



GLOBAL ADVOCACY NEWS AND UPDATE

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FOR COMMENTS OR QUESTIONS, PLEASE CONTACT

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The summer heat does not slow down the news or happenings around the globe in the investment arena. In this issue, we share an update on reactions to the US SEC's long-anticipated Best Interest rule. CFA Institute, along with other key industry groups were disappointed in the lack of real reform and protections included in the Senate-confirmed package last month. Not surprisingly, a variety of opposing forces are emerging. We also share an important new report supporting the importance of quarterly reporting, as well as a recap of our top issues, key activities, and media attention. We welcome comments and questions.

—Kurt Schacht, CFA, Managing Director of Advocacy

INVESTOR PROTECTION

REGULATION BEST INTEREST: IT'S A DONE DEAL IN THE US

Opposing forces to Regulation Best Interest (Reg BI): Just weeks after the US SEC's final Reg BI and Customer Relationship Summary (CRS) rules were adopted, opposition has begun to mount on a number of fronts. The issue of mis-selling of financial products and advice has come full circle in the US debate.

- **Congress:** Appropriations Bill [H.R. 3351](#) passed on party lines in the House of Representatives on 27 June and is awaiting consideration in the Senate. If passed, it would prohibit the SEC from using any appropriated funds to “implement, administer, enforce, or publicize the final rules and interpretations” of Reg BI, Form CRS, or its interpretation of the “solely incidental” advice exemption for brokers in the Adviser’s Act. The provision is unlikely to survive budget negotiations between the House and Senate, in part because of the vigorous opposition from the brokerage industry.
- **State laws:** Some states are attempting to gold-plate federal securities laws with state-mandated fiduciary duty for brokers. To date, only Nevada and New Jersey have formally adopted such laws; in Massachusetts, they currently are under consideration. The success of these efforts remains unclear, as some doubt they will have the needed support or will survive court challenges.
- **APA:** The deadline to challenge the rules through a lawsuit under the Administrative Procedures Act (APA) is 10 September 2019.
- **Elections:** Consumer groups are suggesting that Democrats will attempt to undue the new regulations if they regain power in Congress and the presidency in 2020.

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Our efforts: The focus for CFA Institute has changed to a literacy push. We are talking with consumer protection groups about two possible voluntary programs to empower investors to know the facts, be a more discerning financial consumer, and to seek alternative service providers if they don't get the answers and standard of care they want when dealing with brokers and investment advisers.

- **An investors' best-interest FAQ:** Based loosely on the [Statement of Investor Rights](#) produced by the CFA Institute Future of Finance team, this project, still in its early stages, aims to produce a set of key questions for investors to pose to their existing and potential brokers to fully explore what service and duty they are getting and what the investor "best interest" actually includes.
- **Model customer relationship summary:** CFA Institute is exploring a model that would help clarify the current Reg BI's complicated CRS explanation. Our model would enhance the quality and clarity of the disclosures mandated for brokers and investment advisers and produce a more understandable summary for investors that complies with the legally required Form CRS and SEC rules.

MARKET TRANSPARENCY & FAIRNESS

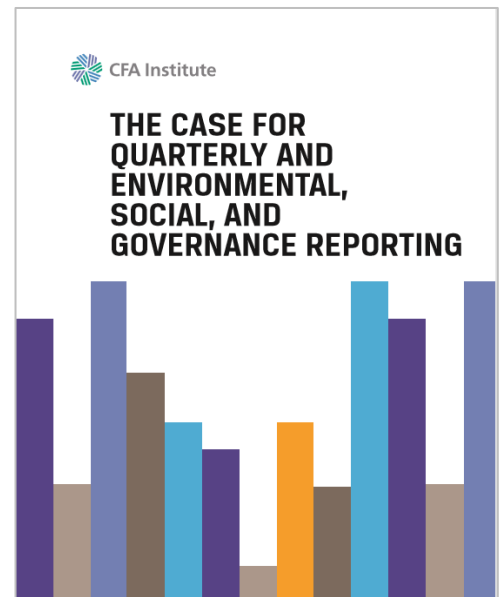
INVESTORS SUPPORT QUARTERLY REPORTING AND ESG DISCLOSURES

New report: In the midst of the ongoing debate around quarterly versus semi-annual financial reporting requirements – and whether a reduction in reporting frequency could save resources and dissuade short-termism, CFA Institute released a [new report](#) with notable results. Unequivocally, respondents indicated a strong support of quarterly reporting. Based on a global member survey and roundtable discussion, our study was, in part, a response to the SEC's recent call for comments on the topic.

Quarterly reporting: A majority of respondents find quarterly reporting more important than earnings releases, which often provide minimal, slanted information. Quarterly reports, on the other hand, provide a structured set of information that follows accounting standards and regulatory guidelines with greater investor protection along with audits and certifications. Investors also feel issuing quarterly reports and earnings releases simultaneously would allow for more cohesion and less need for reconciliation. Our survey also found little appetite for alternative reporting models or reduced reporting frequency.

Support for ESG: When it comes to environmental, social, and governance (ESG) reporting, survey respondents and roundtable participants believe specific ESG and sustainability disclosures should be a regulatory requirement for public companies and that there should be one set of ESG disclosure standards. Investors also call for clearer definitions of ESG terms and related metrics.

Our position: The report reinforces the CFA Institute long-held position that fully functioning capital markets rely on complete, timely, and accurate information. Consistent, quarterly reporting increases transparency, integrity, and investor confidence across markets. In addition, we support the growing need for better more standardized ESG reporting by issuers.



ADVOCACY IN ACTION

MEDIA ATTENTION

The Wall Street Journal (10 July) quoted Sandra Peters, Head of Financial Reporting Policy at CFA Institute, warning of the impact of lease accounting changes.

City AM (UK) (10 July) Kazim Razvi, Director of Financial Reporting Policy at CFA Institute, wrote a piece on accounting cash flows and the quirk of creditor factoring.

FTAdviser (UK) (8 July) reported on the CFA Institute Brexit survey showing many expect firms to reduce UK presence.

FundsPeople (8 July) reported that ESG is taking center stage at CFA Society Portugal's annual conference.

The Financial Times Alphaville reported on the CFA Institute survey showing a reduction in analysts since MIFID II.

Law360 (26 June) Kurt Schacht, Managing Director of Advocacy at CFA Institute, wrote an article weighing in the new SEC Best Interest rule.

The Hill (25 June) Kurt Schacht penned an article warning that dual-class structures undermine decades of progress.

City AM (11 June) Kazim Razvi wrote an article on potential consequences of IASB's standard, IFRS 9 Expected Credit Losses. He stated, "A policy crafted to stop repeating past mistakes often misses the future challenges shaped by those very policies."

GLOBAL ACTIVITIES AND EVENTS

CFA Institute & Transparency Task Force (TTF) seminar (10 July) Brussels: The successful event entitled "How Can We Accelerate the Rebuilding of Trust and Confidence in Financial Services?" highlighted our shared values of working toward a transparent, truthful, and trustworthy financial services sector committed to achieving the highest standards of ethics, market integrity, and professional standards of practice.

Centre for European Policy Studies (CEPS) Sustainability in Practice: Corporate Governance and Investor Relations (9 July) Brussels: Josina Kamerling, Head of Regulatory Outreach, EMEA, at CFA Institute, spoke at this industry event hosted by CEPS, a leading think tank and forum for debate on EU affairs.

Joint European Supervisory Authorities' Consumer Protection Day 2019 (28 June) Dublin: Josina Kamerling participated in a panel discussion on investor protection, including how the European Supervisory Authorities can contribute to more convergence of regulation and supervision across the European Union.

Capital Formation at FundForum International (25 June) Copenhagen: Olivier Fines, Head of Advocacy, EMEA, presented findings from CFA Institute 2018 *Capital Formation* report, including the rise in private markets' share of capital raised in the new economy, the regulatory implications of retail investment into potentially complex investment products, the need to engage in educational work to avoid mis-selling and misrepresentation, and the importance of transparency.

American Society of Appraisers 14th Annual Fair Value Conference (20 June) Los Angeles: Mohini Singh, Director, Financial Reporting Policy at CFA Institute, presented "What Is Happening in Financial Reporting?" — including an update on CFA Institute positions on quarterly reporting, intangibles, and structured data, among other topics.

European Institute of Financial Regulation (20 June): Olivier Fines presented the results from our *MiFID II: One Year On* report, including the impact of MiFID II's rules on how research is produced, paid for, and consumed across the industry as well as its unintended consequences on independent research performed on small companies.

IFRS 9 Convening Event (13 June) Brussels: Josina Kamerling moderated a meeting focused on the Expected Credit Loss implications on bank lending considering significant changes in macro-economic environment. Risks are shifting from banks involved in risky lending to cutting off lending to the real economy in response to perceived economic shocks.

ADVOCACY OVERVIEW

TOP 10 ADVOCACY ISSUES

CFA Institute continues to work around the globe to increase investor protection and market integrity. Following are highlights of our current areas of focus:

- **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 for financial analysis
- **Investment Products:** Are exchange-traded funds (ETFs) a growing systemic risk?
- **Market Regulations:** The latest news and impact of MiFID II
- **Systemic Risk:** Central clearing counter parties and stress testing rollbacks
- **Non-GAAP Reporting:** Alternative performance measures (APMs)
- **Audit Quality:** Emerging critical audit matters practice and Public Company Accounting Oversight Board (PCAOB) audit deficiency findings and transparency
- **Sustainability Reporting:** Public company reporting of ESG-related information

ADVOCACY OVERVIEW

WHAT'S NEW IN ADVOCACY?

District Dialogs: The Society Advocacy Workshop prompted further discussions and plans for District Dialog meetings (DD events) at societies during Congress’s August recess. DD events are society-organized forums that give Congressional and Senate members a chance to directly connect with CFA® charterholders and members while home in the district or state. These events assist our policy advocacy efforts in Washington, DC, by showcasing the expertise of CFA Institute members and by assuring policy makers that our members are their constituents.

Events under active consideration involve CFA Societies North Carolina and New York. Other possibilities for the August recess include the Atlanta and Oklahoma societies. Looking ahead to the fall, plans also are being made to host DD events in Tucson and Phoenix, among other cities.

New Advocacy home page: CFA Institute is pleased to share a refreshed and redesigned Advocacy home page on our website: <https://www.cfainstitute.org/advocacy>. This hub allows for easier navigation to our key areas and highlights our key efforts, positions, and research.

