



GLOBAL ADVOCACY NEWS AND UPDATE

NOVEMBER 2020

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As 2020 nears its end and we look ahead to a new year, we are pleased to share a preview of the CFA Institute “2021 Top 10 Advocacy Issues.”

Advocacy is standing up for and speaking out on core principles and beliefs using a consistent, high-quality, and principled voice. In our case, we are trying to influence policy makers, regulators, industry stakeholders, and media on behalf of our global members and charterholders. In this issue, we present summaries of our policy concerns given the recent US elections, important comment letters to the US Securities and Exchange Commission (SEC), and our new global pension index. Our key media coverage and events are also featured. Have a safe and healthy holiday season!

—Kurt N. Schacht, JD, CFA, CFA Institute Policy Director

ADVOCACY PRIORITIES

2021 TOP 10 ADVOCACY ISSUES

Top 10 Advocacy Policy Issues: Each year, CFA Institute establishes its top policy issues affecting investor protection and market integrity for the coming year, developed with extensive input from members and policy volunteers. The list is dynamic and has room for the unexpected and late-breaking developments. Below is a summary of our top issues—and we will feature more detail on each issue in the next Advocacy Update.

1. Investment management professionals – regulation, culture, and professional conduct
2. Investment products and markets – regulation, investor protection, and integrity matters
3. Environmental, social, and corporate governance (ESG) and sustainability – investment manager/corporate reporting responsibilities
4. COVID-19–related anomalies in corporate financial reporting
5. Corporate governance
6. Fintech
7. Systemic risk
8. Investor use of non-GAAP and other alternative performance measures
9. Financial reporting rules for intangibles (e.g., goodwill)
10. Renewed focus on the capital markets union (CMU) in the Eurozone

ADVOCACY IN ACTION

MEDIA ATTENTION

L'Agefi (FRA) (19 November) interviewed CFA Institute Head of Regulatory Outreach Josina Kamerling on the pandemic's impact on small and mid-size enterprises (SMEs).

NASDAQ (18 November): CFA Institute Advocacy Policy Director Kurt Schacht wrote about CFA Institute opposition to DOL's recent proposal on proxy rules.

Intereconomia Radio (ESP) (13 November) interviewed Josina Kamerling, head of regulatory outreach at CFA Institute, EMEA, about the Mercer CFA Institute Global Pension Index report.

Funds People (11 November): Matt Orsagh, senior director, Capital Markets Policy at CFA Institute, wrote on senior executives' trading long-term sustainability for short-term financial gains.

Pensions & Investments (print) (November) cited CFA Institute Capital Markets Policy Director Matt Orsagh on the need for transparency from oil and gas companies and public investors.

The South China Morning Post (HKG) (5 November) and *Yahoo!* (SGP) (4 November) quoted CFA Institute APAC Head of Advocacy Mary Leung on massive inflows into ESG funds.

Bloomberg Tax (3 November) cited CFA Institute Global Financial Reporting Head Sandy Peters on SEC's proposed private equity rule.

New York Times (2 November) quoted CFA Institute CEO Margaret Franklin on new DOL pension fund rule.

Investment & Pensions Europe (2 November) quoted CFA Institute CEO Margaret Franklin on the fragile bond of trust between pension funds, sponsors, and members in the Mercer CFA Institute Global Pension Index report.

Bloomberg Law (30 October) cited CFA Institute Capital Markets Policy Head James Allen on new SEC rule boosting capital-raising limits for private offerings.

Reuters, *U.S. News & World Report*, *MSN Money*, and *NASDAQ* (30 October) quoted CFA Institute CEO Margaret Franklin on the new DOL pension fund rule.

NASDAQ (28 October): CFA Institute Policy Director Kurt Schacht recapped key points from a Systemic Risk Council online discussion.

NASDAQ (28 October) examined some of the main drivers and barriers to ESG investing according to a recent white paper from CFA Institute, "ESG Integration in the Americas: Markets, Practices, and Data."

Apple Daily (HKG) (27 October) reported on "Stewardship 2.0" survey report from CFA Institute and quoted Mary Leung, head of advocacy, APAC, at CFA Institute.

Hong Kong Economic Journal (27 October) reported that institutional investors in the Asia-Pacific region have low awareness of investor responsibility codes according to the "Investor Responsibility 2.0" survey report from CFA Institute.

Funds Society (ESP) (27 October) reported on a recent CFA Institute study and its recommendations for investors and regulators to integrate climate change analysis into all their activity.

WirtschaftsWoche (DEU) (27 October) covered Matt Orsagh, senior director of Capital Markets Policy at CFA Institute, on the importance of knowing a company's carbon footprint.

Public (25 October) covered the CFA Institute survey finding that awareness of stewardship codes among institutional investors in APAC remains low.

Financial Times (20 October) reported that CFA Institute was one of many groups to publicly oppose the SEC's plan to increase the assets-under-management threshold.

MARKET INTEGRITY & TRANSPARENCY

2020 US ELECTION BRINGS NEW COMPLEXITIES TO THE WASHINGTON, DC, POLICY DISCUSSION



Divisions remain: As we await final certification of presidential voting in the United States, a US president will be sworn in on 20 January 2021 with likely a split Congress. The Democratic Party will retain its majority in the House of Representatives, whereas the Senate is expected to remain Republican (pending results of the 5 January Senate runoff elections in the state of Georgia.) It is too early to forecast whether, in a divided government scenario, a new bipartisan deal-making era will emerge. What is undeniable is that the 2020 presidential and congressional elections will shape both the policy and regulatory dynamics relating to the financial services industry.

Top investment themes: Looking ahead, the CFA Institute advocacy team sees the policy discussion centering around the following investment management themes, which track closely with the annual CFA Institute “2021 Advocacy Principles and Top 10 Issues” (see page 1 article).

- **COVID-19 economic recovery and systemic risk:** The overriding policy discussion remains focused on COVID-19 economic impacts and the challenges of sustaining global economies. The coronavirus-induced economic crisis continues to dominate debates about financial system vulnerabilities, bank resiliency, exploding deficits, and the importance of global cooperation.
- **Investment professionalism and the fiduciary standard:** The mis-selling of financial products and services remains an escalating global concern as more retail investors and retirement savers enter the market. In the United States, there is a heightened focus on the SEC’s Reg BI implementation and enforcement with a potential revamp of Form CRS. Similarly, the recent rollback of the DOL’s investment advice rule and ERISA fiduciary rules are key priorities for this coming year.
- **ESG investing and corporate governance:** Emphasis is growing on corporate sustainability reporting and standardization of global ESG reporting frameworks for regulated investment managers. We anticipate a revisit of the SEC’s final rules on shareholder proposals and proxy advisors as well as on the DOL’s final rules on ESG investing and proxy voting.
- **Private versus public markets:** We expect a continued examination of various aspects of capital formation in global markets, specifically the volume and quality of IPOs and a heightened debate around the proper balance between private and public markets. There may be a revisit of the SEC’s final rule on the exemptive framework of securities from typical registration and disclosure requirements designed to protect retail investors.
- **Retirement security and savings:** A looming retirement crisis has gained the attention of politicians and regulators globally. An entire generation faces serious shortfalls in adequate saving and resources to retire, even at modest levels. Attempts to address retirement insecurity has leaders looking at savings rates, incentives, tax reforms, and other ways of helping fund the retirement needs of a vast, growing gap caused by income disparities. Government costs and plans to help plug this gap are coinciding with funding for COVID-19-related stimulus, creating a challenging, uphill battle on this issue.

MARKET INTEGRITY & TRANSPARENCY

URGING SEC ON DISCLOSURE OF TRADING AND RESEARCH COSTS

Criticizing SEC disclosure proposal: CFA Institute, the Council of Institutional Investors (CII), and the Healthy Markets Association jointly issued a [comment letter](#) offering improvements to the SEC’s recent proposal to reform the disclosure obligations for investment funds. The SEC’s [Fund Disclosure Proposal](#) would dramatically revise the disclosure information and timing requirements of open-end funds provided to investors. In June 2019, another joint letter was sent to the SEC urging disclosures related to trading and research costs; however, these reforms were not adopted as part of this proposal. This failure has kept investors in the dark about how much they are paying for trading or research, and whether the research actually benefits them.

Our position: Transparency related to transaction and research costs as well as related best execution policies, would provide investors with essential details to better protect themselves, including by permitting them to better evaluate and compare funds’ trading and research payment practices.

Recommendations: The three groups urge the SEC to require fund prospectus disclosures, including the following: best execution policies, detailed total trading costs, amounts paid for research from client assets (separate from trading costs), and whether the fund has policies and procedures designed to ensure that all commission dollars generated by the fund benefit the asset owners in the fund.

GLOBAL EVENTS & ACTIVITIES

MERCER CFA INSTITUTE GLOBAL PENSION 2020 INDEX PUBLISHED WITH WIDESPREAD MEDIA COVERAGE

2020 release: Published on 20 October, the [Mercer CFA Institute Global Pension Index](#) ranks the best (and worst) pension systems in 2020. The index measures adequacy, sustainability, and integrity of 39 retirement systems around the world using more than 50 indicators. Globally, pension systems have faced significant pressures in 2020, including the widespread economic impact due to COVID-19 with immediate and long-term implications for retirees.

Global challenge: “Even prior to the pandemic, many public and private pension systems around the world have been under increasing pressure to maintain benefits; aging demographics and the low-growth/low-interest rate economic environment have reduced the ability for some retirement schemes to fund future liabilities,” said Margaret Franklin, president and CEO of CFA Institute. “The Mercer CFA Institute index provides a global overview of how different jurisdictions are responding to those challenges and a guide to differentiate what is possible and practical in each market,” said Franklin.



Media pick-up: The 2020 index has received significant and widespread coverage across the global media landscape, including [Bloomberg](#), [Financial Times](#), [AsianInvestor](#), [Jerusalem Post \(ISR\)](#), [Telegraph \(UK\)](#), [Irish Times](#), [Investment Executive \(CAN\)](#), [Hong Kong Economic Times](#), [Chief Investment Officer](#), [MSN \(PHL\)](#), and [Nikkei Asian Review \(JPN\)](#).

INVESTOR PROTECTION

OPPOSITION TO SEC'S EXEMPTION PROPOSAL FOR FINDERS



12 November response: CFA Institute [issued strong opposition](#) to the SEC's [recent proposal](#) to exempt finders, who are financial intermediaries who facilitate investment for small businesses, from the requirement to register as brokers and be subject to broker rules.

Our position: We believe the SEC proposal applies an overly broad exemption that would remove essential elements of investor protection and transparency from the solicitation activities of finders. The proposal places excessive weight on the goal of facilitating transactions in private markets, and does so at the expense of investor protection and market transparency.

Dark side: Unfortunately, there is a dark side to the world of finders, including fraudsters, market manipulators, and bad actors, which makes the need for strong investor protections all the more important. The proposed exemption not only fails to address these problematic practices but also would likely exacerbate them.

Screening and rules: Registration for brokers serves as a critical screening function and invokes a comprehensive set of broker rules and regulations governing recordkeeping, sales practices, and other aspects of broker conduct. Exemption from broker regulation would place finders in the regulatory shadows, outside the set of broker rules and the watch of SEC and Financial Industry Regulatory Authority compliance exams.

Recommendation: As an alternative, we suggest that the SEC work with state regulators and others to design a streamlined but appropriate set of rules for finders.

GLOBAL EVENTS & ACTIVITIES

ARX PROMOTES SOCIETY COLLABORATION AND INVESTOR EDUCATION

Research hub: The [Asia-Pacific Research Exchange \(ARX\)](#) is a collaborative effort of the CFA Institute Asia-Pacific advocacy team and CFA Societies that brings together finance and investment management industry stakeholders to share, learn, and engage on industry topics and trends specific to the Asia-Pacific region. Since 2016, the online platform has enabled professionals and academics in the region to share their research with CFA® charterholders and finance professionals. The ARX fosters collaboration with CFA Societies by co-organizing educational seminars and webinars on a broad range of topics, often leveraging the research published on the online platform.

Webinars: The ARX recently launched two webinar series focused on key growing areas of interest:

- **Islamic finance:** On 27 August, the first webinar, "[Fundamental Principles of Islamic Finance](#)," organized in collaboration with CFA Society Bangladesh, CFA Society Indonesia, CFA Society Malaysia, and CFA Society Pakistan, offered an overview of the basic features of Islamic finance and the market landscape. A second webinar presented on 21 October, "[Innovation in Islamic Banking](#)," focused on Islamic financial institutions and how they navigate additional compliance requirements stemming from Shariah law, yet manage to compete with conventional institutions.
- **ESG in credit:** On 4 August, the "[ESG in Fixed Income](#)" webinar, organized in collaboration with Fitch Ratings, covered the effect of ESG factors on credit risk and credit ratings. The second webinar in the series, "[ESG Integration in Fixed Income in Practice](#)," held on 17 November, looked at real-life examples of ESG integration in fixed-income analysis, including evaluation methods, performance measurement, and reporting practices.

GLOBAL EVENTS & ACTIVITIES

KEY ENGAGEMENTS

ESG Investing in India (14 October): Sivananth Ramachandran, director of capital market policy for India, CFA Institute, was a panelist in the discussion “Importance of ESG investing in India” held during *Innowave 2020 – An ETF Conclave*, organized by Mirae Asset Mutual Fund. Topics discussed included the current state of sustainable investing globally, the emerging research on ESG investing, and the role played by ESG data providers as well as what aspects users of the data need to keep in mind. Ramachandran emphasized the CFA Institute *ESG Disclosure Standards for Investment Products initiative*, which aims to develop a set of voluntary global standards for investment managers to communicate the ESG-related features of their products.

Regulatory Engagement and Investor Education (October): Mary Leung, head of advocacy, APAC, at CFA Institute, participated in a meeting of the Financial Education Coordination Committee (FECC) of the Investor and Financial Education Council (IFEC), with an aim to improve financial literacy in Hong Kong SAR and share ideas about financial education. FECC members include governmental organizations, regulators, financial institutions, industry associations, professional bodies, and nongovernmental organizations.

International Valuation Standards Council (IVSC) webinar on Accounting for Internally Generated Intangibles (8 October): Kazim Razvi, director of Financial Reporting Policy at CFA Institute, participated in the IVSC webinar, discussing the importance of internally generated assets in determining company value. The COVID-19 crisis has further accelerated the divide between asset-heavy (brick-and-mortar) and asset-light (digital) businesses. As businesses invest more in technology to compete in the digital economy, asymmetrical accounting treatment of capitalizing acquired intangibles on balance sheets at fair value and expensing of organic investments in profit-and-loss accounts with limited disclosures will continue to create problems for users. This webinar explored how analysts are valuing internally generated intangibles under the current reporting practices and discussed what potential changes could be made in accounting standards to provide decision-useful information for investors.