

From: Matt Orsagh
Sent: Tuesday, March 11, 2014 1:04 PM
To: OFM Performance and Planning
Cc: James Allen; Kurt Schacht; Bob Dannhauser
Subject: CFA Institute Comments on Strategic Plan

Greetings,

Please accept these comments on the 2014 -2018 SEC Strategic Plan on behalf of the CFA Institute. Please let us know if you have any questions.



477 Madison Avenue
21st Floor
New York, NY
10022-5802 USA

+1 (212) 754 8012 tel
+1 (212) 756 7730 fax
info@cfainstitute.org
www.cfainstitute.org

10 March 2014

The Securities and Exchange Commission
100 F Street, NE
Washington, DC
20549

Re: Review of and Comment on SEC Strategic Plan: Fiscal Years 2014 – 2018

To whom it may concern:

CFA Institute¹ welcomes the opportunity to comment on the Security and Exchange Commission's (the Commission) Strategic Plan for fiscal years 2014 – 2018. We are supportive of the Commission's mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation, and we hope our comments are useful to the SEC staff in helping to fulfill that mission.

CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

**Executive
Summary**

The 2014 – 2018 strategic plan focuses on four main strategic goals as outlined by the Commission:

1. Establish and maintain an effective regulatory environment

2. Foster and enforce compliance with the federal securities laws
3. Facilitate access to the information investors need to make informed investment decisions
4. Enhance the Commission's performance through effective alignment and management of human, information, and financial capital.

In this letter, we comment on each of these strategic goals, although we do not touch upon every strategic objective which underlies each goal. CFA Institute members serve across multiple capacities in the financial services industry, and therefore the interests of CFA Institute and its members cover many of the goals and objectives set out by the Commission.

CFA Institute believes the SEC addresses the proper areas of investor interests in the strategic plan, and we believe the main strategic goals are appropriate. We have used this consultation request to suggest work on specific issues, to state which objectives we see as a higher priority, and to offer the Commission our time and expertise should it prove helpful.

Like all organizations, the SEC has a finite set of resources both in manpower and budget. This strategic plan also speaks to the Commission's ambitious agenda. Therefore we would find it helpful if the SEC could indicate relative

¹ CFA Institute is a global, not-for-profit professional association of more than 119,700 investment analysts, advisers, portfolio managers, and other investment professionals in 147 countries, of whom nearly 112,400 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 140 member societies in 61 countries and territories.

priorities of initiatives described among its goals and objective so that the consequences of limited resources can be better understood.

Strategic Goal 1: Establish and maintain an effective regulatory environment

Strategic Objective 1.1: The SEC establishes and maintains a regulatory environment that promotes high-quality disclosure, financial reporting, and governance, and that prevents abusive practices by registrants, financial intermediaries, and other market participants.

Proxy Plumbing

The strategic plan states that the SEC looks to consider issues related to the mechanisms of proxy voting and shareholder-company communications, including the role of proxy advisory firms. We urge the Commission to consider the integrity of proxy voting systems so that investors and issuers can be assured that their votes are counted, can be confirmed, and that the process of proxy voting is undertaken with the utmost integrity. This is an issue of importance to our members, investors, and issuers around the world, and not only a concern within the United States. SEC leadership in this area could have a positive influence on world financial markets.

Proxy Advisory Firms

CFA Institute questions whether rulemaking is necessary for proxy advisory firms, when the market for the services of such firms may be better able to address such concerns, as has largely been the case historically.

Shareholder – Issuer Engagement

A number of organizations have established codes for engagement between shareholders and issuers, including [the Best Practice Principles for Shareholder Voting Research & Analysis](#) recently put forth by proxy advisory

firms. If the Commission does not believe that this effort or efforts of its kind rise sufficiently to a standard of self-regulation, we would urge the SEC to make its views known and clear.

We also suggest action on the issue of shareowner proxy access and a further review of the rules and clarity around Compensation Discussion and Analysis disclosure practices. Both issues are of strong importance to investors and deserve consideration and action as ways of further enhancing investor engagement and protections.

Strategic Objective 1.2: The SEC promotes capital markets that operate in a fair, efficient, transparent, and competitive manner, fostering capital formation and useful innovation.

Market Innovation

We believe it is in the best interests of issuers, investors and the financial industry to have financial products that serve the needs of all parties and efficiently allocate capital throughout the market. However, in recent years we have seen the proliferation of more and more complex financial products that don't always serve investors or help in the formation of capital. We urge the Commission to set amongst its highest priorities to ensure that these products adhere to a level of transparency that is needed for investors to make reasoned decisions. We believe

this is necessary regardless of whether the financial products are intended for institutional or retail investors.

Regulating Credit Rating Agencies

Regarding the reduction of reliance on credit ratings agency ratings from SEC rules, we request that the Commission publish an evaluation of this effort sometime in the next 1-3 years. In particular, we believe this evaluation should consider the effect these changes have had in investor and credit agency behavior.

Asset-Backed Securities

We urge the Commission to take steps to enhance transparency in the asset-backed (ABS) and mortgage-backed securities (MBS) markets. In particular, we support requiring issuers to make offering documents and supporting data available to investors at least 24 hours before commencing an offering of MBS markets to ensure that investors have a reasonable basis for their investment decisions and to enable them to adhere to their duties on behalf of their clients.

We also urge the Commission to proceed with implementation of proposed regulations on credit risk retention.

Strategic Objective 1.3: The SEC adopts and administers regulations and rules that are informed by robust economic analysis and public comment and that enable market participants to understand clearly their obligations under the securities laws.

Cost Benefit Analysis of Rules

We have concerns about the feasibility of some cost/benefit analysis and the effect on timeliness of prudential regulation. In particular, we are concerned about whether the SEC has the funding needed to undertake a cost-benefit analysis for all of its rules. A lack of sufficient funding would make these types of studies less likely, thus permitting some to hamper regulation on the grounds that the cost-benefit analysis was not sufficient. This could prevent a balancing of the scales between investors and issuers, or investors and intermediaries. At the least, we urge timely clarification as to the standards that apply to the SEC for design and conduct of cost-benefit analyses and the Commission's assessment of the resources required to uphold those standards in future rulemaking.

We are also cognizant of the time it takes to conduct such studies, and call for the SEC to examine the cost and benefit of the time needed to undertake such economic analyses, noting that plenty of suboptimal outcomes can take place while time is taken to conduct cost-benefit analyses that aren't always additive to the regulatory process.

Strategic Objective 1.4: The SEC engages with a multitude of stakeholders to inform and enhance regulatory activities domestically and internationally.

Engagement with stakeholders

We endorse the efforts of the SEC to engage with a multitude of stakeholders to enhance regulatory activities. We stress the need to ensure that investors are always included in this process of these regulatory efforts, as they are at the ultimate beneficiaries of the Commission's work.

We also encourage the SEC to continue to coordinate its efforts with international bodies where appropriate especially in issues having to do with systemic risks.

Strategic Goal 2: Foster and enforce compliance with the federal securities laws

Strategic Objective 2.2: The SEC promptly detects and deters violations of the federal securities laws.

Whistleblower program

CFA Institute believes that a strong and easily understood whistleblower program can help to discourage certain behavior by some market participants and enhance the effectiveness of the Commission's enforcement program. However, for a whistleblower program of this type to be effective, certain tensions must be balanced. Please see more detailed comments on this issue in our [2011 comments letter](#) on the whistleblower program.

SEC Staff education

We are pleased to see that the SEC encourages its staff to enhance its expertise by gaining certifications such as the CFA charter. The CFA Institute is willing to work with the SEC and its staff to continue to enhance the education of SEC staff.

Strategic Objective 2.3: The SEC prosecutes violations of federal securities laws and holds violators accountable through appropriate sanctions and remedies.

Enforcement penalties

The strategic plan states that the SEC plans to review the approach for enforcement penalties. We urge the Commission to provide a timetable for such review to be completed and the types of changes it is considering. If this review proposes changes, we urge the Commission to consider submitting any proposed changes to the marketplace for review and consideration.

In particular we encourage the Commission to review its enforcement penalty structures and application in the context of whether they are achieving proper deterrence effects. There seems to be a rash of large financial firms that are "scofflaw" in nature with repeated offenses coupled with minor fines and "neither admit nor deny" wrong-doing settlements.

Strategic Goal 3: Facilitate access to the information investors need to make informed investment decisions

Strategic Objective 3.1: The SEC works to ensure that investors have access to high-quality disclosure materials that facilitate informed investment decision-making.

Proxy disclosure

Proxy disclosure has improved in recent years, but there is still room for improvement. In particular, we believe there is room for considerable improvement in the quality and clarity of Compensation Discussion and Analysis. Despite requirements for "clear, concise and understandable disclosures" under Item 402 of Regulation S-K, issuers tend to ignore the approach of more precise, plain language disclosures. CFA Institute has recently taken on the task of creating a [CD&A template](#) for issuers that can better achieve this goal, while still adhering to Item 402. Yet, practitioners, issuers and investors alike often cite the complexity of Item 402 and related Instructions as an impediment to creating clear and understandable disclosure. We encourage the Commission to reexamine these issues and offer the best practices of the CFA Institute's CD&A Template as a stepping off point for a CD&A approach that would better serve both issuers and investors.

Reporting needs to keep end-user in mind

Information needs to be provided with the end user – investors in mind. Too often it seems issuers drive the reporting process, not necessarily providing what investors need. CFA Institute welcomes the opportunity to work with the SEC to ensure that future enhancements in reporting adequately meet the needs of investors.

Reporting requirement – technological solutions

There is a tension between investor benefit and issuer cost of collecting and reporting data. In most instances, technology can and should be used to overcome much of the additional cost of beneficial disclosure to investors.

XBRL and other technologies that allow easier use of data

The strategic plan states that the SEC is looking to make information more useful for analysis. In the past, the SEC has supported the use of XBRL. We encourage the Commission to continue with implementation and integration of XBRL.

Strategic Objective 3.2: The SEC works to understand investor needs and educate investors so they are better prepared to make informed investment decisions.

Investor input

As stated above, CFA Institute believes that it is imperative that all disclosures keep the ultimate user (investors) in mind when the rules for such disclosures are established. We encourage the Commission to consider additional and better ways to incorporate investor views into SEC decision making, particularly with regard to disclosure rules.

Educational initiatives

CFA Institute is happy to offer our assistance with any educational initiatives the SEC hopes to develop.

Strategic Goal 4: Enhance the Commission’s performance through effective alignment and management of human, information, and financial capital

Strategic Objective 4.1: The SEC promotes a results-oriented work environment that attracts, engages, and retains a technically proficient and diverse workforce, including leaders who provide motivation and strategic direction.

Employee retention

CFA Institute agrees that it is important to increase employment engagement and retention. As noted above, we support programs to educate staff about investment practices.

Strategic Objective 4.2: The SEC encourages a collaborative environment across divisions and offices and leverages technology and data to fulfill its mission more effectively and efficiently.

Use of technology

CFA Institute supports the use of technology to help monitor market activity, to uncover market manipulation, and as an initial effort to review of investment firms and professionals. We urge the Commission to disclose the

work it has conducted to develop systems that will allow more information to be quickly shared, analyzed and joined with

other information, what kind of systems are still in development, the purpose of such systems and when they might be placed in service.

Strategic Objective 4.3: The SEC maximizes the use of agency resources by continually improving agency operations and bolstering internal controls.

Registered investment adviser oversight

Investment adviser oversight is an issue of interest to our members and critical to the integrity of the financial markets. We are concerned that the SEC currently does not have the resources to effectively oversee registered investment advisers, and doubt that it will receive sufficient funds in the future. Consequently, we urge the SEC to consider a study of the costs of registered investment adviser oversight as compared with the cost to outsource that oversight to an independent SRO, together with any potential benefits that such a regulatory structure might produce.

CFA Institute appreciates the opportunity to comment on the Commission's Strategic Plan 2014 – 2018. Please do not hesitate to contact us, should you seek clarifications concerning any of our comments. Also please do not hesitate to contact CFA Institute if we could be of service in helping the Commission fulfil its mission.

Sincerely,

/s/ Kurt N. Schacht

Kurt N. Schacht, JD, CFA
CIPM Managing Director
Policy Standards & Financial Markets Integrity Division

/s/ Matthew M. Orsagh

Matthew M. Orsagh, CFA,
Director, Capital Markets
CFA Institute