CFA Institute

ADVOCACY UPDATE

GLOBAL ADVOCACY NEWS AND UPDATE

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The COVID-19 pandemic and its effects on the global economy continue to dominate headlines and financial woes around the world. At CFA Institute, we remain committed to protecting the investor community and the integrity of market information during this crisis and beyond. In this issue, we share updates about important US regulatory proposals, including on proxy advisers, Regulation Best Interest, the Names Rule, and corporate reporting. You'll also find highlights of our recent member surveys, global events, and international media coverage. We hope you are continuing to stay safe and healthy. —**Kurt N. Schacht, JD, CFA, CFA Institute Policy Director**

INVESTOR PROTECTION

CONTINUED DIALOGUE ON SEC PROXY ADVISER PROPOSAL

Proxy adviser update: After a call with Securities and Exchange Commission (SEC) Commissioner Hester M. Peirce, CFA Institute submitted a third letter on the matter of proxy adviser independence and potential rules relating to how and when investors using proxy adviser services can vote their shares. We noted comments from SEC Commissioner Elad L. Roisman, suggesting that the SEC is stepping back from its proposal to require proxy advisers to submit their analyses and recommendations to issuers twice before submitting them to their paying investor clients. However, the complex structures for proxy voting would make it difficult for the SEC to impose rules forcing investors to delay voting their shares until at least two days after the proxy advisers issued their reports, as proposed. We anticipate that a final rule is likely in June.

Our position: CFA Institute continues to encourage important changes to the original proposal and supports several of the suggested refinements being discussed in recent SEC speeches and media reports. We recognize the importance of further productive dialogue between the SEC and the public on the balance, roles, and responsibilities of all players in the proxy-voting process. These matters are essential to a properly functioning corporate governance system.

CFA INSTITUTE MEMBER SURVEY PREDICTS SLOW RECOVERY

On 18 May, CFA Institute released initial results of a survey of its global membership to analyze the effects of the current economic crisis caused by the coronavirus pandemic. The survey found that, in general, CFA Institute members share a rather conservative view of the potential recovery. Close to 80% of respondents think any recovery will be slow or stagnant in the short term before picking up eventually in the medium term, and a plurality forecast a "hockey-stick-shaped" recovery. A full membership survey will be released at a later date.

ADVOCACY IN ACTION

MEDIA ATTENTION

New York Times, *Morningstar*, *Yahoo! Finance* (19 May) covered the CFA Institute survey report, which shows members predict a slow "hockey-stick-shaped" recovery.

Financial Times (11 May) covered a CFA Institute report on the progress of ESG in Asian countries.

Financial Investigator (NLD) (8 May) CFA Institute Capital Markets Policy Director Sviatoslav Rostov discussed a recent CFA Institute report on the advantages and disadvantages of investing in private markets by European defined contribution (DC) schemes.

Funds People (8 May) Kazim Razvi, director of Financial Reporting Policy at CFA Institute, wrote that accounting regulators should avoid artificially deflating valuation bubbles.

Barron's (7 May) Jim Allen, head of Capital Markets Policy for the Americas at CFA Institute, discussed whether exchange-traded funds (ETFs) are driving market volatility.

BloombergBNA (7 May) cited CFA Institute on a report about the coronavirus pandemic triggering companies to mark down the value of goodwill.

CFO (5 May) Sandy Peters, head of Financial Reporting Policy at CFA Institute, wrote about the need to reset the SEC proposal on management discussion and analysis (MD&A) disclosures.

Business Times (SGP) (2 May) Sara Cheng, senior director of Capital Markets Policy and Strategy at CFA Institute, APAC, discussed the need to rebuild trust in the financial services industry

Wall Street Journal (1 May, 22 April) quoted CFA Institute Head of Financial Reporting Policy Sandy Peters on goodwill reporting amid COVID-19.

PoliticoPro (29 April) quoted CFA Institute Policy Director Kurt Schacht on eliminating "pre-clearance" of advisory firm recommendations.

BloombergTax (30 April) reported on a CFA Institute letter that opposes the SEC proposal to eliminate some financial disclosures from company reporting.

EJ Insight (HKG) (29 April) Mary Leung, head of Advocacy at CFA Institute, APAC, advocated against the new proposal from the Stock Exchange of Hong Kong Limited (HKEX) to permit corporations to hold weighted voting rights (WVR) shares

Bloomberg, *Financial Advisor*, *Investing* (UK), *Yahoo! Finance*, *MSN* (28 April) covered Systemic Risk Council Chair Paul Tucker's criticisms of the Fed's pledge to buy risky debt.

AccountingToday (27 April) quoted CFA Institute Head of Financial Reporting Policy Sandy Peters on the SEC's COVID-19 response: "I actually think that the SEC has done a pretty good job of telling companies what investors want and with the delay they gave companies."

Outlook Money (IND) (24 April) Sivananth Ramachandran, director of Capital Markets Policy at CFA Institute, India, discussed the measures that need to be taken by G–20 central banks and governments during the COVID crisis

IgnitesAsia, *Hong Kong Economic Journal* (24 April), *Hong Kong Economic Times* (23 April) reported that in a new report, *Sales Inducements in Asia Pacific*, CFA Institute calls for further action on fund sales inducements in the Asia Pacific region.

PoliticoEurope, *Financial Post* (CAN) (24 April) covered a CFA Institute report on pensions to come under strain because of COVID-19 relief efforts.

CFO (23 April) CFA Institute Head of Financial Reporting Policy Sandy Peters discussed the importance of US quarterly reporting amid the COVID-19 crisis.

Wall Street Journal (22 April) quoted Sandy Peters, head of Financial Reporting Policy at CFA Institute, on how coronavirus is complicating goodwill impairment tests.

Financial Investigator (NLD) (20 April) covered the CFA Institute report, *Capital Formation 2: Investing Pension Contributions in Private Markets Responsibly,* which identified risks when pensions invest in private markets.

MARKET INTEGRITY & TRANSPARENCY

REGULATION BEST INTEREST ON THE LAUNCH PAD

New rule coming soon: The jumping off point for the much-debated Regulation Best Interest (Reg BI) is upon us. The official start date of the SEC's new rules for broker/dealers (BDs) and their representatives is 30 June. The rule will require firms to mitigate or eliminate conflicts and provide information on the customer relationship, including disclosures of fees and charges. It remains to be seen whether and to what extent broker sales practices actually do change.

Anticipated changes: We should anticipate several important changes in broker operations, including the following:

- **Detailed recordkeeping, policies, and procedures:** Broker firms will now have to better document and detail their client interactions, delivery of the Reg BI disclosure documents, and point-of-sale representations.
- **Changing compensation policies:** In a world of no-commission, no-fee products, BDs have turned to payments for product distribution and are helping product sponsors scale up their assets under management (AUM). Others have moved their focus to become investment advisers, where they can earn fees based on AUM.
- **Spring-cleaning product platforms:** As no-commission, no-fee offerings become ubiquitous, platforms are eliminating high-cost share classes, fund families, and redundant products that do not serve investor interests.
- **New disclosure policies:** A concerning area in the proposal is whether the new regulatory regime and added disclosures will have any impact on investor literacy and behavior. Of particular note, the SEC adopted requirements for BDs and others that do business with retail investors to file a new Form CRS (customer relationship summary). CFA Institute urged the SEC to have the form state explicitly that brokers are sales agents and represent the interests of their firms, not the retail customer. The current Form CRS fails to do so, however, which is a missed opportunity to improve investor literacy and transparency.

Our position: While the Reg BI falls short in many ways for overall investor protection, the following positive aspects are worth noting:

- **More information:** Form CRS and the Reg BI disclosure document will offer customers more information, although they could have been more clear, transparent, and user-friendly for investors.
- **Spring cleaning:** Again, Reg BI has forced firms to clean out the "product refrigerator," eliminating many dated, unnecessary, and high-cost products.
- **Mitigating or eliminating conflicts of interest:** The rules will prohibit sales contests and require firms to eliminate or mitigate other conflicts of interest. Time will tell whether, and to what extent, brokers really do so.

More to come: Proponents argue that Reg BI is an improvement over what came before. The answer to whether that is the case may lie as much with the SEC as with BDs and their customers. Just how vigorously the SEC enforces Reg BI may determine its ultimate value. Stay tuned as we carefully watch this unfold. For more on CFA Institute views on Reg BI, see our comprehensive comment letter.

GLOBAL EVENTS & ACTIVITIES

SYSTEMIC RISK AND THE FISCAL RESPONSE TO COVID-19

Influential webinar: On 20 May, the Systemic Risk Council (SRC) hosted a webcast, *Systemic Risks and the Fiscal Response to COVID-19*. Key members of the SRC presented views on the economic impacts of the COVID-19 pandemic and the challenges it will continue to present to monetary and fiscal policy. Sheila Bair who served as founding SRC chairperson and chair of the FDIC during the great financial crisis talked about systemic challenges then and now. Our newest SRC member Jeremy Stein joined the discussion in his role as chair of the Department of Economics at Harvard University and a former member of the Board of Governors of the Federal Reserve System. Both acknowledged that our economic system is in an extraordinarily challenging moment given the unprecedented economic shutdown and resulting fiscal and monetary responses to maintain system liquidity and solvency. Traditional worries about deficit spending and debt levels must make way for the immediate needs of citizens and system liquidity.

More information: You can view the full event here: *Systemic Risks and the Fiscal Response to COVID-19*. Find more on the SRC at www.systemicriskcouncil.org, including its recent commentary on the COVID-19 crisis. CFA Institute is a founder and sponsor of the SRC.

INVESTOR PROTECTION

CFA INSTITUTE COMMENTS ON SEC'S NAMES RULE PROPOSAL

Old rule, new concerns: CFA Institute issued comments on the SEC recent Names Rule framework to address names of registered investment companies and business development companies that are likely to mislead investors about a fund's investments and risks. This rule was first proposed in February 1997 and was adopted in January 2001, but it has not changed since that time. Recently, concerns have emerged that environmental, social, and governance (ESG) and other sustainable investment products are hard to classify and may be misleading to investors.

Our position: Given our recent studies and expertise on ESG integration, CFA Institute recognizes that confusion around the terms "ESG" and "sustainability" warrants action to protect investors. We believe the best solution to the problem is a standard that enables transparency and comparability through disclosures, classification, standard terminology, and verification. We believe such a standard would reduce the amount of greenwashing that funds would be able to engage in, because they would have to disclose and explain with more granularity their reasoning behind calling a fund an ESG or a sustainable fund.

CFA INSTITUTE RELEASES INVESTOR TRUST STUDY

New study: CFA Institute recently released the results of the fourth edition of its investor trust study *Earning Investors' Trust*, conducted in October and November 2019. This global survey highlights three key themes—information, innovation, and influence—that contribute to investor trust. For financial professionals, practices that can influence trust include a strong performance track record, professional credentials, adoption of industry codes, demonstration of ongoing professional learning, and a strong brand. CFA Institute hosted a webinar on 6 May to discuss the report findings, highlighting the value of trust, particularly in turbulent times. A podcast on 4 March also shared information and findings from CFA Institute Investor Trust Study 2020.

KEY GLOBAL EVENTS & ACTIVITIES

COVID-19 AND CORPORATE REPORTING

Unprecedented time: The COVID-19 pandemic and the ensuing economic crisis have caused significant challenges for corporate reporting as investors crave information for investment decision making and companies grapple with how to navigate these waters. US public companies, in particular, have faced unique reporting challenges because of quarterly reporting requirements and the timing of the pandemic, which straddles reporting cycles. The SEC has made excellent efforts through several releases in April to advise companies of the information needs of investors. In an unprecedented move, the SEC went so far as to indicate these information needs extend beyond those of investors to also include public policy makers.

Our position: CFA Institute has been focused on issues related to COVID-19 and its effects on the information investors will receive in the first and second quarters, or first-half reports. Much will need to be considered before the 30 June reporting period when investors will get their first real glimpse of the pandemic's consequences. The mission of CFA Institute stems from the US Securities Acts and the ability to access publicly available financial information for fundamental analysis and active management. Corporate reporting is integral to our advocacy efforts.

CFA Institute efforts: To guide investors during this challenging time, CFA Institute has issued several communication efforts and responses, including the following:

- **Informative blogs:** Our new blog series, *First Quarter 2020 Amid COVID-19,* provides investors with guidance on crucial topics, including timely reporting and looking ahead to the second quarter, comparisons with European reporting models, non-GAAP measures, and big banks reporting using the new Current Expected Credit Losses impairment model. Other key blogs on important COVID-19–related issues, include "COVID-19 May Permanently Quarantine Inflexible Leases" and "Like Financial Reporting, COVID-19 Needs Structured Data."
- **Regulatory interactions:** In late March, CFA Institute worked with the Financial Reporting Council's Financial Reporting Lab in the United Kingdom to orchestrate a special Corporate Disclosure Policy Council meeting focused on COVID-19 efforts. In addition, CFA Institute, led by Sandy Peters, head of Financial Reporting Policy, shared our views on corporate reporting with the SEC Investor Advisory Council at its 4 May committee meeting, addressing quarterly reporting, earnings calls, non-GAAP measures, impairments, management discussion and analysis (MD&A), and more.
- **Comment letter to the International Accounting Standards Board (IASB):** CFA Institute issued a response to the IASB's exposure draft on the Financial Accounting Standards Board's (FASB) easing of accounting rules for rent concessions resulting from the pandemic, which will have a significant impact on second-quarter (and beyond) results. Although we agreed with the relief proposed, we highlighted the significant impact it would have on comparability of financial statements and the importance of disclosures and clarity.

Media coverage: CFA Institute corporate reporting efforts have been widely covered in the industry, including in the *Wall Street Journal*, *Bloomberg*, *Accounting Today*, and *CFO*.

Looking ahead: Second-quarter and first-half reports will pose distinct challenges as investors get a first glimpse of the actual effects of the pandemic. CFA Institute will provide insight and guidance for review of the 30 June financials. Stay tuned.

KEY GLOBAL EVENTS & ACTIVITIES

WEIGHING IN ON SEC DISCLOSURES ON MD&A

New comment letter: In April, CFA Institute, in coordination with the Council of Institutional Investors (CII), issued a comment letter on the SEC's Proposed Rule to Amend Management's Discussion and Analysis (MD&A), Selected Financial Data and Supplementary Financial Information. This proposal intends to eliminate duplicative disclosures and enhance MD&A disclosures, while simplifying compliance efforts for registrants. The removal of such information, however, will result in a significant void for investors. Key items, such as contractual obligations, are being removed at a time when economic turmoil makes this information more valuable than ever.

Our position: In light of the COVID-19 pandemic, now is not the time to eliminate important investor information, including the contractual obligations table. Rather, information and registrant filings should be improved with more analysis and explanations. We encourage the SEC to consider how such changes would disadvantage investors in times of market stress, such as we are experiencing with the COVID-19 pandemic.

Media coverage: Our efforts were covered in the industry media, including *Bloomberg* and *CFO*.

GLOBAL EVENTS & ACTIVITIES

KEY ENGAGEMENTS

In Focus: 2020 GAAP and SEC Reporting Taxonomy Improvements and SEC Update Webinar (2 April): Sandra Peters, head of Financial Reporting Policy at CFA Institute, participated in a Financial Accounting Standards Board (FASB) webcast, which included speakers from the SEC and FASB.

***Sales Inducements in Asia Pacific* Launch** (22–24 April): CFA Institute launched its report*, Sales Inducements in Asia Pacific*, with an online event and a series of interviews, led by Mary Leung, CFA, head of Advocacy for Asia Pacific, and Sara Cheng, senior director of Capital Markets Policy and Strategy for Asia Pacific. On 24 April, Leung and Cheng conducted a webinar to present the findings of the report to a wider audience of financial practitioners in the region. The event attracted more than 100 participants.

CFA Institute Webinar (24 April): Mohini Singh, director of Financial Reporting Policy at CFA Institute, hosted a webinar, *Data Analytics to Set Policy, Evaluate Investments, and More*, focusing on how access to better data, such as structured, machine-readable (XBRL) data, is generating new ideas and enabling better decisions for investors, standard setters, government policy makers, and corporations.

CFA Institute and Federation of European Securities Exchanges (FESE) Webinar on Investor Protection (28 April): Josina Kamerling, head of Regulatory Outreach, Europe, Middle East, and Africa (EMEA), and Bob Stammers, director of Investor Engagement at CFA Institute, spoke at the CFA Institute and FESE webinar on investor protection. This educational seminar focused on the importance of ensuring investor protection during the crisis for European Parliament members and staff, other policy makers in Brussels, representatives from industry, and other European organizations.

CFA Institute Brussels Media Academy (5 May): Josina Kamerling, head of Regulatory Outreach, EMEA, participated in a virtual roundtable with financial journalists covering financial market developments in the EU. Kamerling provided an analysis of the current crisis and its implications for investors. She gave a presentation on the EU's response to the coronavirus crisis and the role that the industry should play in the reconstruction of the EU economy after the pandemic.