



GLOBAL ADVOCACY NEWS AND UPDATE

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As global economies continue to grapple with rising cases of COVID-19, supply chain disruptions, and uneven recovery, CFA Institute is churning ahead with a robust line up of new reports, letters, and events focused on advancing important investor issues. Special purpose acquisition companies (SPACs) and meme stock trading continue to make news in key markets, and we are focused on navigating these trends for investors. In the United States, Canada, Europe, and Asia Pacific, CFA Institute is tracking a range of new rules and regulations and communicating the investors' point of view. As always, we provide updates on our positions and advocacy efforts on important policies and reforms that affect the investment community. We continue to garner wide media attention and news coverage around the world. Please reach out with questions or comments.

INVESTOR PROTECTION

SUPPORTING ENHANCED SHORT INTEREST TRANSPARENCY



Proposed enhancements to short interest position reporting: Short selling catapulted into the spotlight earlier this year with the advent of meme stocks, in which a segment of retail investors reportedly piled into certain downtrodden stocks in a short squeeze against hedge funds. In response to the volatility, Financial Industry Regulatory Authority (FINRA), which regulates broker/dealers, asked for public comments on a menu of changes to the

rules on short sale interest disclosures. The proposals aim to expand the content and data required and to increase the frequency of reporting of aggregate short interest for each security.

Our support: CFA Institute issued a [response](#) in support of several of the proposed changes to enhance transparency. We are also in favor of giving FINRA—but not the public—access to account-level short interest data to help it police markets.

Benefits of short selling: At the same time, we reiterate our long-held view that short selling provides critical benefits for investors and markets, including enhancing price efficiency and helping to protect against inflated stock prices and bubbles. Short sellers should not be pilloried or singled out for unfair regulatory treatment compared with long investors. We hope greater transparency will begin to dispel disturbingly high levels of mistrust of short sellers and markets.

 INVESTOR PROTECTION

SPACS REMAIN A FOCUS FOR CFA INSTITUTE AND REGULATORS

Working group marches ahead: In September, CFA Institute hosted the second meeting of the SPAC Working Group, diving further into SPAC economics and the implications for investors, companies seeking to go public, and the markets as a whole. We explored recommendations for enhanced disclosure at both the SPAC and de-SPAC stages, as well as changes to the US liability regime for SPACs and key participants. We are also homing in on SPAC regulation in other global markets, including the [APAC region](#), [European Union](#), and [United Kingdom](#). These discussions and feedback from members will inform our recommendations for the forthcoming CFA Institute report on SPACs.

SPAC market shift: In a sharp pivot, the US SPAC market recently moved away from this year's earlier exuberance to a volatile mix of high redemption rates, heightened short interest, and even low float stock squeezes. The down market has underlined what appears to be a disproportionate divide between SPAC sponsors, financial intermediaries, and hedge funds, which stand to benefit from closing a SPAC deal, and individual investors, who are left potentially vulnerable if they do not redeem at the merger.

Increased scrutiny: Concerned with the misaligned incentives and risks to retail investors, US policymakers and authorities, including [US senators](#), the Senate Banking Committee, [SEC Chair Gensler](#), [FINRA](#), [SEC Investor Advisory Committee](#), and the [SEC Small Business Capital Formation Advisory Committee](#), are widening their investigations and increasingly calling for greater transparency. CFA Institute is working with these groups to inform and advocate for protections and clarity for the investment community.

 INVESTOR PROTECTION

NEW RULES ON SPACS IN SINGAPORE

New SPAC requirements: On 2 September, Singapore Exchange (SGX) [announced new rules](#) enabling SPACs to be listed as an alternative capital fund-raising route. Earlier this year, CFA Institute and CFA Society Singapore [submitted a joint response](#) on the SGX proposed SPACs listing framework, to advocate for increased investor protections throughout each stage of a SPAC's life.

Some improvement: Several of the new SGX rules follow our recommendations for better safeguards and checks. They include a requirement that sponsors have "skin in the game," including limits on the dilution of shares after de-SPAC, on the cap on "promote" (shares allocated to sponsors, free of charge), and on the time for de-SPAC to be completed beyond 24 months, and allowing for dual-class shares only after de-SPAC. SGX is not imposing restrictions on retail investors' participation in SPACs, but it has stressed the importance of investor education.

Shortcomings: Most of the rules in the new framework are more market friendly than we recommended. They include a shorter moratorium on sponsors' shares after de-SPAC, allowing SPACs incorporated outside Singapore to be listed on SGX and allowing all shareholders, except the sponsor, to vote on the de-SPAC deal and extensions. (We recommended that only independent shareholders vote.) The rules also permit shareholders to redeem shares after voting to approve the deal, and they do not require that that SPAC sponsors have specific experience in previous SPACs or mergers and acquisitions. They also are silent on disclosures on the impact of dilution on post-merger returns.

Our position: We recognize SGX's desire to add depth and diversity to the market; however, these efforts should be balanced with investor protection and sound corporate governance practices. Although it remains to be seen whether SPACs become popular in Singapore, their success or failure may have a significant effect on investors' ongoing trust in capital markets and on SGX's ability to serve as the hub for fund raising for the region's growth companies.

INVESTOR PROTECTION

GREATER INVESTOR PROTECTIONS NEEDED IN EC RETAIL INVESTMENT STRATEGY

Weighing in on European Commission (EC) strategy: On 3 August, CFA Institute submitted its response to the EC public consultation on a retail investment strategy for Europe, which is the first step to its final publication, expected in the first half of 2022. The Commission’s [new Capital Markets Union 2020 Action Plan](#) aims to build retail investors’ trust in capital markets and to integrate into a single market.

Our position: CFA Institute underlined that the current EU rules do not provide enough protection for retail investors. In particular, the EU legislation covering marketing, distribution, and sales process seems to be tilted more toward the interests of distributors and manufacturers than ensuring adequate safeguards for retail investors. The rules do not provide enough assurance that investment firms always act in the best interest of their clients. Furthermore, the inconsistency and lack of clarity of several EU regulations and directives—for example, Packaged Retail Investment and Insurance Products (PRIIPs), Undertakings for Collective Investment in Transferable Securities Directive (UCITS), Markets in Financial Instruments Directive (MiFID II), Alternative Investment Fund Managers Directive (AIFMD)—have contributed to investor mistrust in capital markets and resulted in an obstacle to greater retail investor participation.

Further attention: CFA Institute recently set up an informal working group on product governance to periodically engage, share case studies, and raise relevant issues surrounding the application of product governance rules, including their impact on the participation of retail investors in capital markets.

MARKET INTEGRITY & TRANSPARENCY

CLARIFYING RULES TO PUT CLIENTS FIRST IN CANADA

Guidance on new client focused requirements: In June, the Investment Industry Regulatory Organization of Canada (IIROC) issued proposed guidance to assist dealers in understanding and complying with its Client Focused Reforms (CFRs) rule amendments relating to know-your-client (KYC) and suitability determination requirements, to take effect on 31 December 2021. The guidance explains the new rules on the collection of KYC information, the interpretation of terms and definitions, and changes to the suitability determination rules, all of which are intended to “put the client’s interest first.”

Support for transparency: On 20 August, the Canadian Advocacy Council (CAC) of CFA Societies Canada released its [comments](#) on the proposed guidance, which was supportive of IIROC’s overall intent to provide clarity to the industry. We particularly agree that not all business models are the same and rules cannot be implemented with a “one-size-fits all” mindset. We strongly support efforts to allow dealers to tailor their own policies for the CFR requirements to meet their business models and the type of services provided to their clients.

Our position: We agree that the proposed guidance and provisions on gathering information should be clear, transparent, and unambiguous. Better KYC information leads to improved investment recommendations, fewer issues regarding suitability, and overall enhancement of the adviser–client relationship. We believe that the proposed guidance would benefit from additional specificity regarding the KYC information to be collected as it relates to the suitability determination. Currently, it may have the unintended result of encouraging the gathering of client information simply as a compliance exercise. The CAC has recommended that several additional items be added to the proposed KYC and suitability processes. In particular, the CAC believes that better guidance is needed around account-type suitability and the requirement to consider a “reasonable range” of alternatives.

The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute member societies across Canada and more than 19,000 Canadian CFA® charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard-setting developments affecting investors, investment professionals, and the capital markets in Canada.

MARKET INTEGRITY & TRANSPARENCY

SUPPORTING REFORMS TO STRENGTHEN RESILIENCE OF MONEY MARKET FUNDS

Global reforms: In the span of just over a decade, global central banks have intervened twice—in 2008 and again in March 2020—to support money market funds (MMFs). Today, both US and global authorities are considering further reform; however, they face a significant challenge that has eluded them for years—that is, reducing the systemic financial risks that MMFs pose in times of stress, without rendering the industry unviable.

Our position and recommendations: The [Financial Stability Board](#), a global organization that encompasses the G-20 economies, recently presented a menu of potential reforms and requested public comment. In our [response](#), we advocated for a combination of measures to strengthen the resilience of MMFs. These policy options aim to reduce MMF vulnerabilities to runs and contagion risks, in which trouble with a single fund can spread to others and more broadly to short-term funding markets, including commercial paper and repo markets. As stated in our letter, we recommend a combination of three sets of MMF reforms: (1) internalizing costs by establishing a minimum balance at risk (MBR); (2) delinking requirements to impose fees and gates from liquidity measures, such as weekly average liquidity (WAL); and (3) requiring a floating net asset value (NAV) for all funds. In addition, we recommend that policymakers and regulators consider options such as swing pricing, capital buffers or alternative measures, and other reforms and limits. Authorities should carefully examine the right balance of measures to strengthen market resiliency while also ensuring the overall mix and viability of MMF funds.

Response to the SEC: In April 2021, we also submitted a [comment letter](#) to the SEC on potential MMF reforms. The letter outlined similar recommendations to address MMF vulnerabilities, including internalizing the costs to MMF sponsors and investors using capital buffers and an MBR, changing liquidity thresholds, adopting countercyclical measures to encourage MMFs to draw on their most liquid assets, and requiring a floating NAV for all MMFs.

MARKET INTEGRITY & TRANSPARENCY

BURSA MALAYSIA CONSULTATION ON DIRECTOR INDEPENDENCE

New rules for improving corporate independence: On 21 July, Bursa Malaysia, the stock exchange of Malaysia, published a [consultation paper](#) on proposed amendments to listing requirements intended to enhance director appointment and independence. The key proposals include limiting the tenure of an independent director to not more than a cumulative period of 12 years (inclusive of time served on boards of other companies in a group) after a three-year cooling-off period, and requiring that issuers publish a fit-and-proper policy for director appointments.

Comprehensive consideration: On 1 September, CFA Institute and CFA Society Malaysia submitted to the exchange a [joint response](#) supporting its efforts to strengthen the independence of directors. We stressed the importance of a holistic view of the proposed reforms as a package and the need to consider how individual elements, such as maximum tenure and the cooling-off period, would fit into the broader picture.

Our position: It is the view of CFA Institute that lengthy tenures compromise directors' independence and that, ideally, individuals should not serve in these roles for more than nine years. We also recommend a cooling-off period of five years before a former independent director can rejoin the board in the same capacity, and we stress that these scenarios should be rare. An independent director's tenure should be evaluated in the context of a group of companies, rather than in isolation, and should include time served on boards of related corporations.

ADVOCACY ENGAGEMENT & ACTIVITIES

INSIGHT INTO KEY FINANCIAL ISSUES FROM A WASHINGTON INSIDER

Exploring important DC issues: In its high-profile District Dialogue series, CFA Institute led an insightful discussion with Catherine Kuerbitz, chief of staff to Congressman David Scott (GA-13), US House of Representatives, focused on the ambitious agenda before US Congress and the regulatory landscape. Highlights of the conversations include Kuerbitz’s inside view on key proposals, including the potential reopening of the definition of Regulation Best Interest by the US Department of Labor and reconsideration by the SEC, which would likely result in a broader definition of who qualifies as a fiduciary.

Congressional bills: Kuerbitz also weighed in on the 2022 budget reconciliation package that is currently making its way through House and Senate committees. “Senators Sinema and Manchin may bring down [the package from \$3.5 trillion] closer to \$2 trillion—somewhere in that ballpark,” Kuerbitz said. This would still be one of the largest spending bills in history and probably would be one of the last big spending bills of this Congress. Three appropriations bills are slated to pass before the end of the fiscal year (30 September), and the debt limit is also approaching. “We may be facing another political standoff. It’s going to be a heck of a September,” she added. Tax policy, including the financial transaction tax (FTT), is also part of the reconciliation discussion. Many moderate Democrats are concerned about the impact of the FTT on retirees and changing market behavior; however, Kuerbitz indicated, “I don’t see [the FTT] as something that will gain a lot of traction.”

Other key issues on the legislative radar: The SEC is expected to issue two key rulemakings on public company disclosure of human capital and climate risk issues this year, and staff reporting on the meme-stock trading volatility. Congress may build on the success of the SECURE Act by advancing the SECURE Act 2.0, given the bipartisan appetite for retirement security legislation. In addition, by mid-November, the Financial Stability Oversight Council is expected to publish a report on how its member agencies, including the Federal Reserve, Treasury, SEC, and Commodity Futures Trading Commission should integrate climate-related financial risk in their policies and programs. These recommendations are not obligatory but will help set the regulatory agenda for many key agencies for the coming years.

ADVOCACY IN ACTION

MEDIA ATTENTION

Hubbis (24 September) covered a panel discussion on environmental, social, and governance (ESG) issues with CFA Institute Advocacy Head Mary Leung.

ESG Clarity (UK) (21 September) cited a CFA Institute report covering diversity and inclusion as part of good governance.

Pensions & Investments (20 September) quoted CFA Institute Senior Director of Capital Markets Policy Matt Orsagh on the need for asset owners to be able to verify ESG results.

Hong Kong Economic Times (HKG) (16 September) covered a CFA Institute report highlighting improving corporate governance in the Asia-Pacific region.

Morningstar Business Wire (16 September) covered the CFA Institute Systemic Risk Council reorganization.

The DailyFT (LKA) (15 September) cited CFA Institute research examining the future of sustainable investing.

MSN, Yahoo!Finance, and *Go Banking Rates* (15 September) cited a CFA Institute report on Gen Z’s financial hurdles.

ESG Clarity (UK) (15 September) reported on new research from CFA Institute showing investment firms are elevating their diversity and inclusion practices.

Wealth Professional (CAN) (14 September) reported on a new report from CFA Institute on technology talent in investment organizations.

ADVOCACY IN ACTION

MEDIA ATTENTION

Hong Kong Economic Journal (HKG) (14 September) covered a CFA Institute report showing progress in Asia Pacific on independent board of directors.

Politico Europe (9 September) covered Systemic Risk Council Chair Paul Tucker's comments on the UK's "ring-fencing" regulations.

International Financial Law Review (9 September): CFA Institute APAC Advocacy Research Head Piotr Zembrowski discussed rising corporate governance standards in Japan.

The Finance (6 September) reported on the CFA Institute study showing ESG investing is gaining mainstream momentum.

insideBIGDATA (4 September) cited a CFA Institute report discussing a roadmap for artificial intelligence and big data adoption.

The Wall Street Journal (3 September) cited a CFA Institute letter to the SEC on inconsistent reporting of ESG information by companies.

Asia Asset Management (3 September): Mary Leung, head of industry advocacy at CFA Institute Asia Pacific, and Sivananth Ramachandran, director of capital market policy at CFA Institute India, wrote about the rise of ESG investment.

Barron's (2 September): CFA Institute Senior Director Stephen Deane discussed three big transitions reshaping finance.

Bloomberg and *Yahoo!Finance* (31 August) covered an interview with the SEC chair on payment-for-order-flow and cited a CFA Institute report.

The Globe and Mail (CAN) (24 August) cited a CFA Institute draft ESG Disclosure Standards for Investment Products report.

EVENTS & ACTIVITIES

CFA Institute and CFA Society Slovenia webinar "The Slovenian Presidency in the EU—ESG in Financial Services" (22 September) featured a discussion on the priorities of the current Slovenian presidency of the EU, which started on 1 July and will end on 31 December 2021, regarding sustainable finance and the strategies for financing the green transition.

CFA Society Singapore webinar (26 August): Mary Leung, head of advocacy for Asia Pacific at CFA Institute, was the opening keynote speaker at "Who Is Hungry? How G-7 and Increased Regulatory Scrutiny Will Affect Family Offices, Private Wealth, and VCCs."

CFA Society Sri Lanka event (19 August): Sivananth Ramachandran, director of capital markets policy for India at CFA Institute, was a panelist at the virtual "Roundtable on Corporate Governance—Adopting Digital," coordinated in partnership with the Association of Chartered Certified Accountants and the Sri Lanka Institute of Directors.

CFA Society Sri Lanka ESG event (17 August): Mary Leung was a presenter and panelist at the "ESG: A Corporate and Investor Perspective" session.

2021 CFA Society New Zealand Investment Conference (5 August): Mary Leung presented highlights of the "Future of Sustainability in Investment Management" report at the Future of Finance Session.