



HIGHLIGHTS FROM ADVOCACY, STANDARDS, AND RESEARCH

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As we wind down one year and welcome a new one, the Advocacy team at CFA Institute would like to wish all of our friends and colleagues across the investment community and around the world a happy, healthy, and prosperous new year! In this issue, we share with you highlights of our recent advocacy work, accomplishments, and activities and summarize some of the priority projects that we will begin to work on in the new year. Wishing you all the best in 2018! — **Kurt Schacht, CFA, Managing Director of Advocacy**

INVESTOR PROTECTION

EXAMINING EXPECTATIONS SURROUNDING MIFID II REFORMS

Looking closer at MiFID: The production and distribution of investment research is set to change dramatically in Europe. The revised Markets in Financial Instruments Directive (MiFID II), which came into effect on 3 January 2018, delivers sweeping reforms to financial markets and business practices. To understand the implications and the current state of the market for investment research, CFA Institute surveyed its European members in September 2017. The survey aimed to shed light on the expectations of buy-side professionals regarding pricing of research for different asset classes, the allocation of costs, and other related issues. The results are published in the report, *MiFID II: A New Paradigm for Investment Research*, and include the following key findings:

- Most respondents expect firms to absorb the cost of investment research; only 15 percent expect to charge clients.
- Respondents are concerned that the new regulation will adversely affect smaller firms and reduce competition.
- Most respondents expect to source less research from investment banks.

Our Position: "CFA Institute supports the objectives of these reforms, which are to remove potential conflicts of interest between asset managers and their clients when transacting with brokers, and to deliver a more transparent, competitive and efficient market for research," said Rhodri Preece, CFA, Head of Capital Markets Policy EMEA at CFA Institute, and author of the report. "But the rules are not a panacea. Some respondents were concerned about unintended consequences, including a decrease in the availability of research and a reduction in research coverage." Investors stand to benefit from an increase in research quality and thus more informed investment decision-making. The transition to the new paradigm may be disruptive, but it promises to deliver a more efficient market in the long run.

MARKET TRANSPARENCY & FAIRNESS
PROMOTING THE NEW REVENUE RECOGNITION STANDARD


Top 10 considerations: CFA Institute has been actively promoting the new US GAAP and IFRS revenue recognition standard (effective 1 January 2018) on behalf of our members for the past decade. Most recently, Sandy Peters, CFA, Head of Financial Reporting Policy at CFA Institute, participated in the *2017 Pacesetters in Financial Reporting Conference*, sponsored by Ernst & Young, on 28 November at Pace University, New York, NY. Peters presented the top 10 considerations for investors surrounding the new revenue recognition standard, including: facilitating the adoption and transition of the standard; obtaining a better understanding of an investee company's customer relationships, earnings quality, and revenue recognition practices; and understanding the implications of the new standard on all elements of the income statement. *Financial Executives International* published an article based on the presentation that highlights the need for financial executives to translate the new standard to investors.

Our position: CFA Institute has been at the forefront of promoting these important changes to our members, including issuing reports and comment letters, and participating in roundtables and sponsored webcasts. Our aim is to educate members on the investor implications of these new standards and on how to successfully make the transition.

MARKET TRANSPARENCY & FAIRNESS
CFA INSTITUTE ADVOCACY ON MATERIALITY IMPACTS FASB OUTCOME

In November, the Financial Accounting Standards Board (FASB) voted to withdraw its previously articulated position that the definition of materiality in US GAAP should include the "legal definition of materiality." FASB's controversial proposal to redefine "materiality" would have given businesses more flexibility in determining the information to include in their financial statements. The definition of materiality is critically important as it determines what is included or excluded in financial statements, potentially making useful investor information no longer public.

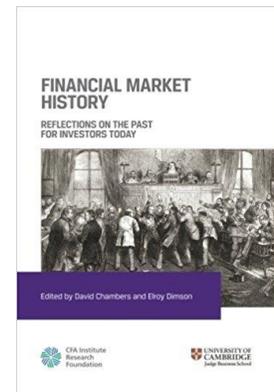
Our position: CFA Institute has been a consistent voice against the FASB redefinition proposal. The US SEC's Investor Advisory Committee (IAC), chaired by Kurt Schacht, CFA, Managing Director of Advocacy at CFA Institute, led the charge to dispute this legal definition of materiality beginning in the fall of 2015. Our Financial Reporting Policy Group issued a comment letter in early 2016 and both Sandy Peters, CFA, Head of Financial Reporting Policy at CFA Institute, and Kurt Schacht (representing the views of IAC) participated in a roundtable last spring to amplify our disagreement with the change in definition. Our advocacy on this important issue influenced the FASB decision to scrap its reference to the notion of materiality as a legal concept, resulting in greater transparency and a win for investors.



RESEARCH

RESEARCH FOUNDATION WINS “BEST INVESTMENT PAPER 2017”

The **2017 Savvy Investor Awards** were announced on 5 December 2017 and the CFA Institute Research Foundation was awarded “Best Investment Paper 2017” for its monograph [“Financial Market History: Reflections on the Past for Investors Today.”](#) In addition, CFA Institute content was recognized as “Highly Commended” in the “Best ETFs Paper 2017” category for [“Inefficiencies in the Pricing of Exchange-Traded Funds”](#) (*Financial Analysts Journal*®); in the “Best Investment Industry Paper 2017” category for [“Future State of the Investment Profession”](#) (Future of Finance); and in the “Best Smart Beta Paper 2017” category for [“Factor Investing and Asset Allocation”](#) (Research Foundation).



Savvy Investor (www.savvyinvestor.net) is a leading research hub for institutional investors. The short-listed papers were assessed on their quality, readability, and appeal to Savvy Investor’s institutional audience, using five proprietary key performance indicators.

Congratulations to the research teams at *Financial Analysts Journal*, Future of Finance, and the Research Foundation!

FUTURE OF FINANCE

EXAMINING MILLENNIALS AND THE MARKETS



The next generation of investors: Future of Finance is partnering with the FINRA Foundation on a report to better understand the millennial mindset around money and investing as a career. The inability of the industry to effectively engage this generation was previously explored in *The Future State of the Investment Profession*, released in April 2017. The new report, *Millennials and the Markets: An Examination of Investment Behaviors, Attitudes, and Perceptions*, will explore the differences in values between millennials and other generations, garner insights that could improve investment education and communications, and develop an understanding of why there is resistance from millennials about entering the investment advisory profession.

Advancing our profession: The report’s goals are to inform decision makers, regulators, and stakeholders about millennials’ investment attitudes and behaviors, and ultimately identify ways to increase the percentage of millennials investing for their future. Further, we hope to find ways that investment organizations can engage and develop this next generation of investors and motivate younger people to invest and seek advice.

Coming soon: The report will release in October 2018 to coincide with IOSCO’s World Investor Week, a campaign dedicated to promoting investor education awareness.

GLOBAL & REGIONAL ACTIVITIES

CFA INSTITUTE WEIGHS IN AT KEY GLOBAL EVENTS

SINGAPORE

27 October: *BNP Paribas Sustainable Future Forum: Investing for Tomorrow's Success:* Mary Leung, CFA, Head of Advocacy, Asia Pacific at CFA Institute, spoke at the “Green China & Fiduciary Duty” panel, which examined China’s efforts to generate alpha while respecting investors’ obligations and responsibilities. Takeaways include: changes in China’s government policies are moving funds (including large pension funds, ETF/Index Funds, and others) to increase consideration of fiduciary duty and environmental, social, and governance (ESG) factors. However, increased awareness is needed on stewardship, fiduciary duty, and ESG risk across Asia. As Leung pointed out, “If you are in the business of generating returns, ESG risks are not factors you can afford to leave out.”



BNP Paribas Sustainable Future Forum

NEW YORK

2 November: *The Tabb Group FinTech Festival:* In November, Sviatoslav Rosov, CFA, Analyst, Capital Markets Policy at CFA Institute, attended *FinTech Festival* to gather insights into how fintech has been the catalyst for a restructure of the global economy, and what is next for capital markets. Rosov was interviewed about the role CFA Institute plays in fintech and the changing role of the research analyst. (see [video and corresponding article](#).) He is a regular contributor to TabbFORUM, including an August 2017 article titled “[What Fintech Can Learn from the Decline and Reinvention of High-Frequency Trading](#).” TabbFORUM is an open community that provides a platform for capital markets professionals to share their ideas and thought leadership with their peers.

HONG KONG

29–30 November: *Asia Securities Industry & Financial Markets Association (ASIFMA) Conference:* At the annual *Asia Securities Industry & Financial Markets Association (ASIFMA) Conference, Developing Asia's Capital Markets*, CFA Institute representatives participated on two panels:

- “Green Finance and Sustainable Investing”: The panel, with Mary Leung, CFA, Head of Advocacy, Asia Pacific at CFA Institute, covered the case for green finance; current market trends; how countries facilitate green finance development; TCFD disclosure recommendations and their impact; and the development of the Green Bond Market.
- “Equivalence in the EU”: The panel, with Josina Kamerling, Head of Regulatory Outreach EMEA at CFA Institute covered post-Brexit solutions and the impact for Asian firms; the future role of the European Supervisory Authorities in the process; and CCP allocation policy and the impacts for Asian firms.

CFA Institute also co-sponsored the conference’s EU-Asia Financial Services dinner reception, as a way to enhance our global outreach and relationships with regulators in Asia and the EU. In addition, Kamerling presented at the Hong Kong Society of Financial Analysts luncheon on *Corporate Governance: An Asset Manager’s Perspective*, focused on corporate governance issues for asset managers and the differences among regions.

NEW YORK

29 October–1 November: *National Association of State Boards of Accountancy (NASBA) Annual Conference:* At the NASBA Annual Conference, Mohini Singh, Director of Financial Reporting Policy at CFA Institute, participated on a panel, “Data Analytics and Auditing.” Panelists discussed potential audit applications of data analytics and whether auditing standards should specifically address such approaches. Singh conveyed user expectations regarding the use of technology in the financial statement audit and how the quality of an audit can be enhanced through the use of audit data analytics by providing the auditor with better insights, improving the auditor’s ability to identify anomalies and risks. This, in turn, benefits investors by affording them transparent, granular, and timely information.

GLOBAL & REGIONAL ACTIVITIES

CFA INSTITUTE WEIGHS IN ON KEY GLOBAL EVENTS

NEW YORK

30 November: *SASB Annual Symposium:* At the [Sustainability Accounting Standards Board \(SASB\) Symposium](#), CFA Institute shared insights into its success in private-sector standards setting in the GIPS® area. Many organizations look to CFA Institute for guidance on how to create, maintain, and generate uptake in these standards, as such volunteer-based, private sector standards rarely catch on. Kurt Schacht, Managing Director of Advocacy at CFA Institute, discussed the rigorous process for GIPS that has led to its place as the industry standard in more than 40 countries, with over 85 of the top 100 global firms by AUM claiming GIPS compliance. Most significantly, a GIPS-compliant track record is nearly mandatory if an investment manager seeks to manage assets for the world's pension fund and sovereign wealth communities.



SASB Annual Symposium

HONG KONG

1 December: *Asian Investor Roundtable: Be Prepared: Anticipating the Fallout from MiFID in Asia:* Mary Leung, CFA, Head of Advocacy, Asia Pacific at CFA Institute, participated in a MiFID discussion that covered MiFID and the unbundling of research, its impact and implications, and other ramifications on Asia investors and service providers.

THAILAND

6 December: *SEC Working Papers Forum 2017:* The Securities and Exchange Commission in Thailand, CFA Institute Asia-Pacific Research Exchange (ARX), and four top business schools co-organized a research paper competition. ARX sponsored three awards for papers on asset management, corporate finance, and capital market structure areas. The day consisted of presentations of the winning papers, a discussion on the recently published CFA Institute report *Corporate Governance for Asian Publicly Listed Family-Controlled Firms*, and an introduction to ARX. The forum attracted about 100 participants including academics and CFA Society Thailand leaders and members.

PRIORITY ADVOCACY INITIATIVES

CMPC HOLDS ANNUAL MEETING ON ADVOCACY ISSUES

On 7-8 December 2017, the Capital Markets Policy Council (CMPC) held an in-person meeting with Capital Markets Policy Group staff in London to discuss current and future advocacy policy initiatives. Attended by all 12 council members, the meeting covered a diverse range of topics, including fiduciary duties of robo-advisers; research under MiFID II; environmental, social, and governance (ESG); crypto currencies; capital formation; fintech; and corporate governance.

Advocacy priorities: In addition to acting as a sounding board when reviewing advocacy projects, CMPC helps inform CFA Institute international advocacy efforts. Armed with deep expertise and perspectives, CMPC members bring a wealth of information when discussing issues that may warrant advocacy attention, whether immediate action or monitoring. They also educate staff on market developments within regions that may have global ramifications. CMPC meets in person on an annual basis.

PRIORITY ADVOCACY INITIATIVES

ADVOCACY PRIORITY PROJECT FINALISTS

New year, new priorities: To help focus and prioritize our advocacy activity for 2018, 17 potential projects were reviewed by our cross-functional Litmus Test group on 21 November 2017. We screened the project ideas against a detailed litmus test as well as the priorities set by our regional SAACs. Our two Advocacy expert volunteer groups—the Capital Markets Policy Council and the Corporate Disclosure Policy Council—selected eight “finalists” for final review. Within this newsletter in the coming months, we will look more closely at each project, providing an overview of its objectives and benefits. Below are summaries of the first two of our eight priority projects:

1) Safeguards for Dual Class Structures

As top stock exchanges in the Asia-Pacific region move toward allowing companies with dual-class shares (DCS) to list, potential safeguards, how they will work, and where they might fall short must be addressed. The relaxed regulation and listing standards by securities regulators for the listing exchanges is a trend that is gaining steam in the region. Assuming the trend persists, CFA Institute is examining how to offer investor education and possible protections particularly regarding risks associated with dual-class share structures.

The proposed project would examine the most typical safeguards and their effectiveness in preventing abuse by major shareholders. This will help investors screen investment opportunities and perform company valuations—distinguishing DCS companies that have stronger, more effective safeguards from those that are primarily interested in maintaining control without putting up the associated capital. The project will also look at case studies where safeguards were bypassed or caused unintended consequences to the detriment of minority shareholders or the market as a whole. Based on these lessons, CFA Institute will provide its opinions and recommendations as to how safeguards should be structured, taking into account the differences in legal regimes between the United States and selected APAC jurisdictions. This will be valuable not just to investors but also to stock exchanges in the region, many of which have multiple roles in standard setting, supervision, and enforcement.

2) Public Versus Private Capital Formation

The CFA Institute EMEA Capital Markets team is reviewing the idea of research to further examine the debate over public versus private capital formation, specifically, whether public equity is in danger of going away and whether this will affect capital formation or otherwise damage retail investor opportunity generally and retirement savers specifically. This is potentially a problem for pensions, savers, and retail specifically.

The decline in the number of IPOs and listed companies is well-documented but not well-researched. Increasingly, new companies either do not need much capital, or can raise it in a less burdensome manner and give up less control in the private markets than via a public listing. Given the natural attrition rate in the number of listed companies, a constant supply of new public listings is necessary to maintain public market integrity. The scope of this “death of equity” concept is extremely broad, so the proposal suggests examining whether the listed markets are becoming increasingly less representative of economies, whether this matters (and to whom), and what, if anything, should be done to address the situation.

ADVOCACY IN ACTION

MEDIA & INDUSTRY ATTENTION

2018 Equity Capital Markets Handbook, published by Capital Markets Intelligence (30 October) includes an article by Sviatoslov Rosov, CFA, Analyst, Capital Markets Policy at CFA Institute, “Initial Coin Offerings: Fraud or the Future of Finance?” Rosov writes, “By mid-September 2017, [initial coin offerings (ICOs)] had just come through a tumultuous period, which saw the government in one of the largest ICO markets, China, ban the digital coin offerings, and also order the closure of Bitcoin exchanges for good measure.” The handbook, published annually, features articles from leading capital market specialists at investment banks, exchange associations, and financial organizations.

Financial Advisor Magazine (7 November) reports on the updated findings from the October 2017 CFA Institute *Environmental, Social, and Governance (ESG) Survey Report*. The report confirmed that, “as in 2015, 73 percent of respondents take ESG into account in their investment analysis and decisions.”

Pensions & Investments (12 November) features a video report with Josina Kamerling, Head of Regulatory Outreach EMEA at CFA Institute. Kamerling discussed the key issues on which CFA Institute is focused as Brexit negotiations continue.

NASDAQ (15 November) includes an article by Kurt Schacht, Managing Director of Advocacy at CFA Institute, who writes that the recent unpopularity of IPOs is “short sighted,” due to market factors limiting IPOs in the US but that may not be so influential elsewhere. Schacht advocates for small businesses to be entered into special “venture exchanges” to make investors more risk aware; the forums would also “serve as . . . venues for development and experimentation.”

Financial Times (19 November), *Reuters* (20 November), *Bloomberg* (4 December), and *Reuters* (4 December) provide wide coverage for the CFA Institute report, *MiFID II: A New Paradigm for Investment Research*.

Accounting Today (21 November) reports on a CFA Institute study that found few public companies have been disclosing the impact they expect from the new revenue recognition accounting standard.

Accounting Today (28 November) and *Financial Executives International Daily* (6 December) report on the Pace University Lubin School of Business second annual *Pacesetters in Financial Reporting Conference*, at which Sandy Peters, Head of the Financial Reporting Policy Group at CFA Institute, presented investor perspectives on the new revenue recognition standard.

Economia (5 December) includes comments from Vincent Papa, Director of Financial Reporting at CFA Institute, on the challenges of reliable reporting.

CNBC: (2 January) Rhodri Preece, CFA, Head of Capital Markets Policy EMEA at CFA Institute, appeared on “Squawk Box” to discuss MiFID II.

COMMENT LETTERS

6 November 2017: [CFA Institute Comment Letter on the EBA's Approach to Fintech \(PDF\)](#)

13 October 2017: [CFA Institute Comment Letter on Certain Aspects of the MiFID II Suitability Requirements \(PDF\)](#)