriate outcomes for clients, and an industry dominated by vertically integrated firms that puts the interests of the firms before those of their clients.

Key recommendations: Our paper, *Professionalising Financial Advice*, makes 10 recommendations for policy changes in line with our mission, focusing on industry culture and measures to help rebuild public trust and confidence in the institutions and practitioners. The policy recommendations cover the following areas: best interest duty and appropriate consequences; fees and conflicted remuneration; ensuring independence of advice; and professionalizing the industry. Implementation of our recommendations will allow Australia to continue as a leading global force in financial services and ensure that Australian consumers receive the advice they need in a fair and cost-effective manner.

Top 10 Advocacy Issues

Uniform Fiduciary Duty—Mis-selling of financial products, conflicts of interest, use of sales and distribution inducements

Corporate Governance—The proliferation dual class shares

Environmental, Social, and Governance (ESG)—"How to" manuals for investors interested in factoring ESG issues

Fintech—Increased use of artificial intelligence (AI) for financial analysis

Investment Products—Are ETFs a growing systemic risk?

Market Regulations—MiFID II

Systemic Risk—Central clearing counter parties and stress testing roll-backs

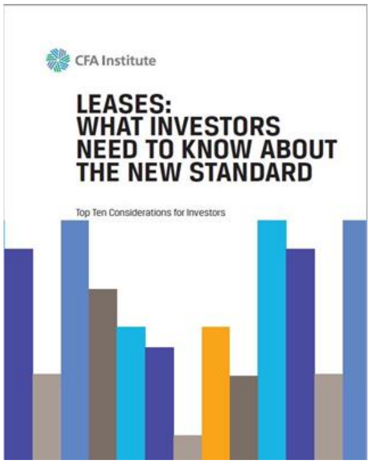
Non-GAAP Reporting—Alternative performance measures (APMs)

Audit Quality—Emerging critical audit matters practice and PCAOB audit deficiency findings and transparency

Sustainability Reporting—Public company reporting of ESG-related information

INVESTOR PROTECTION

NEW LEASE ACCOUNTING GUIDE FOR INVESTORS



New lease standards: At long last, a company's lease obligations—formerly buried in the footnotes of financial statements—are moving front and center onto the balance sheet, as a new leasing standard goes into effect for both US GAAP and IFRS companies, effective 1 January 2019. Designed to help investors understand and navigate these new standards, CFA Institute issued a useful guide, *Leases: What Investors Need to Know About the New Standard*.

Top 10 considerations: This report provides key considerations for investors as they evaluate the impact of the changes to the new standard. It is designed to help investors get beneath the headline numbers so they can properly analyze both IFRS and US GAAP companies. The paper focuses on the top 10 considerations that investors need to know, including the key differences between US GAAP and IFRS standards; the methods of transitioning; new disclosures; and the impact on financial statement captions, non-GAAP measures, cash, ratios, and the overall market.

Our position: CFA Institute has long advocated for recognition of lease obligations on the balance sheet, and while the measurement methodology does not incorporate our preferred method of reflecting current market conditions, we generally view this change in accounting as a positive development.

Extensive promotion: The report has received wide promotion and attention, including media coverage, blog posts, articles, podcasts, social media promotion, webinars, and an upcoming video series.

MARKET TRANSPARENCY & FAIRNESS

WEIGHING IN ON FASB FINANCIAL INSTRUMENT IMPAIRMENT MODEL

Comment letter to FASB: CFA Institute recently issued a comment letter, reiterating the views we expressed at a roundtable in January, on the Financial Accounting Standards Board's (FASB's) financial instruments impairment model, also known as the cumulative expected credit loss model (CECL). This standard issued in 2016 is set to take effect on 1 January 2020 and is the FASB's signature response to the financial crisis. It requires recognition of all expected losses at the inception of the loan, resulting in a significant charge to the income statement and equity upfront in the financial statement of US banks.

Banks' opposition: The banking industry mounted opposition to the FASB's new US GAAP accounting for impairments on financial instruments, including issuing multiple comment letters and lobbying Congress. The FASB held a roundtable in late January to allow the regional and community banks to present a proposed alternative to CECL and open it for public discussion. The FASB rejected the banks' proposal in April, and over the last several weeks, Congress has taken action to ask regulators to study and reconsider the model.

Our position: CFA Institute has been advocating on these issues for many years, including a 2010 comment letter to the FASB and a 2013 comment letter on impairments to the International Accounting Standards Board (IASB) and FASB. Overall, we recognize the very real capital issues faced by regional, medium, and small banks as it relates to the adoption of the new CECL model and, as our 2013 comment letter highlights, we acknowledge the non-economic implications of recognizing all credit losses at inception. That said, we believe the bank regulators should address these issues instead of the FASB amending the impairment model in a way that will likely further reduce the decision usefulness of US GAAP financial statements.