CFA Institute

ADVOCACY UPDATE

GLOBAL ADVOCACY NEWS AND UPDATE

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IN THIS ISSUE

FOR COMMENTS OR QUESTIONS, CONTACT

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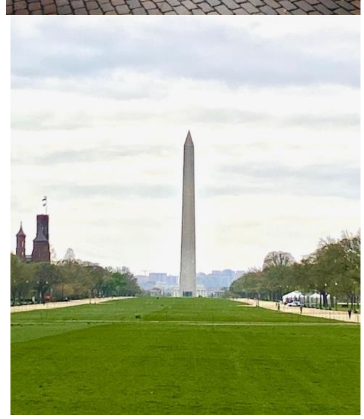
We are in unprecedented times. As the COVID-19 pandemic continues to significantly affect lives, health care systems, and our global economy, CFA Institute remains committed to protecting the investor community and the integrity of market information. In 2012, CFA Institute created and continues to sponsor the Systemic Risk Council (SRC) to urge financial regulators, other policymakers, and the financial services industry to address critical issues affecting financial stability during times of economic crisis. Last time it was the Great Financial Crisis of 2008, and today, it is the unfathomable economic fall-out resulting from social distancing. The fiscal and monetary response needed to keep markets and economies functioning has been nothing short of staggering as the "Great Financial Virus" takes hold. In this edition of our monthly newsletter, we provide updates on some key issues surrounding the pandemic, including important COVID-19 policy reviews, the SRC statement on appropriate economic responses, and our recent campaign to the US Congress for funding support of organizations like CFA Institute. You'll also find updates on key global proposals, our events, new advocacy team members, and media coverage. Please stay safe and healthy!

—**Kurt N. Schacht, JD, CFA, CFA Institute Policy Director**

ADVOCACY OVERVIEW

INFLUENCING POLICY AMIDST SOCIAL DISTANCING



Quieter times: No matter how you look at it, the state of the global economy looks radically different today. For the 170,000 CFA members across the globe, our thousands of employees, and the investors that we represent, day-to-day business has changed. Buildings remain closed, workers stay home, and we all hold our breath on what's next.

The two images here are the CFA Institute advocacy team's policy centers, Brussels and Washington DC. While they are stark images of how our world looks right now, they are also reminders of what is missing and what we want to get back to. They are reminders that we are all in this together. And, rest assured, we remain committed to protecting investors and promoting financial integrity and stability no matter what lies ahead.

ADVOCACY IN ACTION

MEDIA ATTENTION

Hindu Business Line (IND) (16 April): Sivananth Ramachandran, Director of Capital Markets Policy at CFA Institute India, discussed what the EU's taxonomy for green activities means for India.

MarketWatch (13 April) reported that Paul Tucker, Chair of the Systemic Risk Council, is urging regulators to reduce leverage in capital markets.

BTG Advisory (14 April) reported that Systemic Risk Council Chair Paul Tucker is warning that banks need to be stress-tested against worst-case scenarios.

IR Magazine (14 April) reported on the Systemic Risk Council's recommendation that banks to suspend bonuses, dividends, and buybacks during the COVID-19 crisis.

The Hill (10 April): Kurt Schacht, Managing Director of Advocacy at CFA Institute, urged banks not to waste capital on buybacks, dividends, and bonuses given the COVID-19 crisis.

Bloomberg Law (9 April) quoted Sandy Peters, Head of Financial Reporting Policy at CFA Institute, on companies taking advantage of SEC relief to delay Q4 filings.

*Bloomberg, Business Times (*SGP), *MSN* (SGP), and *Yahoo Finance* (8 April) quoted Mary Leung, Head of Advocacy at CFA Institute Asia Pacific, on fixed coupon notes, a popular investment among Asia's wealthy that have been upended in the recent market rout, accruing billions of dollars in losses.

The Economist (8 April) quoted Systemic Risk Council Chair Paul Tucker on the need for banks to be stress-tested for COVID-19 worst-case scenarios.

The International Financial Law Review (8 April) quoted Mary Leung, Head of Advocacy at CFA Institute Asia Pacific, on the Hong Kong Stock Exchange proposal to allow corporate entities to benefit from weighted voting rights.

Barron's (6 April) reported on Systemic Risk Council Chair Paul Tucker's comments against banks suspending stress tests during the current crisis.

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Nikkei (JPN) (1 April) quoted Mary Leung, Head of Advocacy at CFA Institute Asia Pacific, on the Hong Kong Exchange strengthening its ESG disclosure requirements.

Financial Times (1 April) quoted Paul Tucker, Chair of the Systemic Risk Council, about how the COVID-19 crisis didn't originate from banks, but that they can help be part of the solution.

MSNBC Live with Ali Velshi (29 March) interviewed Sheila Bair, Chair of the Systemic Risk Council, on how the recently signed coronavirus relief bill will affect the economy.

NASDAQ (26 March), *Yahoo Finance*, *The Times* (UK), *Reuters* (24 March), and *Financial Times* (22 March) reported on the Systemic Risk Council's calls for a halt to dividend payments by banks.

Financial Times (20 March), *Bloomberg* (23 March), *Yahoo News* (23 March), MSN (23 March), and *Financial Times* (19 March) quoted Systemic Risk Council Chair Paul Tucker about banks, policymakers, the Central Bank, and economic conditions during the current crisis.

GLOBAL EVENTS & ACTIVITIES

Climate Risk and ESG Disclosures Webinar: With the COVID-19 pandemic forcing cancellation of industry events around the globe, the APAC Advocacy team has launched a series of webinars for industry practitioners. To kick off the series, Mary Leung, Head of Advocacy at CFA Institute Asia Pacific, hosted a webinar titled "Climate Risk and ESG Disclosures" on 9 April. Matt Orsagh, CFA, Senior Director of Capital Markets Policy at CFA Institute, outlined risks that climate change presents to businesses and recommendations to mitigate those risks. The presentation was followed by a panel discussion, moderated by Mary Leung.

2nd European Commission Ad Hoc Working Group (AHWG), 25 March: Josina Kamerling, Head of Regulatory Outreach at CFA Institute EMEA, participated in a web meeting on the development of EU ecolabel criteria for retail financial products. In the context of the Sustainable Agenda, the European Commission is looking at ways to create a voluntary EU-wide labeling scheme.

MARKET INTEGRITY & TRANSPARENCY

STOP DIVIDEND MADNESS AMIDST COVID-19 CRISIS

Learn from the 2008 crisis: As the world faces an unprecedented global economic crisis caused by the COVID-19 pandemic, the US financial system needs to learn from mistakes made during the 2008 financial crisis. Twelve years ago, as policymakers raced to save the US financial system, some banks and other financial intermediaries continued to pay dividends despite widely anticipated credit losses. Today, faced with a unique and arguably worse crisis, the Federal Reserve, Congress, and the Trump Administration have all unleashed some emergency economic measures to slow the contagion in the financial system and put money back into the hands of US consumers. While lawmakers and some banks have placed restrictions on buybacks, dividends, and executive compensation, the Federal Reserve has stopped short of these necessary measures.

Our position: When the Federal Reserve, backed by the US Treasury, is injecting capital into the financial system, encouraging banks to take on more leverage, and relaxing capital buffers, it is not the time for banks to be ejecting capital in the form of buybacks, dividends, and executive bonuses. The objective is to shore up the US economy by providing banks with the liquidity and the incentives to lend while protecting depositors, taxpayers, and the US banking system.

Restricting dividends and buybacks: At a time of great economic uncertainty, it makes basic financial sense to preserve capital and use the funds freed up by the Federal Reserve to lend to businesses and households, support our consumer taxpayers, keep the economy afloat, and eventually help revive it. Meanwhile, UK and other European banks have taken the prudent course by halting capital outflows on buybacks and dividends, and by either suspending or limiting executive bonuses. The US Federal Reserve should follow suit and propose the necessary restrictions to avoid further financial calamities during this unprecedented COVID-19 crisis.(excerpted from *The Hill*)

MARKET INTEGRITY & TRANSPARENCY

CFA INSTITUTE RESPONDS TO JAPAN'S FEFTA CHANGES

Response on FEFTA: On 9 April, CFA Institute and CFA Society Japan submitted a joint response to the public consultation on the proposed changes in the Foreign Exchange and Foreign Trade Act (FEFTA) published by Japan's Ministry of Finance in October 2019. Based on a survey of investors, our position pushes back on the proposed changes as potentially having negative impacts on Japan's foreign investment market and on corporate governance.

FETA amendment: The proposed amendment lowers the threshold of foreign ownership in companies deemed to be nationally sensitive from 10% to 1% before government preapproval is required. Subsequently, an exception from this requirement was added for investors who are not seeking board seats or looking to propose shareholder resolutions.

Survey results: Our submission included the results of a survey of Japanese and foreign investors conducted by CFA Institute and CFA Society Japan in November 2019. The survey results showed that almost 70% of the respondents did not agree with the proposed amendment, and 86% were concerned that it might have a negative impact on investment into the Japanese equity market. According to the respondents, the changes would constitute a reversal in corporate governance improvements, discourage stewardship and engagement, cause a slowdown in foreign investment in Japan, and perhaps depress share prices. The respondents suggested increasing the ownership threshold and narrowing the range of industries covered by the proposed amendment.

INVESTOR PROTECTION

CFA INSTITUTE CONDUCTS IMPORTANT COVID-19 POLICY REVIEWS

Policy reviews: In April, CFA Institute, led by Karina Karakulova, Senior Manager in Capital Markets Policy, and Sviatoslav Rosov, Director of Capital Markets Policy, conducted comprehensive reviews of the COVID-19 policy response measures in four jurisdictions—the United States, the United Kingdom, the European Union, and Switzerland—for the Systemic Risk Council (SRC), which is sponsored by CFA Institute.

SRC leadership: The SRC initiated these important reviews of announced policy measures in the above areas in order to identify best-practice guidelines and gaps in the policy responses. The SRC was one of the earliest institutions calling for the cessation of bank dividend payments and share buybacks in the face of the COVID-19 economic slowdown. The aim is for banks to retain greater amounts of capital to maintain credit to the real economy and prevent some of the issues that emerged in the 2008 financial crisis.

SRC mission: The SRC is a private sector, nonpartisan body of former government officials and financial and legal experts committed to addressing regulatory and structural issues relating to global systemic risk. It has been formed to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability and ensure a financial system in which we can all have confidence.

KEY GLOBAL EVENTS & ACTIVITIES

CFA INSTITUTE WEIGHS IN ON PROPOSED ESMA RULES

ESMA advice: CFA Institute weighed in on the European Securities and Markets Authority's (ESMA) recently published advice to the European Commission on inducements and costs and charges disclosures under MiFID II. Specifically, in an *Ignites Europe* article, Josina Kamerling, Head of Regulatory Outreach, EMEA, supported the recommendation by ESMA not to introduce an EU-wide full ban on inducements for retail investors. MiFID II rules on inducements restrict the payment and retention of benefits to or from third parties and bans the receipt of benefits in the case of portfolio management or independent advice. Ms. Kamerling agreed that it is too soon to fully assess the impact of MiFID II rules because the directive has not been evenly implemented across the member states.

Weighing full bans: Some countries around the world have put in place more stringent restrictions on third-party commissions (effectively gold-plating MiFID II), with the aim of reducing conflicts of interest and increasing investor protection. However, banning commissions does not always bring about better investor outcomes. To reduce conflicts of interest, markets must ensure complete disclosure of costs and charges, and advisers should owe a duty of care to their clients. The United Kingdom and the Netherlands are two European countries that have introduced a ban on inducements, with some success in terms of better investor protection and professionalism. However, these two countries have different market structures compared to the rest of EU.

Relevant report: The recent CFA Institute report *Sales Inducements in Asia Pacific* also looks at the benefits and drawbacks of widespread bans on inducements. It highlights that although a full ban seems to confer an advantage on mass-market investors, it is still unclear whether this leads to reduced availability of financial advice. A reduction in the supply of quality financial services could further drive investors toward low-cost, execution-only services.

MOURNING THE PASSING OF PAUL O'NEILL

CFA Institute and the Systemic Risk Council are deeply saddened by the news of the passing of our colleague, former US Treasury Secretary Paul O'Neill. A founding member of the SRC, he was committed to establishing a much more resilient banking system. We mourn his passing, with gratitude that he gave his support to our work.

KEY GLOBAL EVENTS & ACTIVITIES

URGENT REQUEST TO CONGRESS ON FUNDING

Urgent request to include IRC 501(c)6 organizations in future emergency funding: In an effort to find financial relief for CFA Institute, CFA Societies, and other nonprofit 501(c)6 organizations during this devastating economic crisis, CFA Institute issued nearly 50 letters to members of Congress. The aim was to urge Congress to include 501(c)6 organizations, which are not primarily engaged in lobbying and political activity, in the benefits associated with all future COVID-19 relief bills. Specifically, CFA Institute requested that Congress amend provisions of the CARES Act within the Paycheck Protection Program, loans enabled by the Emergency Relief and Taxpayer Protections, and the Federal Reserve's recently announced Main Street Lending Program to apply to 501(c)6 organizations. Without this financial support, innumerable associations will suffer, and many will fail. In total, CFA Institute delivered 49 separate letters to the offices of 81 senators and 220 representatives, all representing states and localities of our 67 US societies.

Join us: Contact advocacy@cfainstitute.org if you wish to voice your support on this issue directly to your congressman or senator.

INVESTOR PROTECTION

COVID-19 CRISIS RENEWS INTEREST IN CFA INSTITUTE REPORT

Renewed relevance: The CFA Institute report *Capital Formation 2: Investing Pension Contributions in Private Markets Responsibly* has taken on increased significance as a result of recent market dislocations caused by the COVID-19 crisis. The central message of the report is that defined contribution (DC) pension schemes should be very careful when investing the money of plan beneficiaries in illiquid markets while at the same time promising daily liquidity for beneficiaries. This has taken on greater significance by the losses sustained by large private market funds and subsequent limits to withdrawals in some of those funds.

Media attention: The report has also received positive coverage in several publications, such as *IPE* and *Funds Europe.* The launch of the report has been particularly well timed in Germany, which recently passed a law allowing employers to offer DC schemes to employees for the first time.

CFA INSTITUTE ADVOCACY NEW TEAM MEMBERS

Karina Karakulova joins the Americas Policy Advocacy team as a Senior Manager in Capital Markets Policy. She previously worked as a legislative assistant with VH Strategies, a government affairs consulting firm based in Washington DC, with a focus on financial services, trade/tariff, and healthcare issues. Karina had also worked as a wealth adviser with Wells Fargo & Co. She has a BA in Economics and Mathematics from St. Mary's College of Maryland, and an MS in Financial Mathematics from the Whiting School of Engineering at Johns Hopkins University.

Stephen Deane, CFA, joins the Americas Policy Advocacy team as a Senior Director in Capital Markets Policy after 11 years in the Office of the Investor Advocate at the US Securities and Exchange Commission. Stephen was Engagement Adviser and worked closely with the Investor Advisory Committee. Prior to that, he spent 10 years with Institutional Shareholder Services as a vice president, and was an economic and political analyst with the US Embassy in Moscow. He has a BA in Liberal Arts from St. John's College in Annapolis, MD, and an MA in Soviet Studies from Harvard University.