



# GLOBAL ADVOCACY NEWS AND UPDATE

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## FOR COMMENTS OR QUESTIONS, PLEASE CONTACT

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As we wind down 2019, we wish you happy holidays and a healthy, prosperous new year. In this issue, we share our strong position against the SEC's proxy adviser proposals and urge interested parties to send in their comments. You'll find highlights of influential new reports that were recently released on key issues in the EU and Asia Pacific. We're also pleased to share the news that one of our representatives was on Capitol Hill testifying on artificial intelligence and its impact on the financial sector. And, as usual, we provide an overview of our media coverage and global events to show our authority and influence in key advocacy areas.

Happy New Year!

—Kurt Schacht, CFA, Managing Director of Advocacy

## INVESTOR PROTECTION

### OPPOSING SEC PROXY ADVISER PROPOSALS

**Hindering analyst independence:** CFA Institute is strongly opposed to the SEC's recent proposed rules, *Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice*, which would undermine analyst independence. In a recent *NADAQ* article, Kurt Schacht, Managing Director of Advocacy, CFA Institute, said: "As an organization with long-standing credibility on ethical financial analysis and professional independence, we see great danger to markets and shareholder governance with the release of these proposed amendments. Of specific concern are the provisions that would require analysts that provide proxy-voting recommendations to pre-clear their opinions with the target companies. As proposed, the rule would give all public companies authority to review proxy analyst opinions and recommendations prior to their dissemination to clients and investors. It also would force proxy analysts to include a target company's rebuttal to any negative vote recommendations within the analysts' own reports."

**Our position:** We encourage Congress to require the SEC to correct these deficiencies in rolling back long-standing corporate governance rights of investors. CFA Institute and our members take pride in the integrity and independence of their financial analyses, opinions, and recommendations. We therefore do not support any effort to stymie proxy analysts and their research or attempts by company executives to silence proxy dissenters, including no-vote recommendations on say-on-executive pay proposals.

**Comment letters:** Please submit relevant comment letters via the SEC's Internet comment form (<https://www.sec.gov/rules/submitcomments.htm>), via email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov) (include File Number S7-22-19) or on paper to Vanessa A. Countryman, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

## ADVOCACY IN ACTION

### MEDIA ATTENTION

*DailyAlts*, *Bloomberg*, *Yahoo! News*, *Economic Times*, *Luxembourg Times*, *Axios*, *Mondaq*, *CSPAN* (6–13 December): CFA Institute Senior Director Rebecca Fender speaks at the House Financial Services Committee Hearing on artificial intelligence's impact on the financial sector.

*Investing News Network* (13 December) reported on tech trends that emerged in 2019 and cited a 2019 CFA Institute report: “10 percent of portfolio manager respondents said that they use AI” or machine learning in their investment process.

*QQ* (CHN) (11 December) cited a 2017 CFA Institute survey showing buyers and sellers misjudged MiFID II.

*Economic Times* (IND) (11 December): Mary Leung, Head of Advocacy at CFA Institute, Asia Pacific, discussed how ESG disclosure is altering investment dynamics.

*Investment and Pensions Europe* (11 December) covered the views of Josina Kamerling, Head of Regulatory Outreach at CFA Institute, EMEA, on the further development of the Capital Markets Union.

*Chief Investment Officer* (4 December) reported that ESG disclosure lags behind in the Asia Pacific region, according to a CFA Institute report. Mary Leung, Head of Advocacy at CFA Institute, Asia Pacific, said, “Asia Pacific markets overall have shown a growing awareness of the value of ESG integration in their investment decision making and management processes.”

*NASDAQ* (3 December): Kurt Schacht, Managing Director of Advocacy at CFA Institute, wrote about the dangers of the SEC's proposed *Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice*.

*The Business Times* (SGP) (22 November) quoted Matt Orsagh, Director of Capital Markets Policy at CFA Institute, on whether exercising judgment in ESG investing is more important than access to data.

*Hubbis, Ignites Asia*, *Hong Kong Economic Times*, *JRJ* (CHN) (19–20 November) reported on a CFA Institute report that reveals the growing demand for ESG disclosure in Asia.

*Bloomberg* (19 November): In a video clip, Mary Leung, Head of Advocacy at CFA Institute, Asia Pacific, discussed ESG investing in Asia.

CFA Institute paper *Capital Formation: The Evolving Role of Public and Private Markets* has been awarded Highly Commended in “Best Alternatives Paper 2019” category of the *Savvy Investor Awards 2019*.

### GLOBAL EVENTS & ACTIVITIES

**AICPA National Conference on Current SEC and PCAOB Developments**, Washington DC, 9–11 December 2019: Sandra Peters, Head of Financial Reporting Policy, CFA Institute, participated on the panel on audits during this influential annual event.

**Financial Services Agency of Japan**, 12 December 2019: Nick Pollard, Managing Director, Asia Pacific, and Eugene Hsiao, CFA, Senior Manager, Capital Markets Policy, Asia Pacific, at CFA Institute, along with board members of CFA Society Japan, met with Japan's Financial Services Agency to discuss proposed revisions to the Stewardship Code in Japan, including how to implement goals for sustainable investing and how to expand the scope of the stewardship to include new asset classes and service providers. CFA Institute supports the inclusion of clear references to sustainability and ESG within stewardship principles.

**Primary Markets Advisory Committee (PMAC) deliberations on related party transactions (RPTs) in India**, December 2019: Vidhu Shekhar, Country Head, India, and Siva Ramachandran, Director of Capital Markets Policy, India, at CFA Institute, participated in the deliberations and presented the international practices on RPTs related to these areas for the committee's consideration. The deliberations have focused on improving definitions, disclosures, and enforcement, in order to enhance minority investor protection.

## MARKET INTEGRITY & TRANSPARENCY

# UNDERSTANDING SUSTAINABLE VALUE FOR MONEY

**New report:** In a joint effort from CFA Institute and Better Finance, the European Federation of Investors and Financial Services Users, a [new report](#), focused on Sustainable Value for Money in the EU, was released in November 2019. At a time when consumer trust in financial services in the EU is low, with investors more often opting for non-financial assets and small and medium-sized enterprises (SMEs) moving away from capital markets, the report aimed to understand what retail investors and SMEs see as long-term value for their money—and how investment professionals can better achieve this.

**Study results:** The results clearly showed an alignment between what financial professionals believe they should provide in order to deliver sustainable value for money and what retail investors expect. Specifically, they aligned on issues such as: a mandatory duty of care on behalf of investment managers, key information provided in an accessible way, greater authority for the European Supervisory Authorities, greater disclosure of ESG factors, and the provision of more tailor-made investment advice to retail investors. The report also found that distrust of the finance industry, the complexity and incomparability of products, and the lack of enforcement mechanisms and safeguards act as deterrents, preventing EU households from being more active in capital markets.

**Policy recommendations:** Based on the study results, we recommend several areas of attention for the investment industry, including focusing on an investor’s best interest, improving disclosure of standardized information, addressing short-termism and corporate governance, and tackling other impediments to retail investor and SME participation in capital markets.

**Event:** To launch the joint report on Sustainable Value for Money, a conference was held at the Euronext Brussels on 20 November 2019. The event included opening remarks by Gary Baker, Managing Director, CFA Institute, and a keynote speech by Member of the European Parliament Jose Fernandes. Presentations were also given by Olivier Boutellis-Taft, CEO Accountancy Europe, and Martin Spolc, Head of Sustainable Finance and Fintech, DG FISMA. Josina Kamerling, Head of Regulatory Outreach, EMEA, CFA Institute, led a panel discussion, with topics including MiFID II and PRIIP effects on investors and the market, the shift from public to private capital formation, fintech, and the different demands and needs of investors across generations.



Ringling the bell at Euronext before Event, November 20, 2019

## MOURNING PAUL VOLCKER

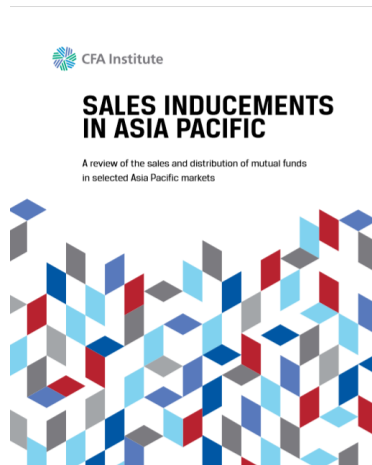
CFA Institute and the Systemic Risk Council (SRC) are saddened by the news that Paul Volcker, SRC Senior Adviser and Former Chair of the Federal Reserve Board, passed away on 8 December 2019.

His contributions to public life, for the US and the world, are beyond measure. While most famous for taming inflation, Paul’s commitment to a stable financial system was equally deep—from his initiation of the first Basel Accord in the mid-1980s, to the reforms after the 2008/09 crisis and his long-standing efforts to persuade legislators to overhaul the architecture of the US regulatory system. As a founding spirit of the SRC, where he served as Senior Advisor for seven years, Paul gave weight to our words, and brought wisdom to our deliberations. The world will be less safe without him.

Paul Tucker, chair of the SRC, said, “To know Paul Volcker was to touch greatness. To work with him, the most enormous privilege. To have his active help and backing, a true blessing. He stood for everything the SRC exists to promote, and he was an inspiration to us all. Our deepest condolences to Paul’s family.”

## MARKET INTEGRITY & TRANSPARENCY

# SALES INDUCEMENTS IN ASIA PACIFIC



**To ban or not to ban:** In November 2019, CFA Institute published the APAC advocacy team’s thought leadership report *Sales Inducements in Asia Pacific*, which provides an overview of regulation and industry practices around sales commissions and fees for advice in Australia, Hong Kong SAR, India, and Singapore. The study specifically addresses the question of whether sales commissions should be banned, by examining markets that have put in place bans and those that have no bans. We looked at the effects and consequences of both practices, including whether such bans have reduced conflicts of interest and unethical behavior in fund distribution and financial advice. In the markets that have not banned commissions but have strengthened transparency and disclosures, we investigated whether these measures have been effective in raising investors’ awareness and improving consumer outcomes.

**Key results:** Overall, the report found that sales commission bans do not fully eliminate conflicts of interest and do not automatically safeguard investor outcomes. We have found that loopholes in new regulations reduce their effectiveness and allow bad habits to persist, especially when enforcement is weak. Banning commissions on certain products can result in distributors shifting to unregulated alternatives, with potentially worse outcomes for investors. Finally, we have found that the industry’s structure—its concentration, vertical integration, and sales-focused incentives—constitutes an obstacle on the path to improving the quality of advice and consumer outcomes.

**Our position:** CFA Institute believes that a healthy, well-functioning market should include: sound investor protection; access to affordable, quality advice and products; a high degree of professionalism; transparency on fees; avoidance, mitigation, management, and disclosure of conflicts of interest; and a culture of accountability.

## INVESTOR PROTECTION

# CFA INSTITUTE ON CAPITOL HILL

**Important testimony:** CFA Institute Senior Director Rebecca Fender spoke at the [United States House Financial Services Committee Hearing](#) on 5 December 2019. She provided testimony to the Task Force on Artificial Intelligence subcommittee on “Robots on Wall Street: The Impact of Artificial Intelligence (AI) on Capital Markets and Jobs in the Financial Services Industry.” The committee gathered academics and industry professionals to discuss the impact of AI on investing, compliance, risk management, robo-advisory efforts, and other activities within the financial services sector.



**Future of finance:** Ms. Fender offered expertise and insight on the future of the investment professional, based on a recent CFA Institute study, *Investment Professional of the Future*, which examined the changing roles and skills of the industry in the next 5–10 years. She stated that “while 89% of industry leaders believe that workers’ roles will ‘be transformed multiple times during their careers,’ AI will not replace all human skills.” Based on research from CFA Institute’s Future of Finance initiative, Fender noted that AI still is unable to perform skills such as “ethical orientation, transparency, communication, empathy, tacit knowledge, and trust interaction.”

**Our position:** We believe in the power of the “AI + HI” model—that is, most tasks are and will remain best handled using both AI and human intelligence, and the collective power of the two is superior to either element on its own. Ms. Fender explained, “AI techniques can augment human intelligence to free investment professionals from routine tasks and enable smarter decision making. . . . AI can amplify an investment team’s performance but cannot replicate its creativity.”