

27 March 2019

David Stubbs  
Primary Markets Policy  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

E-mail to: cp19-07@fca.org.uk

Dear Mr. Stubbs,

**CFA UK response to the FCA's Consultation (CP19/07) on the proposals to improve shareholder engagement**

The CFA Society of the UK (CFA UK) welcomes the opportunity to share its views on the FCA's consultation on proposals to improve shareholder engagement.

CFA UK welcomes any initiative that aims to raise professional standards and improve the integrity of capital markets by promoting stewardship and corporate governance both through regulations and voluntary codes. Within the regulatory framework, CFA UK advocates greater transparency of engagement policies and investment strategies across the institutional investment community.

CFA UK's commitment to ESG initiatives is demonstrated by its focus on the continued professional development of its members. We are currently in the process of developing an ESG certification programme to enable investment professionals to gain the skills and knowledge for integrating ESG factors into their investment processes.

Please note CFA UK's previous responses to the FCA's and other public bodies' consultations in this regard which are listed in Appendix 2 of this letter.

CFA UK is in overall agreement with the proposed implementation of SRD II in the UK. Hence our approach to this consultation is to highlight the following key areas instead of responding to individual questions which in our opinion have been adequately addressed.

- 1) CFA UK believes that the UK should take a lead in exporting best practice. Hence, we fully support the proposal to extend the territorial scope of the Directive to include all overseas issuers since they would like UK-domiciled investors to buy their equity (and bonds). This should improve governance and lead to consistency in oversight and engagement with respect to all issuers. Its relevance has particularly increased since the percentage owned by institutional investors in overseas equities has gone up substantially. We would wish to

observe, however, that in practice, the degree to which engagement is possible is dependent on geographic and other factors, particularly in emerging markets.

- 2) CFA UK would like to see the Directive apply to all corporate assets including equity, bonds as well as private equity. This would lead to enhanced engagement with the issuer at the time of maturity and refinance of liabilities in the case of bonds and an effective oversight with a concentrated holding in the case of private equity. As a baseline for stewardship, the Directive's scope we believe should be the same as that of the code being proposed and consulted on by the FRC.
- 3) CFA UK believes that any inconsistency between MiFiD II and the Directive should be avoided eg whether slippage costs should be included under turnover costs as defined in clause 2.2B.9 (3) of the Draft Handbook.

We are grateful for the opportunity to respond to these valuable consultations and would welcome the opportunity to take any questions you may have.

Yours sincerely,



Will Goodhart,  
Chief Executive  
CFA Society of the UK



Andrew Burton  
Professionalism Adviser  
CFA Society of the UK

With thanks to contributions from:

Sangeeta Chawla, CFA  
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### **Appendix 1: About CFA UK & the CFA Institute**

**CFA UK:** serves nearly 12,000 leading members of the UK investment profession.

- The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence in order to serve society's best interests.
- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute (see below) and provides continuing education, advocacy, information and career support on behalf of its members.
- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

**CFA Institute:** is the global association for investment professionals.

- The mission of CFA Institute is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.
- It awards the Chartered Financial Analyst® (CFA), and Certificate in Investment Performance Measurement® (CIPM) designations worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.
- As of 1<sup>st</sup> February, CFA Institute has more than 165,000 members in 162 markets, of which more than 160,000 hold the Chartered Financial Analyst® (CFA) designation.

## **Appendix 2: Previous CFA UK consultation responses to FRC on UK corporate governance and stewardship:**

- Response to FRC's consultation on proposed revisions to the UK Corporate Governance Code and the future direction of the Stewardship Code (Feb 2018):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-letter-to-catherine-horton-28-feb-2018--final.pdf?la=en&hash=CF53FFB72384C08CF5D6D7BC85E310C6EBF4320A>
- Response to Green Paper on UK Governance Reform (Nov 2016):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/responses/cfa-uk-response-to-corporate-governance-reform-green-paper-nov-2016.pdf?la=en>
- Response to FRC's consultation on proposed revisions to the UK Corporate Governance Code (May 2014):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2014/6-june/ukcorporategovernancecode.pdf?la=en>
- Response to FRC's consultation on revisions to the UK Corporate Governance Code (July 2012):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2012/7-july/codeforcorporategovernance.pdf?la=en>
- Response to FRC's consultation on revisions to the Stewardship Code (June 2012):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2012/7-july/stewardshipcode.pdf?la=en>
- Response to the Kay Report Interim Review (April 2012):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2012/4-april/kayreviewinterimreport.pdf?la=en>
- Response to the FRC's consultation on proposals to reform the FRC (January 2012):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2012/1-january/reformtothefinancialreportingcouncil.pdf?la=en>
- Response to the Kay Review of UK equity markets (December 2011):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2012/11-november/kayreviewrecommendations.pdf?la=en>
- Response to FRC's consultation on revisions to the UK Corporate Governance Code (March 2010):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2010/3-march/reviseducorporategovernancecode.pdf?la=en>
- Response to FSA's consultation paper (10/03) on effective corporate governance (May 2010):  
<https://www.cfauk.org/-/media/files/pdf/pdf/5-professionalism/2-advocacy/letters/2010/4-april/effectivecorporategovernance.pdf?la=en>