



GLOBAL ADVOCACY NEWS AND UPDATE

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FOR COMMENTS OR QUESTIONS, PLEASE CONTACT

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In this issue, you will find an array of key activities and projects that the CFA Institute Advocacy group has been focused on. We are making our opinions known on important regulatory proposals around the world, including our strong opposition to the SEC's recent proposed rules on proxy advisers, and our support of ESMA's consultation on performance fees. To promote transparency and credibility for investors, we also stand behind IASB'S IFRS 17 Insurance Contract standard and UK audit reform. Our prominent meetings and events also cross the globe, including influential APAC activities and the annual Capital Markets Policy Council (CMPC) gathering in Brussels. As we look ahead to fiscal year 2020 priorities, we provide six of our central research projects that we'll focus on across sectors. As always, we provide highlights of our media coverage to show our authority and influence on key advocacy issues. Enjoy the holiday season!

—Kurt Schacht, CFA, Managing Director of Advocacy

INVESTOR PROTECTION

OPPOSING SEC PROXY ADVISER PROPOSALS

Hindering analyst independence: CFA Institute is strongly opposed to the SEC's recent proposed rules, *Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice*, which would undermine analyst independence. Though its stated aim is to enhance the accuracy and transparency of the information that proxy voting advice businesses provide to investors, we see significant risk to markets and shareholder governance. Specifically, the proposals would require proxy advisers to share their research and proxy-vote recommendations with target companies prior to sharing them with clients. This process of preclearing opinions and analysis would be in violation of two-decade-long professional standards of analyst independence. The new proposal would also force proxy analysts to include in their reports a target company's rebuttal to any negative vote recommendations. Honest and unrestricted recommendations from expert proxy analysts have become essential to a balanced corporate governance system.

Our position: CFA Institute and our members support the integrity and independence of financial analyses, opinions, and recommendations. We reject any effort to hinder proxy analysts and their research, or attempts by company executives to silence proxy dissenters.

Questions and delays: We are asking for an extension of the comment period to 120 days. We also noted the questionable letters that the SEC was apparently relying on, and that SEC Chairman Clayton referred to in a commission meeting. As reported in [Bloomberg](#), the letters from "average Americans" in support of their proxy adviser proposal appear to have been fabricated.

ADVOCACY IN ACTION

MEDIA ATTENTION

NASDAQ (13 November): CFA Institute Head of Capital Markets Jim Allen discussed how MiFID II is affecting US capital markets. According to Allen, MiFID II has put “US firms in a bind because it directly conflicted with the Investment Advisers Act” and puts “the availability of investment research at risk.”

IFA Magazine (12 November) cited a CFA Institute study reporting on the unintended consequences of MiFID II on how market participants interact, causing a drop in asset manager research budgets.

Wealth Professional (CAN) (11 November) cited a CFA Institute joint study with PRI on ESG factors affecting both long-term and short-term investors and quoted Matt Orsagh, Director of Capital Markets Policy at CFA Institute. He noted “how short-term returns were said to be driven more by factors such as supply and demand, sentiment, financial news, and quarterly results.”

Business Insider (8 November) mentioned CFA Institute as group shedding more light on hedge-fund transparency with codified performance-reporting standards.

Business Times (SGP) (8 November): Matt Orsagh, Director of Capital Markets Policy at CFA Institute, discussed four areas of misunderstanding surrounding ESG integration.

Wall Street Journal (7 November) reported on the decision of when to report financial results, quoting Sandy Peters, Head of Financial Reporting Policy at CFA Institute: “Investors are paying close attention to when companies release earnings.” Peters noted, “That’s something that CFOs and heads of investor relations should factor into their thought process.”

Bloomberg Law (4 November) cited a CFA Institute joint study with PRI on ESG disclosures.

Chief Investment Officer (4 November): Matt Orsagh, Director of Capital Markets Policy at CFA Institute, discussed ESG integration in the Middle East, including a case study and critical analysis of key elements.

Business Ethics (4 November): Matt Orsagh, Director of Capital Markets Policy at CFA Institute, discussed how to integrate ESG factors into sovereign debt analysis. Orsagh wrote, “The current low adoption of ESG integration by sovereign-debt practitioners is due in part to the lack of understanding of how to integrate ESG issues into sovereign debt issues.”

PRI: Principles for Responsible Investment (31 October) reported that PRI and CFA Institute have published four papers to help investors better integrate ESG data into the investment process.

PRI: Principles for Responsible Investment (23 October): Matthew Orsagh, Director of Capital Markets at CFA Institute, wrote about the four areas of misunderstanding surrounding ESG integration.

Irish Times (22 October) quoted CFA Institute Managing Director of Advocacy Kurt Schacht on dual-class shares. Schacht described dual-class shares as “horrible for long-term accountability.”

Markets Media (22 October) quoted CFA Institute Director of Industry Research Larry Cao and a CFA Institute report on the surge of AI and big data usage in finance.

Le Temps (21 October): Sviatoslav Rosov, Head of Capital Markets Policy at CFA Institute, wrote about the future of AI in the finance industry.

ADVOCACY PRIORITIES

GLOBAL MEETING SHEDS LIGHT ON TIMELY FINANCIAL MARKET ISSUES

2019 Global Capital Markets Policy Council (CMPC) Brussels Meeting: On 8–9 November, the 2019 meeting of the 12-member global CMPC welcomed European Commission (EC) staff to discuss two of the most globally consequential financial market issues of current times, the Markets in Financial Instruments Directive II (MiFID II) and Brexit.

MiFID II: Given the unintended problems this new rule has caused surrounding unbundling research, the EC staff remains open to modifications to MiFID II. However, they need more concrete data to better understand the current issues. CFA Institute has conducted research analyzing MiFID II effects across Europe—and on concerns in the US market. Our report found that investment managers' interest in paying for such research is declining as global firms seek to adhere to European rules against buying research with soft commissions. However, new conflicting research out of Scandinavia has emerged as well, leaving open questions on MiFID effects.

Brexit: The EC staff also provided insight on how global markets are preparing for the departure of the United Kingdom from the European Union. While the details are still unknown, one silver lining seems to be the preparation and cooperation among prudential and market regulators in both the EU and the UK. On a more negative note, it also seems that employment in the industry is likely to migrate away from centralized hubs in London and into decentralized offices in regional and national capitals around Europe.

Looking ahead: To provide direction and set priorities for the coming year, the council reviewed and approved CFA Institute capital markets policy thought-leadership proposals recommended via the Advocacy Litmus Test meeting on 27 October. (See page 5–6 for more on these projects.)

MARKET INTEGRITY & TRANSPARENCY

PROMOTING CLARITY ON PERFORMANCE FEES

Response to ESMA consultation: On 31 October, [CFA Institute responded](#) to the European Securities and Markets Authority (ESMA) [public consultation](#) on Performance Fees in UCITS (Undertakings for the Collective Investment in Transferable Securities), the regulatory framework that allows for the sale of cross-Europe mutual funds. The consultation refers to the latest draft guidelines aiming to harmonize how performance fees can be charged to the UCITS and its investors, while ensuring common standards of disclosure across EU member states.

Our position: CFA Institute supports performance and costs presentation, clarity, and transparency as part of our mission of promoting investor protection and market integrity. We advocate for full disclosure and fair representation of costs and charges, as well as any information showing such expenses to be fair and reasonable. CFA Institute supports the use of performance fees structures that clearly and completely disclose all fees and costs charged to investors—and opposes structures leading to unfair and unreasonable expenses to clients.



GLOBAL EVENTS & ACTIVITIES

PROMINENT ACTIVITIES IN APAC



Margaret Franklin, CEO and President of CFA Institute

New CFA Institute CEO Visits APAC: On 12 November, the APAC Advocacy team introduced Margaret Franklin, CFA, the newly appointed CEO and President of CFA Institute, to the leadership at the Securities and Futures Commission (SFC) in Hong Kong SAR. The group—including Ms. Franklin; Paul Smith, Adviser at CFA Institute (former President and CEO); Nick Pollard, Managing Director, APAC; Mary Leung, Head of Advocacy, APAC; and Sara Cheng, Senior Director, Capital Markets Policy and Strategy, APAC at CFA Institute—exchanged views with the SFC on the current market and regulatory environment, including climate change and ESG, crypto-assets, as well as Hong Kong's wealth management aspirations in the Greater Bay area. SFC expressed interest in the work that CFA Institute has done in ESG and in our proposed ESG industry standard group. The group also met with the senior members of the Intermediaries Supervision Group at the SFC to present the key findings of our upcoming sales inducements report.

An important seat at the table in India: Vidhu Shekhar, CFA, Country Head of CFA Institute in India, has been invited to sit on the Primary Markets Advisory Committee (PMAC) of SEBI, the Indian securities regulator. PMAC advises SEBI on issues related to regulation and development of primary markets, and on matters related to investor protection in the primary market. As one of the first foreign institutes to garner this prestigious distinction, CFA Institute is forging a strong relationship with SEBI. Our relationship has already sparked some investor protection measures from SEBI surrounding dual-class shares based on our recommendations, including the five-year sunset requirement.

MARKET INTEGRITY & TRANSPARENCY

NO DELAY ON IASB'S INSURANCE CONTRACT STANDARD

Forge ahead with IFRS 17: CFA Institute issued a [letter](#) to the International Accounting Standards Board (IASB) on their recent consultation regarding an implementation delay and several technical issues surrounding [IFRS 17 Insurance Contracts](#), which aims to deliver greater comparability and transparency in insurers' financial statements. In our letter, we emphasize that there should be no further delay in enacting this standard that will bring a new level of clarity and comparability to the market. Any adjusting of technical points within the proposal can be handled and revised in a post-implementation review. Further delays to the proposed 1 January 2022 effective date will be costly and unhelpful for capital markets.

Our position: CFA Institute firmly supports the principles underpinning IFRS 17, including the timely identification and recognition of onerous losses, which provide insights to underwriting standards, improve market condition disclosures, and enhance visibility around future volatility in profit and loss accounts. As part of our mission, we strongly advocate for improving transparency for investors.

GLOBAL EVENTS & ACTIVITIES

SURVEY OF INVESTOR VIEWS ON AUDITOR RESPONSIBILITIES

IFIAR survey: CFA Institute is helping promote a [survey](#) fielded by a working group that we serve on, the [International Forum of Independent Audit Regulators \(IFIAR\)](#). The group is gathering information on investors' views regarding auditor responsibilities related to financial reporting fraud and a company's possible illegal acts. The goal of this effort is to better understand investors' views regarding current auditor practices and auditor responsibilities related to the detection of financial reporting fraud and a company's possible illegal acts, what their concerns are, and where they seek improvement. Results from the survey may feed into IFIAR's periodic dialogues with the six largest audit firm networks and with international standard-setting bodies.

MARKET INTEGRITY & TRANSPARENCY

SUPPORTING UK AUDIT REFORM

Improving audit integrity: CFA Institute and the Council of Institutional Investors (CII) sent a [letter](#) to the UK Bureau of Energy and Industrial Strategy (BEIS) requesting that audits of internal controls over financial reporting (ICFR) be part of the reform of audits of UK companies. Similar to requirements in the United States under the Sarbanes-Oxley Act of 2002 aimed at improving the integrity of financial reporting and the related auditing process, we are in support of strengthening the framework for internal control in the UK.

Our position: We support internal control certification and audits because they provide a higher degree of assurance and accountability, which is an important driver of confidence in the integrity of financial statements and in the fairness of our capital markets. We also believe a stronger, more independent, and communicative audit regulator is an essential first step in improving audit quality.

ADVOCACY PRIORITIES

FY20 POLICY ADVOCACY RESEARCH PROJECTS

CFA Institute advocacy group has honed in on key research priorities for the 2020 fiscal year. These were all litmus-test approved by internal consideration and will help guide and inform our advocacy efforts for the coming year.

1) Critical Audit Matters: How Will Hard-Fought Improvement to the Auditor's Report Playout? US versus UK

A new audit reporting standard was approved by the SEC in October 2017, which included changes to the audit report in two categories: (1) form and scope of audit report, and (2) critical audit matters (CAMs). Auditors have given significant attention to the issue of CAMs, and there is significant appetite for investor perspectives on the new disclosures. This project would take place in three stages: (1) white paper on initial impressions, (2) analysis of first-year CAMs, and (3) CAMs versus key audit matters (KAMs).

2) Goodwill Hunting: Trickery of Accounting for Goodwill

Goodwill write-downs and failures of high-profile businesses have put this topic in front of the IASB. The problem of amortizing goodwill and/or impairment testing is an intractable issue for standard-setters. Our working thesis is that investors would prefer to retain an impairment-only (with no amortization) model, but they want improved disclosures to ensure better assessment when an impairment is necessary. Our work will either support or refute that working hypothesis.

3) Independent Non-Executive Directors Report Update (APAC)

CFA Institute promotes strong corporate governance and independent boards. In January 2010, CFA Institute issued a position paper, *Independent Non-Executive Directors—A Search for True Independence in Asia*. We will update this report with a comparison of APAC markets and will detail regulations around two main areas of independence: (1) board structure and (2) definitions of non-executive independent directors across geographies.

4) Investor Stewardship Codes in APAC: New Ideas for Change and Approach

Stewardship codes have been put in place by regulators for shareholder participation worldwide. While APAC has been proactive in the adoption of stewardship codes, their effectiveness is debatable. Our study will survey members on their awareness and use of local stewardship codes. By providing details on experiences and lessons in APAC, this report will provide recommendations to regulators in the region who are looking to reform current codes or enact new ones.

5) Investment Products Transparency: Where Fees and Costs Approach Zero - How Does this Effect Investors?

This research will consider the costs and benefits of zero-commission pricing for securities trades, and will assess the differences between zero-cost commissions and regulatory bans on commission inducements. The goals are: (1) to show investors and advisers how they are paying for transactions in a zero-commission environment, (2) to project how brokers might try to recover revenue losses resulting from zero commissions, and (3) to provide comparisons between the advantages and disadvantages of the market-driven elimination of trade commissions versus those of regulator-mandated bans.

6) Stress Testing for Non-Bank Macro Prudential Regulators

ESMA is currently working on a framework for EMEA stress simulations for the Undertaking for Collective Investment in Transferable Securities (UCITS) and alternative investment funds (AIF). The European Commission is in the process of aligning the coming Alternative Investment Fund Managers Directive (AIFMD) review with FSB/IOSCO work-streams on financial stability in the non-bank sector. “Shadow banking” will continue to be a key agenda item for the European Commission. We propose a project focused on the issue of stress-testing frameworks for investment funds; the report would be integrated into the Society 2.0 strategic plan.

GLOBAL EVENTS & ACTIVITIES

UNITED STATES:



***XBRL US 2019 Investor Forum: Driving Actionable Analytics*, New York, 4 November:** The event was co-sponsored by CFA Institute and CFA Society New York. This half-day forum provided practical information about how data standards are disrupting the information ecosystem, how you can leverage it, and where it's headed. Mohini Singh, Director of Financial Reporting Policy at CFA Institute, took part in a panel on “Rethinking Quarterly Financials”.



***What Investors Need to Know about Audits*, CFA Society of NY event, New York, 4 November:** Sandy Peters, Head of Financial Reporting at CFA Institute presented at this timely industry event.

ASIA PACIFIC:

***Australia Investment Conference*, Sydney, Australia, 17 October**

***Ageas Investment Conference*, Manila, Philippines, 22–23 October:** Environment, social, and governance (ESG) issues continued to be a popular topic across APAC. Mary Leung, Head of Advocacy, APAC, at CFA Institute, spoke at these two conferences, presenting the findings of a CFA Institute research report on ESG Integration in AP.

***Securities and Exchange Commission*, Manila, Philippines, 23 October:** Mary Leung presented the findings of CFA Institute research on ESG disclosures to regulators in the Philippines. The session was attended by the Securities and Exchange Commission, the Philippine Stock Exchange, Insurance Commission, and the Treasury Bureau.

***S&P Thought Leadership Seminar*, Hong Kong SAR, 24 October:** Mary Leung moderated a panel on the incorporation of ESG factors into investment portfolios as part of the S&P DJI Thought Leadership Seminar.

***Controversies on Economic Substances of Accounting Goodwill*, Hong Kong SAR, 24 October:** Mary Leung and Eugene Hsiao, Senior Manager, Capital Markets Policy at CFA Institute, participated in a session held by HKSFA on potential changes to goodwill accounting. They presented the position of CFA Institute that investors would be better served by greater financial disclosures in conjunction with regular tests for impairment.