CFA Institute

ADVOCACY UPDATE

GLOBAL ADVOCACY NEWS AND UPDATE

FEBRUARY 2021

IN THIS ISSUE

FOR COMMENTS OR QUESTIONS, CONTACT

Kurt N. Schacht, JD, CFA
CFA Institute Policy Director
Washington, DC
advocacy@cfainstitute.org

This month has raised unique investor protection issues with the widely publicized US market events surrounding GameStop and the continued proliferation of special purchase acquisition companies (SPACs). In this issue, we provide our take on these issues as well as an update on our work in support of global sustainability reporting standards and improvements in corporate reporting. Our European colleagues published a report sharing investors views on corporate governance and environmental, social, and governance (ESG) based on recent roundtables in the region.

INVESTOR PROTECTION

GAMESTOP WARNINGS AND LESSONS

Voicing caution: CFA Institute has long been supportive of free opinions and independent financial analysis, but we are compelled to wield a cautionary tale around the recent GameStop Equity (GME) short squeeze. This is a serious occurrence in the investment industry that has repercussions and lessons for all to learn.

The power of social media: The GameStop incident has clearly shown the significant influence of social media and the dramatic impact it can have on investments and the market. The financial services industry is now forced to recognize that the democratization of trading markets is here, and we face changing market norms. Although misinformation has been around forever, the social media explosion has amplified it exponentially. Whether the market buzz on social media is accurate or rumormongering, it is a new, fundamental factor to understand.

Developing an action plan: Investors need to prepare and recognize that misinformation through social media can happen and should have implementation steps at the ready. It is clear to us at CFA Institute that shutting off the online narrative or regulating it into oblivion is not an option. Instead, the industry must adapt and needs to be prepared. Social media and day-trader preparedness matters must drive a risk-management "reassessment" by market makers, clearing houses, and clearing members.

Our code of conduct: The CFA Institute Code of Ethics and Standards of Professional Conduct require our members to not engage in market manipulation, that is, practices that distort prices or artificially inflate trading volume with the intent to mislead market participants. Our standards also emphasize duties of loyalty, prudence, and care to clients.

Moving forward: Day-trading does not have a credible or consistent chance against fundamental investment analysis. Frictionless trading (zero fees, zero commissions, and smart phone apps) has its purpose and efficiencies but can be problematic without better financial literacy. The "Wall Street vs. Main Street" debate and its relation to a deepening of income disparity is a critical societal challenge, and it needs new and creative leadership from both finance and government.

MARKET INTEGRITY & TRANSPARENCY

SUPPORTING GLOBAL SUSTAINABILITY REPORTING STANDARDS

Highlighting our support: In further support of moving toward global sustainability reporting, CFA Institute released a comment letter commending the International Financial Reporting Standards (IFRS) Foundation's Sustainability Reporting consultation paper, which assesses the need for consistency in reporting and aims to create a new Sustainability Standards Board (SSB) to develop global sustainability standards. CFA Institute also issued a comment letter related to the Sustainability Accounting Standards Boards (SASBs) Conceptual Framework Consultation, which lauded their efforts to globalize their standards.

Our position: CFA Institute firmly believes the standardization of metrics and disclosures on the effects of sustainability issues on a company's present and future results are needed to bring consistency and comparability in sustainability reporting. CFA Institute has affirmed its support for the recent *Statement of Intent to Work Together Towards Comprehensive Corporate Reporting* from leading sustainability and integrated reporting organizations and is ready to buoy this process and to engage our investor members in this important undertaking.

Challenges ahead: We support, in principle, the IFRS Foundation proposal and the creation of its SSB to establish a set of high-quality, globally comparable sustainability standards utilizing existing sustainability frameworks and standards. The success of the SSB, however, ultimately will be driven by how the proposal is implemented. There are many factors to consider as it moves forward, including the role of standards setters, the credibility and legitimacy of the standards, the impact on and relationship to the International Accounting Standards Board (IASB), funding, the audience and objective of standards, the definition of materiality, regional influences and differences, the utilization of existing frameworks, investor engagement and influence, among others.

MARKET INTEGRITY & TRANSPARENCY

CONSIDERING THE FUTURE OF CORPORATE REPORTING

Input on the Financial Reporting Council's (FRC) initiative: CFA Institute issued a comment letter in overall support of the FRC's discussion paper, *A Matter of Principles: The Future of Corporate Reporting*, which considered what the future of corporate reporting should look like and proposed a new principles-based framework. Our comment letter was issued in collaboration with CFA Society of the UK (CFA UK), which conducted a UK member survey that informed their position. Our statement was a global complement to the UK perspective and presented a collective voice of investors to the FRC, which is leading the charge to improve corporate reporting.

Our position: We have a long history of promoting fair and transparent global capital markets, including high-quality corporate reporting that provides investors and other stakeholders with timely, relevant, and reliable information. We commend the FRC's initiative to enhance corporate reporting to more effectively meet the information needs of investors and other stakeholders.

Some concerns: Although we support transparency and decision-useful information for all stakeholders, we are concerned that over-broadening and conflating the information needs of investors with those of a wider group of users actually may reduce the quality and relevance of the disclosures. In addition, we believe clarity and education are needed around the terms "materiality" and "nonfinancial reporting/information."

Technology: The use of technological tools and methods, such as structured data frameworks, has the potential to reduce preparation burdens and enhance the ability of end users to obtain and effectively utilize the information. We think the FRC should consider incorporating technology in the construction of corporate reports and their filing with regulatory agencies to enhance usability.

INVESTOR PROTECTION

SPAC ATTACK: A NEW FINANCIAL PANDEMIC?

A surge in SPACs: The world's exchanges are getting wise to the new gold rush for initial public offering (IPO) listings spurred by the resurgence of the special purpose acquisition company (SPAC), also known as a "blank-check" company, which pools funds as a shell corporation to finance a merger or acquisition. The SPAC is turning into an exercise in financial contagion, as one by one, global exchanges want to get in on the action. In 2020, SPACs accounted for more than half of all IPO proceeds raised in the United States, and just in the month of January 2021 alone, more than 60 SPACs raised nearly $20 billion in proceeds, more than was raised in 2014–2017 combined. The Singapore Exchange Ltd. is considering new rules that would allow blank-check companies to list sometime later this year. Similarly, the SPAC boom in the United States has caught the eye of UK markets looking for ways to increase its participation in the listing phenomenon.

Investor concern: CFA Institute is very concerned with the glaring investor protection issues that are being raised, and with the similarities to the dot.com and subprime bubbles. Sandra Peters, advocacy head at CFA Institute, and member of the SEC's Investor Advisory Committee (IAC), is working as part of a subcommittee to organize a panel presentation on SPACs at the 11 March meeting of the IAC. The panel will provide insight and regulatory considerations from academics studying SPACs, lawyers engaged in SPAC transactions, private equity investors involved with acquired companies, and others engaged in retail investment in SPACs.

INVESTOR PROTECTION

GAMESTOP: A CONGRESS TO-DO LIST

Congress examines GameStop run-up: The House Financial Services Committee in the US Congress embarked on a series of GameStop hearings on 18 February to explore the facts and consider the possible policy responses to the volatile trading and market disruptions that have dominated the recent market news and regulatory chatter. Several important market integrity and investor protection matters need attention.

Investor protection: First, investor protection must be rethought in a social media/gamification world. We need to ensure that the new social media dynamics do not overtake the current investor protection rules. Social media runs have now demonstrated their ability to shock normal market action, and we should question whether retail investors are savvy and protected adequately, particularly regarding margin and option trading.

Infrastructure: In addition, the adequacy of our market and trading infrastructure should be reassessed. To us, short squeezes, zero-commission trading, market imbalances, day trading, and highly touted stocks are well-known phenomenon. What is clearly new is the speed and potential size of a social media–inspired run. Whether our market infrastructure and our rules for broker, clearing, and margin risk are adequate and agile enough to handle these new-age runs must be top of the list for congressional inquiry.

Market manipulation: Congress should also examine whether social media collusion and narratives have reached the realm of market manipulation or fraud. While industry insiders are worried about this manipulation, the populist view is that these new social media tools have leveled the playing field for controlling market narratives. The important regulatory question is whether this new force is free-market expression or whether (and when) it tips into new-age manipulation.

Long-standing market policy debates: Finally, what is squarely in Congress's lane are many market-related policy debates that have been reignited by the GameStop episode, including payment for order flow, trade date plus two days (T+2) settlement delays, short-selling transparency, rules on margin and options trading, and whether a revamp of securities lending/short-selling rules is indicated. As the US Congress considers the appropriate policy response, congressional members should prioritize investor trust in our markets and ensure market information integrity as well as a sound market structure.

ADVOCACY IN ACTION

MEDIA ATTENTION

XBRL (18 February): Mohini Singh, director of Financial Reporting Policy at CFA Institute, busts several myths surrounding environmental, social, and governance (ESG) issues.

Al Jazeera English (18 February) quoted CFA Institute Policy Director Kurt Schacht on the GameStop congressional probe: “Far from ending the policy discussion, we expect the hearing will prompt lawmakers to press ahead with further investigation and introduce legislative solutions.”

Agence Europe (FRA) (19 February) reported that a new CFA Institute report has called for improved corporate governance in the EU.

Financial Times (12 February): CFA Institute Policy Director Kurt Schacht wrote an opinion letter blasting the recent GameStop stock surge.

Business Insider, *Yahoo! Finance*, and *Benzinga* (10 February) quoted a CFA Institute survey indicating 85% of its members take ESG into consideration when making investment decisions.

The National Law Review (8 February) cited a CFA Institute chart on ESG issues.

Funds Europe (2 February) reported on CFA Institute and Better Finance’s joint statement urging EU officials to re-visit fund information.

Investment & Pensions Europe (1 February) cited CFA Institute support of US asset owners funding more than 90% of US manager research budgets.

NASDAQ (29 January): CFA Institute Advocacy Director Kurt Schacht recommends steps the SEC should take under the Biden administration.

Financial Advisor IQ (28 January) reported that CFA Institute is pushing for standardized ESG disclosures.

Financial Investigator (NLD) (25 January): CFA Institute Capital Markets Policy Director Matt Orsagh discussed how finance can combat climate change.

MLex Market Insight (21 January) cited Systemic Risk Council Chair Paul Tucker’s comments on incoming SEC chair.

The Times (UK) (22 January) cited Systemic Risk Council Chair Paul Tucker’s comments that there is no need for more quantitative easing (QE).

NASDAQ (21 January): CFA Institute Policy Director Kurt Schacht pushed for corporate political spending disclosures.

EVENTS & ACTIVITIES

Sustainable and Responsible Investment (4 February): Mary Leung, head of advocacy for Asia Pacific, presented the highlights of the CFA Institute report “Future of Sustainability in Investment Management: From Ideas to Reality” at this high-profile online event hosted by World Bank Group Malaysia and CFA Society Malaysia.

Economic and Market Impact of Climate Change (2 February): Mary Leung, head of advocacy for Asia Pacific participated in the CFA Institute Asia Pacific Research Exchange (ARX) Webinar, and Matt Orsagh, director of capital markets policy at CFA Institute, presented the findings of the CFA Institute report “Climate Change Analysis in the Investment Process.”

The Portuguese Presidency: On the Road to a European Recovery Post-COVID (26 January): Hosted by CFA Institute and CFA Society Portugal, this high-profile conference featured an address by Mário Centeno, governor of the Bank of Portugal.

The Impact of COVID-19 on Pensions: Focus on India (19 January): Sivananth Ramachandran, director of capital markets policy for India, CFA Institute, moderated a panel discussion centered around the findings of the Mercer CFA Institute Global Pensions Index report, and provided a snapshot of initiatives by governments across the region to balance citizens’ immediate liquidity needs with their long-term retirement.

New Financial Virtual Roundtable (19 January): Olivier Fines, head of advocacy EMEA, CFA Institute, participated in a UK Listings Review event with Lord Jonathan Hill. Discussion focused on opportunities for UK public markets in a post-Brexit world.

MARKET INTEGRITY & TRANSPARENCY

NEW REPORT ON CORPORATE GOVERNANCE IN THE EU

Updated report: CFA Institute issued a timely new report *Corporate Governance and ESG Disclosures in the EU* that updates a 2016 report on key governance issues in the EU. Based on a series of 2020 workshops with CFA Societies and members, the new paper reflects the impact of current (and planned) EU initiatives on environmental, social, and governance (ESG) disclosures and sustainable corporate governance, including the Shareholder Rights Directive II (SRD II) as well the effects of COVID-19.

Analysis and advice: This new project aims to identify the governance mechanisms in Europe that still do not offer sufficient corporate accountability and protection of shareholder rights and to analyze the effects of embracing ESG in EU companies' business models. Moreover, we examine how ESG developments and corporate governance policies may merge into new regulatory frameworks aimed at strengthening the link between companies and the wider society (including shareholders and other stakeholders.)

Key recommendations: CFA Institute offers several ways to improve transparency and corporate accountability as well as to ensure maximized value for interested parties.

- **Protect investors:** We encourage the EU and national regulators to enhance protections for minority shareholders and discourage the practice of differential ownership rights across the EU.
- **Enhance clarity:** We urge the European Commission and regulators to focus on inconsistencies between the EU legislations on disclosure of ESG and nonfinancial information. To help investors, clear and consistent language is needed between regulations (such as between the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation) and to reinforce the definition of materiality.
- **Better engagement:** A more effective and consistent dialogue and engagement process is needed with shareholders to ensure that board directors, management, and investor needs are better aligned. Investors also should be more proactive in the engagement process.