CFA Institute

ADVOCACY UPDATE

GLOBAL ADVOCACY NEWS AND UPDATE

FEBRUARY 2020

IN THIS ISSUE

FOR COMMENTS OR QUESTIONS, PLEASE CONTACT

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CFA Institute advocacy group is pleased to share important updates and accomplishmetns on behalf of our members around the world. In this issue, we provide highlights of recent comment letters and responses to market regulators that aim to protect investors. To help inform our positions, we encourage our members to provide feedback on these issues. You will also find a quick overview of how we act as our members' mouthpieces and generate awareness of key issues. A summary of our media coverage and global events is also provided.

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

INVESTOR PROTECTION

CFA INSTITUTE OPPOSES SEC'S PROPOSED PROXY ADVISER RULES

Response to SEC: On 3 February, CFA Institute issued a comment letter to the SEC to voice its strong opposition to its proposed rule, *Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice*. We are most concerned that the proposals will have a chilling effect on analyst independence by limiting the ability of dissenting investors to voice their concerns on management proposals. We also are wary that the rebuttal processes mandated in the proposals will significantly and unnecessarily raise investor costs.

Our position: CFA Institute believes that these proposed changes will set a faulty and inappropriate precedent for prior review and clearance by issuers of an analyst's work and professional judgement. The proposed process of preclearing financial analysis and recommendations is in violation of long-standing professional standards of analyst prudence, care, and independence. This proposed rule violates the right of investors to contract for independent advice services and invokes First Amendment issues when forcing prior review by issuers, and the subsequent side-by-side inclusion of issuers' opinions.

Investor protection: We emphasize that any increased benefits to the proxy voting system or to investor protection from this rule do not surpass the costs and disruption the rule will create. It is not supported by investors, and will result in a punitive tax on investors, harming returns for retirees and retail investors.

Media coverage: Read more about this important issue in the CFA Institute feature, *Is the SEC Jeopardizing Financial Analyst Independence?,* published on *Pensions&Investments.*

ADVOCACY IN ACTION

MEDIA ATTENTION

The Wall Street Journal (19 February) quoted Sandra Peters, Head of Financial Reporting Policy at CFA Institute, on US House subcommittee calls for more oversight over FASB.

CFO (12 February): Sandra Peters, Head of Financial Reporting Policy at CFA Institute, wrote about the debate surrounding goodwill accounting.

BloombergBNA (10 February) quoted Sandra Peters, Head of Financial Reporting Policy at CFA Institute, regarding the shift of PCOAB's role under President Trump's budget.

Investment News (3 February): Mary Leung, Head of Advocacy, Asia Pacific, at CFA Institute, discussed a new CFA Institute report on managed-fund sales practices.

Pensions&Investments (2 February) covered a CFA Institute piece on SEC proxy adviser rules.

The Wall Street Journal (31 January) quoted Sandra Peters, Head of Financial Reporting Policy at CFA Institute, on whether SEC would require ESG disclosures.

Financial Times (30 January) reported that CFA Institute submitted a letter to the Financial Accounting Standards Board that provided an investor perspective to the important debate surrounding goodwill accounting.

Cotizalia (ESP) (25 January): Gary Baker, Director of EMEA, CFA Institute, and Enrique Marazuela, President of CFA Society Spain, wrote about the future of asset management.

ThomsonReuters (24 January) reported on a letter from CFA Institute to FASB on anchoring the goodwill accounting rules debate on private company rules.

The Hill (21 January): CFA Institute Policy Director Kurt Schacht penned an article on the reliability of CRA ratings.

The Wall Street Journal (21 January) referenced a comment letter from CFA Institute to FASB on changes on financial accounting of "goodwill."

GLOBAL EVENTS & ACTIVITIES

Colloquium on Facebook Libra, February 2020**:** CFA Institute and Volcker Alliance hosted a high-profile, off-the-record seminar to consider the risks, benefits, and possible policy implications of Facebook's proposed Libra crypto-currency. Speakers included representatives from Federal Reserve Bank of Kansas City, Calibra, IMF, Financial Integrity Network, and Penn State University. Topics included: challenges of the current payments system, economics and proposed operational and regulatory structure of Libra, financial stability implications of E-money, national security implications and financial integrity in the digital economy, and privacy and consumer protection. Facebook's participation was predicated on ensuring that all comments were off the record. An event summary will be published in early summer. Additional joint events may be scheduled in the coming months.

Hong Kong SFC Meeting on Stewardship Codes in APAC, Hong Kong SAR, 15 January 2020: CFA Institute Advocacy APAC team met with senior members of the Hong Kong Securities and Futures Commission (SFC) to discuss our survey and thought leadership project on stewardship codes in Asia. Because the SFC is considering updating its current Principles of Responsible Ownership, its leaders were interested to learn what other markets in the region are doing, and to hear views from the investment community. A follow-up meeting with SFC is planned after the report is published.

SEBI Primary Markets Committee Working Group on Related Party Transactions, Mumbai, India, November and December 2019: Vidhu Shekhar, CFA, CIPM, Country Head for India, and Sivananth Ramachandran, CFA, Director of Capital Markets Policy for India at CFA Institute, were part of a working group set up by the Securities and Exchange Board of India (SEBI) Primary Markets Committee, with the goal of reviewing the country's regulations around related-party transactions. The work led to a report that SEBI published for public consultation on 27 January 2020.

MARKET INTEGRITY & TRANSPARENCY

PUSHING BACK ON FASB'S MOVE TOWARD AMORTIZATION OF GOODWILL

FASB Invitation to Comment: The Financial Accounting Standards Board (FASB) has recently elevated goodwill accounting to the top of its agenda after political pressure stemming from high-profile company failures in the UK, notably Carillion's, and significant goodwill write-offs at General Electric and Kraft Heinz. FASB issued an Invitation to Comment (ITC) on allowing public companies to amortize goodwill, which presumes that the high cost of goodwill impairment testing exceeds the benefit to investors, and that change is necessary. In response, CFA Institute participated in an FASB roundtable on goodwill in November 2019 and issued its comment letter to the FASB in January 2020.

Our position: CFA Institute does not support the amortization of goodwill because we believe it will be added back to income statement performance and result in more non-GAAP measures. Ultimately, with this zero-information approach, there is no relevant information for investors in goodwill amortization. Rather, we support improved impairment testing, more timely recognition, and enhanced disclosures that allow investors to judge the success of acquisitions. As we stated in our comment letter, a decision by the FASB to adopt private company accounting for goodwill would result in the write-off (amortization) over ten years of $5.6 trillion of assets on the books of US public companies. FASB has not justified a change in the definition of goodwill, which carries the presumption that it would be a wasting asset if amortization were adopted. We believe requiring new disclosures is likely a better first step than abandoning impairment testing for amortization.

Media coverage: Our efforts prompted articles furthering the debate in the *Wall Street Journal* and the *Financial Times*. CFA Institute, in turn, responded with a letter to the editor in the *Financial Times* that was followed by two more responses in the *Financial Times*, on 3 February and 4 February. We also published an article in *CFO.com* and several blogs on the topic at *Market Integrity Insights* on 13 February, 4 February, and 3 February.

Next steps: The International Accounting Standards Board (IASB) will be issuing a consultation in March 2020 to consider changes under the International Financial Reporting Standards (IFRS). CFA Institute will respond to that consultation and will also launch a member survey with a thought-leadership piece on the issue in the coming months. We encourage member feedback to help prepare and inform our responses.

MARKET INTEGRITY & TRANSPARENCY

IASB PROPOSES IMPROVEMENTS TO PERFORMANCE REPORTING

Enhanced transparency: IASB published an exposure draft in December 2019 aimed to make comparisons of financial statements easier and more transparent and to improve performance reporting. CFA Institute supports the intent of the exposure draft because it significantly upgrades IFRS primary financial statements from current practice, including better comparability, enhanced disaggregation of information, and consistent structuring of performance statements. It also requires all Management Performance Measures (MPMs) to be included in a separate note with reconciliation to IFRS subtotals to enhance transparency. However, it may fall short of including MPMs like EBITDA as part of primary financial statements.

New requirements: Companies would be required to provide three new profit subtotals: "operating profit," "operating profit and income and expenses from integral associates and joint ventures," and "profit before financing and income tax." However, there are questions about the clarity of the definitions of the subtotals and the subjectivity and operational complexity it leaves for preparers and users (e.g., what is "integral" and "not integral").

Comments: Comments are due to IASB by 30 June 2020. We encourage member feedback as we put together our CFA Institute response.

INVESTOR PROTECTION

SEC'S NEW ADVISER ADVERTISING PROPOSAL

New SEC proposal and GIPS® standards: In November 2019, the US SEC introduced a proposal to update regulations related to advertisements for registered investment advisers. The update, the first since the rule's introduction in 1979, is intended to make the rules applicable to the changes in technology and modern communication. The SEC specifically looked to the CFA Institute Global Investment Performance Standards (GIPS) for its rules on presentation of performance advertisements. We coordinated with the SEC to help apply GIPS standards.

Advertisement definition: While we support the intent of the SEC's update, CFA Institute pushed back on several areas in our comment letter, including its overly broad definition of "advertisement" to include virtually all communications between advisers and not just potential clients, but existing clients. In our response, CFA Institute recommended defining advertisements more narrowly to capture only communications with prospective clients, and those to existing clients only when they advertise new products or services.

Capital formation rules: CFA Institute also took issue with the proposals that would reverse existing rules related to compensation by private fund advisers to firms and individuals soliciting investors for capital. Under the proposal, the SEC would mandate that advisers to private investment funds have to adhere to adviser advertisement rules under the Advisers Act rather than long-standing capital formation rules within the Securities Exchange Act. In applying the Advisers Act in this manner, the SEC continued its recent tendency to blur the lines between investment advisers and broker/dealers. CFA Institute believes this new rule would impair the ability of brokers to fulfill their traditional and critical capital formation role as well as have negative repercussions for economic development and investment returns in the future.

KEY GLOBAL EVENTS & ACTIVITIES

AMPLIFYING MEMBER VIEWS AND KEY ISSUES

Generate awareness of key issues: CFA Institute advocacy efforts are an effective way to advance issues that are important to investors. On our members' behalf, we create wide awareness of key investor protection issues in a variety of ways and formats. Around the globe, we generate attention and make investors' views known. Each awareness metric is strategically planned and monitored so that we can track progress and keep investors informed. Our key awareness vehicles include:

- CFA Society Events (including events led or supported by our policy team)
- CFA Society Partnership Events
- Advocacy Training and Workshops
- Society-Created Policy Research
- CFA Institute Advocacy Events
- Industry Trade Conferences and Sponsored Events (with advocacy team participation)
- Regulatory Consultations and Comment Letters
- Advocacy Regulatory and Legislative Outreach (in-person meetings or conference calls with regulators and legislative representatives)
- Blog Posts (Market Integrity Insights Blog)
- Advocacy Updates, Legislative and Regulatory Alerts and Webcasts
- New Thought Leadership Content and Published Research Projects

We work for you: As part of our mission, CFA Institute represents the views of investment professionals and members before standard setters, regulatory authorities, and legislative bodies worldwide about issues affecting the practice of financial analysis and investment management, and on issues affecting the efficiency, integrity, and accountability of global financial markets.