ADVOCACY UPDATE

GLOBAL ADVOCACY NEWS AND UPDATE

JULY 2021

IN THIS ISSUE

FOR COMMENTS OR QUESTIONS, CONTACT

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Summer has not slowed down the global advocacy efforts and activities of CFA Institute with new reports, comment letters, responses, events, and media coverage. As special purpose acquisition companies (SPACs) continue to proliferate and make news, we held our first SPAC Working Group meeting. We issued new reports and comment letters on key global financial issues, including the global pandemic, Asia-Pacific independent directors, UK audit quality, and US climate change disclosures. We hosted important events around the globe to promote and advance market integrity, investor protection, and professionalism and to be a voice for our investment community. In addition, we garnered media attention and news coverage around the world.

INVESTOR PROTECTION

SPAC WORKING GROUP LAUNCHES IN A NEWSWORTHY WEEK FOR SPAC MARKET

Two launches: The coincidence is not lost on us that the same week Sir Richard Branson launched into space on his SPAC-funded Virgin Galactic rocket, CFA Institute hosted the inaugural meeting of the SPAC Working Group. The meeting set forth what will be a series of discussions examining the SPAC structure, the various players' incentives, the associated due diligence and disclosure requirements, and investor protection measures. The meeting featured presentations from SPAC market experts and leading data providers and set the stage for the second meeting to be held in September 2021. The group's observations and recommendations will culminate in a report in early 2022. In all, three additional meetings are scheduled and group members will soon be announced.

US Securities Exchange Commission (SEC) ramps up scrutiny: In the latest sign of increasing regulatory scrutiny of the SPAC market, the SEC announced it had reached a settlement with a SPAC, its sponsor, merger target, and CEOs for misleading investors about its space deal and concealing national security risks. The settlement is premised on the sponsor's lack of proper due diligence of the acquisition target. It charged the parties with violating proxy rules by issuing misstatements and omissions in the *preliminary* proxy statement stage. The SEC is also ramping up its inquiry of the fees banks have earned while serving in multiple roles on a deal, exploring "whether certain fee structures may incentivize underwriters on SPAC listings to secure unsuitable deals when also advising on the later stage merger, potentially putting investors at risk" (as reported by Reuters).

MARKET INTEGRITY & TRANSPARENCY

CFA INSTITUTE WEIGHS IN ON CLIMATE CHANGE DISCLOSURE

Important response: In March 2021, then–SEC Acting Chair Allison Herren Lee issued a request for public input on improving climate change disclosures to update the SEC's 2010 *Commission Guidance Regarding Disclosure Related to Climate Change*. CFA Institute is in the process of issuing a response on this timely topic, which includes the following key points:

Evolutionary rather than revolutionary:

- CFA Institute supports global standards, but SEC rulemaking is necessary and should leverage existing standards because at this point, global standards may not be accepted in the US market.
- Management attestation (internal controls over financial reporting or disclosure controls and procedures) depends on location and may need to evolve.
- CFA Institute supports management accountability and linkage of risk management to compensation, but linkage to compensation may need to evolve.

Focused but consistent and relevant widely:

- Disclosures should be focused only on financially value relevant information, required by all companies regardless of size (if financially material), and relevant to both public and private companies.
- The SEC's enforcement on climate disclosures should be no different than other information provided in the same venues.
- Investors prefer industry-specific guidance.

High quality and meaningful:

- CFA Institute supports an approach that is similar to market risk disclosures within management discussion and analysis (MD&A) with a meaningful connection of climate change disclosures to the business description, risk disclosures, financial statements, and the discussion of results.
- CFA Institute supports disclosures which are not based upon a minimum disclosure standard as such disclosure quickly become the only disclosures provided–or the maximum disclosure standard. Investors need relevant information.
- To ensure higher quality disclosures are provided by issuers we believe the disclosures should be included within periodic filings or registrations statements filed with the SEC not simply included within documents furnished to the SEC for information purposes.

ADVOCACY ENGAGEMENT & ACTIVITIES

EXPLORING KEY FINANCIAL REGULATORY DEVELOPMENTS

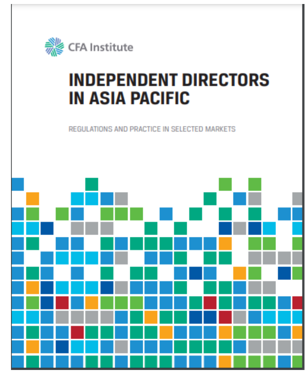
Online event: On 29 and 30 June, CFA Institute held its second annual Financial Regulatory Symposium, which gathered regulators and investment professionals from around the world to discuss policy developments affecting the financial services sector and the investment industry. The event attracted a record of nearly 2,300 registrants.

Environmental, social, and governance (ESG) disclosure: The first session focused on ESG and sustainability disclosure, which examined key nonfinancial reporting issues, including the International Financial Reporting Standards (IFRS) initiative in setting sustainability reporting standards, and the investor perspective on ESG information. The discussion highlighted the potential dichotomy between regulators' intended use of ESG disclosure rules and what information investors demand, and the different views on the concept of materiality.

Covid business conduct: The second discussion revolved around business conduct issues that have emerged during the Covid-19 crisis. The panel examined the issue of trust in the finance industry, including the growth of SPACs, the challenges caused by the rise of day trading, and the concept of the gamification of investments on the back of fintech developments. Speakers also discussed how regulators and industry participants can work together to restore investor confidence in financial markets.

MARKET INTEGRITY & TRANSPARENCY

NEW REPORT ON INDEPENDENT DIRECTORS IN ASIA PACIFIC



Updated edition: CFA Institute issued a new thought-leadership report *Independent Directors in Asia Pacific*, which provides an overview of regulations and practices around independent directors in listed companies in Australia, Hong Kong SAR, India, Japan, Malaysia, and Singapore. A result of many months of research, including interviews with industry practitioners and corporate governance experts, this report updates and expands on a 2010 CFA Institute publication on the same topic, noting where improvements have been made.

Overview of regulations and practices: The roles and functions of independent directors vary significantly from market to market—particularly in the Asia-Pacific region—because of differences in regulations, definitions, and criteria for independence, ownership structure, types of shareholders, history, and cultural context. The report examines regulatory frameworks and codes of corporate governance to understand how regulators and standard setters approach board and director independence, and provides best practices from industry practitioners. It provides a useful overview and examination of regulatory initiatives and industry practices on issues, such as representation of independent directors on the board, separation of the role of board chair and CEO, nomination process of independent directors, remuneration, tenure, concurrent directorships, and board diversity.

Fair and independent: Board independence is a cornerstone of corporate governance. We believe that independent directors, not biased or controlled by the company, will monitor and counterbalance executive management or controlling shareholders on the board by ensuring that decisions are made in the best interest of the company and are fair to all shareholders.

MARKET INTEGRITY & TRANSPARENCY

PROVIDING INVESTOR PERSPECTIVES ON PROPOSED UK AUDIT QUALITY REFORM

Weighing in on audits: On 8 July, CFA Institute issued a comment letter on the UK Government's Consultation on proposed reforms to strengthen corporate governance and independent audits. CFA Institute has long advocated for audit quality reforms globally, including, most recently, reforms to enhance the auditor's report and to increase transparency regarding audit participants. We have provided comprehensive responses to previous and related UK reforms on audits and corporate governance.

Audit quality needs an investor-centric approach: While we support some of its approaches, the Consultation falls short as it considers the needs of all stakeholders rather than focusing on the information needs of investors as its primary concern for audit reform. Moreover, the proposals do little to advance the information communicated by auditors to investors and fail to address the perspectives of investors on the role, responsibilities, and performance of auditors.

Audit Reporting and Governance Authority (ARGA) requires broad, clear authority: The most significant measure in the Consultation involves the creation of a new and empowered independent agency, ARGA, to oversee and hold both companies and their auditors accountable. We are supportive of an independent, self-funded regulator with broad authority and a charge to improve audit quality. It remains to be seen, however, how ARGA, the successor to the Financial Reporting Council (FRC), will function and achieve its extensive mandate. The Consultation sets forth lofty expectations and a long list of activities for ARGA, but few details on how it will enact and enforce the rules and standards.

Internal controls over financial reporting (ICFR): CFA Institute also expressed concern surrounding the proposal to strengthen internal controls over financial reporting, as it falls short of the US Sarbanes-Oxley Act. We urge stronger internal company controls to include management attestation and auditor assurance to drive confidence in the integrity of financial reporting.

ADVOCACY ENGAGEMENT & ACTIVITIES

EFFECTS OF AN UNPRECEDENTED ECONOMIC CRISIS

New report: CFA Institute released its latest comprehensive research report, *Covid-19, One Year Later: Capital Markets Entering Uncharted Waters*, on the effects of the Covid-19 crisis on capital markets, based on a global member survey. The report has received wide media coverage around the world, including (to date) nearly 40 tier-one publications, more than 125 trade and syndicated outlets, and several prominent broadcast media.

Unprecedented economic events: With the Covid-19 crisis, capital markets entered uncharted waters. The 2020 global pandemic marked an unprecedented event in the history of economic and financial crises. For the first time, governments and monetary authorities agreed to coordinate fiscal policy and monetary policy as a combined response to the economic crisis to preempt any direct transmission of the crisis into financial markets and to avoid a similar dislocation of credit markets and money markets at the core of the 2007–2009 Global Financial Crisis.

One year later: Our research reviewed how such a transformational interpretation of the role of central banks and their independence in conducting monetary policy could have unintended consequences for financial markets and the economy. CFA Institute wanted to draw the attention of policy makers to the socioeconomic aspects of this crisis. We reviewed how the recovery may be affecting various parts of the economy in materially different ways, depending on regions, industries, and social categories.

Highlights: Following are some of the key results of our survey:

- **Inflation:** A large majority (65%) of respondents globally believe that an accommodative monetary policy combined with supply-side constraints will cause inflationary pressure over the next one to three years.
- **Bigger government:** 58% of respondents agree that the role of government will broaden as a result of the crisis and that the share of government spending in GDP will structurally and materially rise, as will taxes.
- **Continued support:** Respondents are split on whether the current extraordinary cycle of accommodative monetary policy should start being restricted (51%) or whether it should continue to support people and businesses until the economy is sufficiently stable (43%).
- **Wealth gap:** 44% of global respondents believe the stimulus measures have created a goldmine for the investor class, widening the wealth gap with the working class.

ADVOCACY ENGAGEMENT & ACTIVITIES

PROMOTING ESG DISCLOSURE STANDARDS IN ASIA PACIFIC

Events around the region: CFA Institute Asia-Pacific advocacy team continues to build awareness of the ESG Disclosure Standard for Investment Products among regulators and industry bodies in the region. Mary Leung, head of advocacy for Asia Pacific at CFA Institute, had several engagements throughout the region:

- **Japan** (2 and 24 June): first met with the sustainability officer of Japan's Financial Services Agency and then with CFA Society Japan
- **Australia** (22 June): spoke about the exposure draft to CFA Society Melbourne
- **Singapore** (29 June): supported a virtual roundtable organized by CFA Society Singapore
- **Malaysia** (5 July): made a presentation to the Securities Commission Malaysia, which was attended by members of the industry
- **Philippines** (6 July): presented on this topic to the Bureau of the Treasury of the Philippines, organized by CFA Society Philippines
- **India** (7 July): met virtually, along with Vidhu Shekhar, country head for India, and Sivananth Ramachandran, director of capital markets policy for India, at CFA Institute, with the Securities and Exchange Board of India (SEBI)

Our position: CFA Institute believes that a voluntary, global industry standard, enabling asset managers to clearly communicate the ESG-related features of their investment products, will provide greater product transparency and comparability for investors and help them better incorporate ESG factors into their decisions.

ADVOCACY IN ACTION

MEDIA ATTENTION

The Business Times (SGP) (20 July) covered CFA Institute Asia-Pacific Advocacy Head Mary Leung's comments on the adoption of climate-related financial disclosures.

Exame (BRA) (18 July) covered results of the recent CFA Institute survey indicating the equity markets recovered too quickly after the Covid-19 crisis.

CincoDías El Pais (ESP) (15 July): CFA Institute Industry Research Director Rhodri Preece and CFA Society Spain President discussed cybersecurity in finance.

Professional Planner (AUS) (15 July) cited the CFA Institute survey results saying the equity markets recovered too quickly and respondents believe a correction could occur in the next three years.

The Business Times (SGP) (14 July): CFA Institute Capital Markets Policy Director Matt Orsagh recaps Alpha Summit panel discussion on ESG.

Money Management (AUS) (14 July) and *Sydney News Today* (AUS) (13 July) covered the CFA Institute survey report indicating that inflation pressure could last for the next three years.

Financial Times (11 July): CFA Institute EMEA Advocacy Head Olivier Fines commented in a letter to the editor on the post-Covid survey results, including that a plurality of financial professionals (44 percent) fear the biggest unintended consequence of government stimulus packages is that they have created a gold mine for the investor class.

La Presse (CAN) (8 July) reported that Quebec CFA® charterholders are most optimistic about the post-Covid-19 economic recovery.

The Canadian Press (8 July), picked up by *Toronto Star* (CAN), *BNN Bloomberg* (CAN), *MSN Money* (CAN), *Yahoo! News* (CAN), *CASTANET* (CAN), *CTV News* (CAN), *Newscaf* (CAN), and other Canadian media, cited the CFA Institute global survey revealing Canadian respondents believe government stimulus measures have widened the wealth gap in society.

Mint (29 June): Vidhu Shekhar, country head for India at CFA Institute, with Sivananth Ramachandran, director of capital markets policy for India at CFA Institute, published what is the first article in a series in India's financial daily newspaper focusing on the need to promote ethical conduct and good corporate culture in India's financial industry.

EVENTS & ACTIVITIES

SRI Integration into Investment Decision Making webinar (28 June): Mary Leung, head of advocacy for Asia Pacific, was the keynote speaker during the event focused on ESG integration into investment processes. It was the second event in a series of webinars on sustainable and responsible investment organized in partnership with the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia, Bursa Malaysia, the Association of Chartered Certified Accountants (ACCA), the Malaysian Investor Relations Association, UN Global Compact, and CFA Society Malaysia.

International Organization of Securities Commissions (IOSCO) Committee on Retail Investors meeting (30 June): Josina Kamerling, head of Regulatory Outreach for EMEA at CFA Institute, presented on retail investor education in the context of sustainable finance at the IOSCO meeting.

UK Industry Roundtable (July): CFA Institute EMEA Advocacy Head Olivier Fines gave a presentation to UK investment professionals on our latest Covid-19 research, at an event organized by Institutional Relations.