SURVEY REPORT FOR COVID-19 STIMULUS ACCOUNTABILITY

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Introduction

On 27 March 2020, the US government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, embarking on an unprecedented program[1] of monetary and fiscal stimulus in response to the COVID-19-induced economic shutdown. The level of stimulus has been broad; the program parameters were put together at warp speed; and, even as negotiations over the fourth round of stimulus continue, it is generally expected that further steps and programs may be required as the extent and duration of the pandemic impacts become more predictable. As Federal Reserve Board (FRB) Chair Jay Powell has stated, the US government's stimulus commitment needs to follow a "whatever-it-takes" policy approach to prevent economic illiquidity from becoming insolvency.

Predictably, the amounts, parameters, and rapid rollout of this unparalleled and open-ended stimulus have raised concerns.[2] The functioning of oversight committees and transparency around the various programs that ultimately will distribute record amounts of taxpayer-funded stimulus need scrutiny. Similarly, long-term concerns surround the resulting budget deficits[3] and the impact on capital markets.

CFA Institute surveyed its diverse US membership of professionally trained investment professionals and financial analysts to get their views and feedback on these matters.

[1] Between the US Congress and the Federal Reserve, the government has committed more than $6 trillion to sustain the US economy, a price tag that surpasses all economic stimulus funding since the Great Depression. The largest coronavirus stimulus is the $2 trillion CARES Act, of which nearly a quarter, around $450 billion, is committed to Fed facilities through the Treasury; the Fed can in turn leverage the investment tenfold. Around $700 billion has been allocated to the Payment Protection Program (PPP) program run by the Small Business Administration (SBA) and designed to help small and midsize businesses sustain the temporary downturn and retain workers.

[2] See three reports from the Congressional Oversight Commission; also see Government Accountability Office, "COVID-19: Opportunities to Improve Federal Response and Recovery Efforts," GAO-20-625 (25 June 2020); Offices of Inspector General, Pandemic Response Accountability Committee, "Top Challenges Facing Federal Agencies: COVID-19 Emergency Relief and Response Efforts" (June 2020); Rep. James E Clyburn, chair, Select Subcommittee on the Coronavirus Crisis, "Clyburn Statement on Treasury, SBA Plan to Disclose PPP Loan Recipients" (20 June 2020).

[3] See Congressional Budget Office, "Monthly Budget Review for June 2020" (8 July 2020).

As practitioners who are engaged with company financial reporting and close observers of market and economic fundamentals, we sought their on-the-ground assessment of key stimulus and market integrity issues. These include views on the size of the stimulus-induced deficits, the level of disclosure around stimulus program distributions, the adequacy of current oversight efforts, and the impacts of record stimulus on capital market functions.

Methodology

This survey initiative sparked a strong and quite decisive response from members on these issues. In fact, the survey response rate was the highest for any policy issue ever surveyed by CFA Institute — including issues related to the Great Financial Crisis and the Dodd-Frank Act; more than 8,000 CFA Institute members took the survey between 10 July 2020 and 20 July 2020.[4] Clearly, the market volatility and the historic economic response to the COVID-19 crisis has gained the attention of all stakeholders, not the least of whom are professional investors and advisers. Regarding our professional membership, we increasingly hear the frustration that securities markets and financial analysis have become unnervingly detached from economics. Balancing economic emergency relief with free-market capitalism is clearly a challenge.

Survey Results.

- **Views on Current Levels of Stimulus.** Members understand that the COVID-19 pandemic has put the economy on a ventilator. Good support exists among respondents for the current record levels of financial stimulus being delivered by Congress and the Federal Reserve. Some 60% favor this response.

- **Concerns About Further Stimulus Programs and Spending.** When asked about next steps and further stimulus, the mood changes a bit. When it comes to additional Congressional or Federal Reserve support to top off the CARES Act or create new stimulus programs, less than half (44%) think more financial support is needed.

This result,[5] when combined with survey results (see figure 4) showing that participants are overwhelmingly concerned about the Federal Reserve's intervention in corporate credit markets and the risk and proliferation of "zombie" companies and markets, suggests that

[4] The survey was fielded to all active employed CFA Institute members residing in the United States. The survey was sent on 10 July 2020, with two reminders. The survey closed 20 July 2020. Out of the members invited to participate, 8,036 provided useable data, for a total response rate of 11 percent. Margin of error was +/- 1.03%.
[5] Our survey did not ask specifically whether the Federal Reserve should or needs to provide additional support through its primary and secondary market corporate credit facilities or whether this specific support is necessary.

FIGURE 1. DO YOU SUPPORT THE OVERALL LEVELS OF COVID RESPONSE THAT HAVE BEEN APPROVED THIS FAR, AMOUNTING TO A COMBINED $6–7 TRILLION?

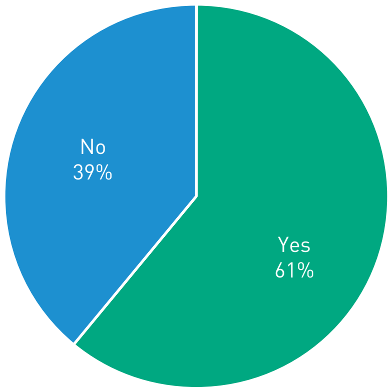
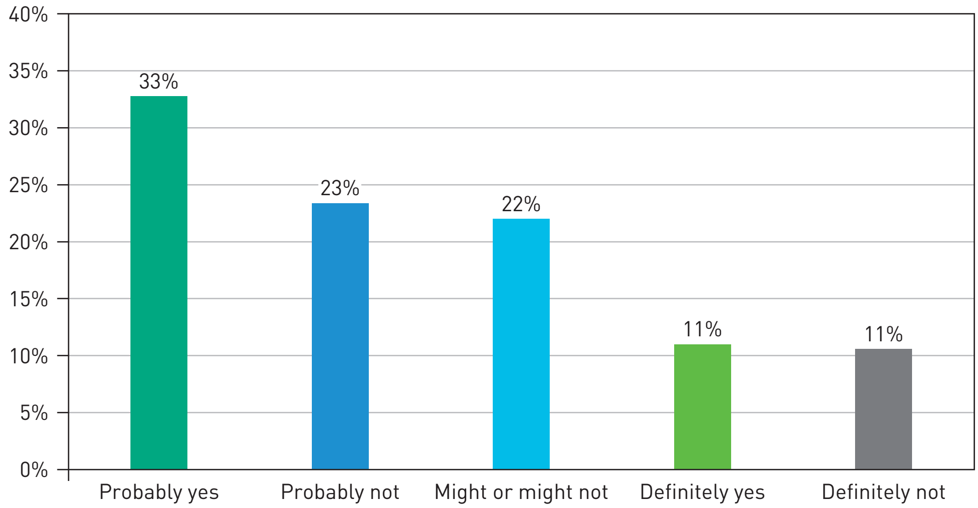


FIGURE 2. IS FURTHER SUPPORT TO THE CREDIT AND FINANCIAL MARKETS NECESSARY?

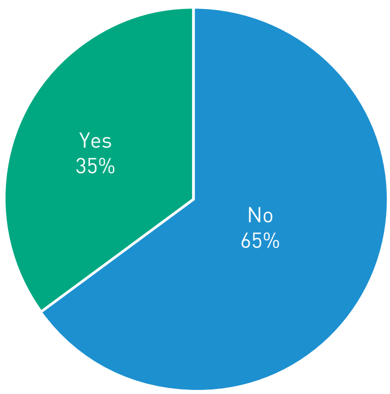


CFA Institute membership shares the same concerns and questions that were raised in the oversight reports of the Congressional Oversight Commission.[6]

- **Views About the Federal Reserve Board's Proclaiming Unlimited Stimulus Authority.** We asked members about the Federal Reserve Board's pronouncement that stimulus would be unlimited and that further actions would exercise a "whatever-it-takes" authority vested in the US Treasury and the FRB. That view was unpopular with members — 65% say they do not agree with unlimited authority on stimulus. Many wonder about the source of that authority and the precedent it sets for fiscal accountability.

- **Concerns About Stimulus-Induced US Deficits.** We asked members what specific concerns they had regarding market integrity and budget deficits that will result from the current stimulus levels and beyond. A large majority of respondents expressed concerns over several potential, deleterious effects of deficit-funded COVID support:

FIGURE 3. DO YOU AGREE WITH THE FEDERAL RESERVE BOARD'S (FRB) VIEW THAT THE LEVELS OF RESPONSE MUST BE UNLIMITED IN TERMS OF EXTENDING MONETARY AND FISCAL SUPPORT?



[6] See Rep. French Hill, Bharat Ramamurti, Rep. Donna Shalala, and Sen. Pat Toomey, "The Third Report of the Congressional Oversight Commission" (20 July 2020); and Rep. French Hill, Bharat Ramamurti, Rep. Donna Shalala, and Sen. Pat Toomey, "The Second Report of the Congressional Oversight Commission" (18 June 2020).

- Respondents are most concerned (>70%) about eventual inflation.
- Nearly 70% are concerned the government's actions cause serious price discovery disruptions for investors and markets.
- Likewise, around 70% are concerned the government is perpetuating zombie companies and propping up zombie markets.

- **Deep Concerns about Oversight and Accountability of the Stimulus Programs.** The most unequivocal and perhaps most significant findings of this survey are professional investor reactions to ensuring adequate levels of transparency and accountability around the distribution of the record amounts of bailout support. Accepting that this is an economic emergency and that public officials deem spending authority as limitless, transparency around the terms and where the stimulus dollars land remains the only check and balance. Congressional hearings, recent media, and oversight

FIGURE 4. PLEASE SELECT THE OPTION THAT MOST CLOSELY RELATES YOUR OPINION ON THE FOLLOWING TOPICS:

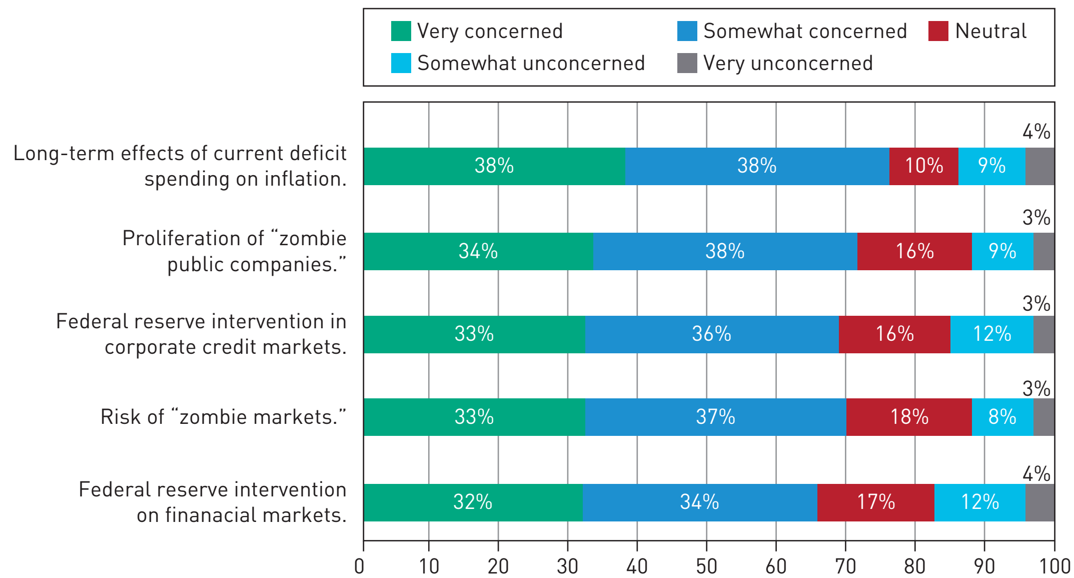
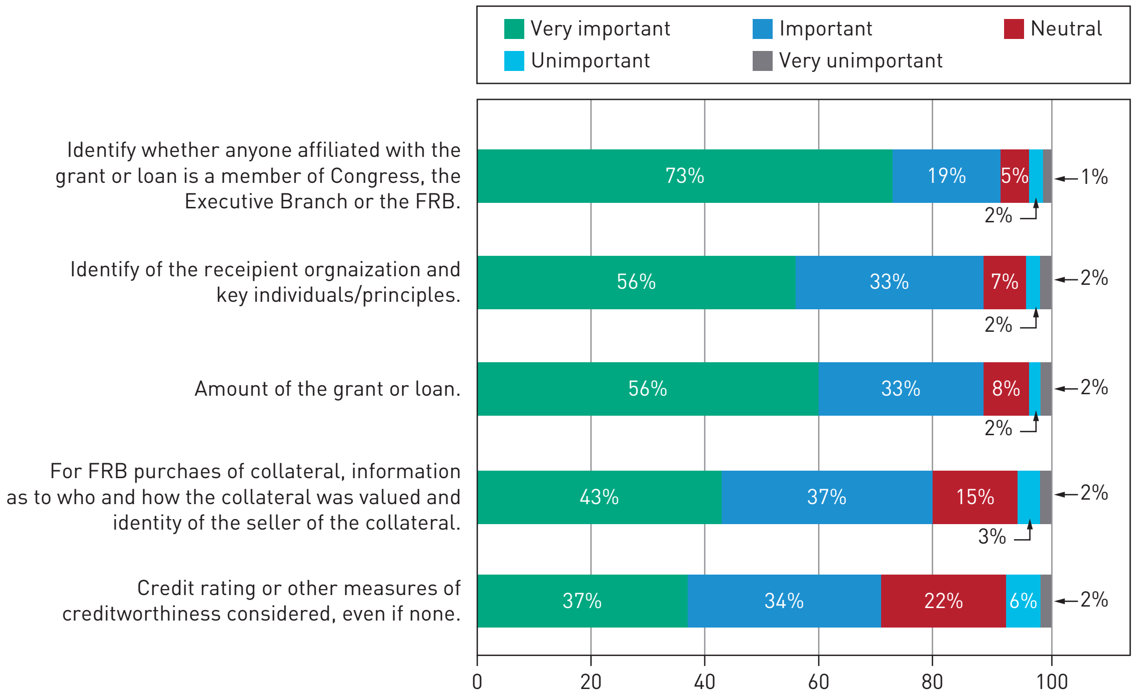


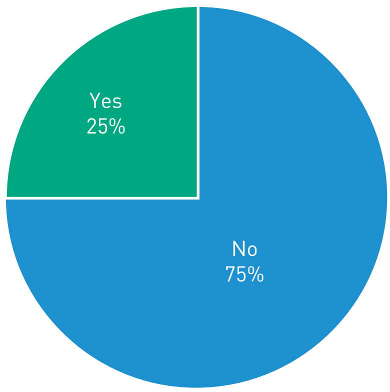
FIGURE 5. PLEASE SELECT THE OPTION THAT MOST CLOSELY RELATES YOUR OPINION OF PUBLIC REPORTING AND TRANSPARENCY AROUND EACH OF THESE DISCLOSURES.



reports[7] caution whether the oversight process and groups designated to audit the stimulus distribution are functioning and getting access to required reporting. The vast majority of survey respondents support full public transparency and question current monitoring efforts.

[7] See Select Subcommittee on the Coronavirus Crisis, "GAO Director Testifies Lack of Transparency and Accountability Is Hurting Federal Response to Pandemic," press release (26 June 2020); Senate Banking Committee, "The Quarterly CARES Act Report to Congress," full committee hearing (19 May 2020); House Committee on Financial Services, "Oversight of the Treasury Department's and Federal Reserve's Pandemic Response" (30 June 2020); Government Accountability Office, "COVID-19: Opportunities to Improve Federal Response and Recovery Efforts" (25 June 2020); Melanie Zanona, "Coronavirus Oversight Suffers a Setback," Politico (15 July 2020); Chris Prentice, "U.S. Lawmakers Move to Fight Treasury Bid to Curtail Pandemic Watchdog," Reuters (26 June 2020).

FIGURE 6. ARE THE CURRENT LEVELS OF PUBLIC DISCLOSURE AND REPORTING REQUIREMENTS OF THE COVID-19 EMERGENCY RELIEF EFFORTS (TREASURY, FEDERAL RESERVE, SBA) SUFFICIENT?



- Nearly 90% of respondents expect to see details on the *recipient*, the *amount*, and the *terms* of the distribution. They are particularly interested in full transparency on whether *any affiliate* of Congress or executive branch received funding.
- Overall, respondents are not happy with the current level of oversight and transparency. In the view of CFA Institute, investor and public confidence in this stimulus process will depend on full transparency. We think members agree, and more than 75% of the respondents say that current levels of disclosure and reporting are insufficient.