



Setting the global standard for investment professionals

David Wright
Director, Financial Services Policy and Financial Markets
DG Internal Market
European Commission
Avenue Cortenbergh 107, 3/28
Brussels 1049
BELGIUM

01 September 2005

Dear David,

SUPPLEMENT TO WORKING DOCUMENT ESC/17/2005 ON ORGANISATIONAL REQUIREMENTS – INVESTMENT RESEARCH

The CFA Centre for Financial Market Integrity (CFA Centre)¹ is grateful for the opportunity to comment on the European Commission’s Supplement to Working Document ESC/17/2005 on organisational requirements – Investment Research (“Working Document”).

The CFA Centre represents the views of more than 71,000 financial analysts, portfolio managers, and other investment professionals in over 100 countries worldwide on issues that affect the practice of financial analysis and investment management, education, and licensing requirements for investment professionals, and the efficiency of global financial markets. The CFA Centre also develops, promulgates, and maintains the highest ethical standards for the global investment community through such standards as the CFA Institute Code of Ethics and Standards of Professional Conduct.

General Comments

We believe that investor interests are paramount and overall strongly support the proposed implementing measures contained in the Working Document, seeing them as a significant step forward for investor protection in Europe. The CFA Centre has actively advocated for protecting investors and has worked to improve the integrity of capital markets globally through the development of voluntary ethical standards. We appreciate the importance of the work the Commission is doing in this area and are grateful to be able to offer our comments.

We believe the proposed Working Document offers appropriate measures to ensure the objectivity of research in Europe, thus protecting investors. Specifically, we underline our support for the Commission’s proposed positive labeling approach to investment research. This makes it very clear to the investor as to what it is they are reading and the controls that are in place to ensure independence and objectivity.

¹ The CFA Centre for Financial Market Integrity is a part of CFA Institute. With offices in London, Hong Kong, New York, and Charlottesville, VA, CFA Institute, formerly, the Association for Investment Management and Research®, is a global, non-profit professional association of more than 71,000 financial analysts, portfolio managers, and other investment professionals in 119 countries and territories of which more than 57,900 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 131 Member Societies and Chapters in 52 countries and territories.

There are, however, a number of points which we believe merit further consideration before the draft measures are finalised.

Specific Comments

Definitions

“Investment Research”: While the vast majority of research reports include a recommendation and/or a price or earnings target, not all do. Some reports are strictly informational and do not make a specific recommendation. We believe it would be helpful for the Commission to clarify if these reports would also be considered “investment research”.

In addition, the proposed definition limits “investment research” to recommendations concerning one or more financial instruments. We believe that the Commission should also consider if broader research (macro economic, industry sector, country specific, etc.) be included under the definition.

Footnote 2 appears to have a mistake. We suggest the following: “Any opinion as to the present or future value or price of a financial *instrument* will normally qualify as *recommending* or *suggesting* an investment strategy or *expressing* a particular investment recommendation, explicitly or implicitly, concerning *one* or more financial instruments or issuers thereof.”

Conclusion

The Working Document, in conjunction with the other proposed organisational requirements in ESC/17/2005, creates a strong framework for the organisation of investment research in Europe. The CFA Centre for Financial Market Integrity applauds the Commission for these proposals and strongly supports the recommendations contained therein. If you should have any questions, please contact John Barrass at +44 (0) 20 7712 1553 or john.barrass@cfainstitute.org.

Respectfully,

A handwritten signature in black ink that reads 'Jonathan Boersma'.

Jonathan A. Boersma, CFA
Director - Standards of Practice
CFA Centre for Financial Market Integrity
CFA Institute

A handwritten signature in black ink that reads 'John Barrass'.

John F. D. Barrass
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Cc: Jeffrey Diermeier, CFA, Chief Executive Officer, CFA Institute
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