

Association for Investment Management and Research

BOARD OF GOVERNORS

MEETING MINUTES

26 July 2003

Charlottesville, Virginia

Notice: 16 July 2003

Governors Present: Robert E. Angelica, CFA
Theodore A. Aronson, CFA
Thomas A. Bowman, CFA
Dwight D. Churchill, CFA
Jeffrey J. Diermeier, CFA
Frank C. Dohn, CFA
Vincent Duhamel, CFA
Denise M. Farkas, CFA
Emilio Gonzalez, CFA ☎
Monique E.M. Gravel, CFA

Amaury Jordan, CFA
Cheryl-Ann E. Lister, CFA
Janet T. Miller, CFA
George W. Noyes, CFA
Yoshiharu Okazaki, CFA
Philippe A. Sarasin, CFA
John C. Stannard, CFA
Malcolm M. Trevillian, CFA
Donald W. Trotter, CFA

Governors Absent: Khalid Ghayur, CFA

Incoming Governors

Present: Anthony H. Cagiati, CFA
Shirley Shea DeJarnette, CFA
James M. Lyon, CFA

Alex K.G. Ng
Teong Keat (T.K.) Yap, CFA

President Council

Representatives

Present: Daniel P. Broby
Kathleen C. Chrisman, CFA
Christopher G. Dunmall, CFA
Warren A. Johnson, CFA
Joseph Y.S. Lim, CFA

Todd Parker Lowe, CFA
Daniel S. Meader, CFA
Nanci D. Morris, CFA
John M. Rickel, CFA
William R. Warnke, CFA

Also Present: Ron Bancroft, Consultant
Moira J. Coleman, Senior Vice President, Corporate Services,
AIMR
Raymond J. DeAngelo, Senior Vice President, Stakeholder
Services and Global Relations, AIMR
Holly Hueston, Associate, Business Planning and Analysis,
AIMR
Robert R. Johnson, CFA, Senior Vice President, Curriculum and
Examinations, AIMR
Joseph P. Lange, Associate, Office of General Counsel, AIMR

William P. McKeithan, Senior Vice President and General Counsel, AIMR
Timothy G. McLaughlin, Senior Vice President and Chief Financial Officer, AIMR
Keith R. Payne, Senior Vice President, Information Technology, AIMR
Katrina F. Sherrerd, CFA, Senior Vice President, Educational Products, AIMR
Randall R. Smith, Consultant
Eric J. Strucko, Vice President, Business Planning and Analysis, AIMR
Patricia D. Walters, CFA, Senior Vice President, Professional Standards and Advocacy, AIMR
Guy Williams, Vice President, Finance, AIMR

Materials

Distributed

Prior to Meeting: AIMR Board Book

Chair: Dwight D. Churchill, CFA

Meeting Secretary: Joseph P. Lange

FY 2004 Budget

The Board was presented the proposed operating budget for fiscal year 2004 for approval. It was stated that the Planning Committee was very involved in the development of the budget. The main principles and assumptions for the budget were outlined as follows:

Principles

- Hybrid zero-based/current services budget
- Reconciliation and explanation of all revenue and expense changes from current FY 2003 to FY 2004 operations
- Budget based on actual experience
- Budget not geared to specific operating margin target. Plan to deploy resources with respect to strategic objectives, justify all costs, develop savings initiatives, and the operating margin is the result.
- Non-operating gains or losses not budgeted, only interest income
- Budget is done by department, sub-department, and project down to the individual expense line item creating approximately 300 individual budget schedules
- Each of the 300 budget schedules is a full reconciliation and explanation of all revenue and expense changes to that project by expense line item.

Assumptions

- 10% decrease in new candidate enrollment
- 3% inflation for non-labor expenses
- 4% average salary increase
- Travel (airfare, hotel, meals) based on contracted agency, meeting services, or personal experience
- Group and health insurance increase of 12%
- December/June candidate factor – one candidate sitting twice for the exam in one fiscal year
- Member growth of 15.5%

It was explained that FY 2003 and FY 2004 are transition years due to the SARs epidemic and the related exam deferrals and the cannibalization effect on candidates sitting for the Level I exam in June with the second administration now offered in December.

Estimated candidate enrollments for FY 2004 were stated to total 133,000 with 17,000 taking the exam both in December and June. That would include 35,000 new candidates coming in June and 6,000 in December. The operating budget in GAAP reporting only (not cash flow) was projected to be \$96.8 million revenue and \$95.2 million expenses with a \$1.6 million operating margin. New programs, which included professional standards/advocacy, global restructuring, name change impact, and internal auditor were projected to total \$2.6 million and contingencies and deferrals identified would total \$1,452,000.

Sources of operating revenue for FY 2004 with the effects of SEC SAB 101 removed and the percentage of costs with regards to direct expenses only were projected as follows:

	<u>Revenue</u>	<u>Costs</u>
CFA® Examination & Curriculum	78%	38%
Membership	17%	38%
Support Services		15%
Educational Products	5%	
Professional Standards	1%	
Information Systems		9%

The Board discussed the budget and the following resolution was passed unanimously.

RESOLVED, that the fiscal year 2004 Operating and Capital Budget substantially in the form presented at this meeting is accepted and approved; and

FURTHER RESOLVED, that the proper officers of AIMR are hereby authorized, empowered, and directed to take such action as necessary to implement the resolve of the Board.

Strategic Plan

The Board received and reviewed the proposed Strategic Plan (Plan) and associated planning process for approval. Background on the development of the strategic-planning approach was outlined for the Board. AIMR had engaged in a process to develop a strategy for the organization that included numerous planning meetings involving the Board, the Planning Committee, society leaders, and senior managers. From these efforts, the Management Committee, with the guidance of a consultant, developed a strategic plan to guide AIMR through the next five years.

It was explained that AIMR's mission statement is the apex of the planning process, which is supported by Vision 2008, a concise depiction of the potential of the organization by 2008. Vision 2008 is brought together by four strategic objectives: broad multiyear objectives whose accomplishment will fulfill the vision. In turn, each strategic objective is supported by 12-month milestones, which will be defined annually, and specific 90- to 120-day action plans for each milestone. For the Vision 2008, the following four strategic objectives were identified:

- Protect and build the CFA brand;
- Position AIMR as a thought leader;
- Enhance member/candidate satisfaction through technology; and
- Reshape the organization to be more integrated, flexible, and responsive.

To assist in the execution of the Plan, AIMR adopted a strategic accountability process that involves quarterly reviews by the Management Committee and an annual review by the Planning Committee and the full Board. It was noted to the Board that as a general rule an organization should have an 80% probability of executing 95% of the milestones. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the planning process and Strategic Plan substantially in the form presented at this meeting.

Overview of Vision for Global Professional Standards and Advocacy

The Board was provided an overview of the vision for Global Professional Standards and Advocacy in which feedback was requested. A considerable amount of time had been spent developing plans to determine where the organization needed to devote resources going forward to achieve true global advocacy, maintain consistency among regions, and involve volunteers. The Planning Committee had reviewed some of the preliminary plans for global advocacy such as the overall philosophical approach and business plan. It emphasized that AIMR will need to obtain buy-in from a whole host of different membership constituencies to implement.

In order to institute a more nimble, diverse, and decentralized advocacy program there will need to be control processes established to ensure consistency in the organization's positions

and streamlining the approval process for implementing standards. In addition, there will need to be a balance of staff and volunteers' input to focus the resources of the advocacy program on the proper issues.

The Board discussed and reviewed the strategic objectives for the advocacy program, specifically, the relationship between advocacy and public relations. Furthermore, the Board discussed issues surrounding SRO developments and lobbying. Noting the huge and adverse effect that an SRO environment could have on the organization, the Board instructed AIMR management to actively monitor any analyst SRO developments, engage with the appropriate regulator and report back to the Board accordingly.

Name Change Issues and Proposed Plan

Board authorization was requested on a proposal to begin exploring the possibility of a new name for the organization. This topic continues to surface at the grass-roots level, among society and chapter leaders, and among other volunteers. Essentially, many people feel that AIMR does not have a name that accurately reflects its membership or the CFA brand. The goal is to determine whether the organization would be best served with a new name, what the name should be, and finally, what implications a name change would have on the organization. The Board proceeded to discuss some of the pros and cons associated with a name change.

Should the Board authorize this process, the goal would be to bring a recommendation to the Board in November regarding whether or not AIMR should change its name. If the recommendation is for a name change and the Board gives its approval, it would move to a member vote on the subject with the 2004 proxy. It was explained that AIMR being a Virginia corporation would require a super majority vote (two-thirds of the voting members) to approve the name change.

Furthermore, should the process be implemented, it is AIMR's intention to partner with its advertising agency, Citigate, on this initiative. Citigate has extensive experience in the field of corporate branding and has been involved with similar projects with many firms in the financial services industry including the National Association of Securities Dealers (NASD). The following resolution was passed unanimously.

RESOLVED, that the Board of Governors authorize proceeding with the initiative to explore changing the name of the organization.

Research Objectivity Standards for Firms that Sell Research

The proposed Research Objectivity Standards for Broker-Dealers, Investment Banks, and other Firms that sell Research that consisted of eleven requirement sections were presented to the Board for adoption. An historical overview of the development of the Standards was provided and they were noted to:

- Be consistent with the AIMR mission of setting global standards of integrity and professional excellence;
- Protect investors and help restore investor confidence;
- Support and protect the independence and objectivity of research;
- Provide AIMR a strong position to advocate globally; and
- Compliment the Code of Ethics and Standards of Practice at a firm level.

It was explained that both the U.S. Securities and Exchange Commission and the NASD had observers present during many of the deliberations and draft provisions of the Standards are incorporated into the current SRO rules. Other national and regional regulators (e.g., United Kingdom, European Commission) have also incorporated elements from the Standards into enacted or proposed regulations.

It was emphasized that adopting the Standards will extend AIMR's position as the premier global standard-setting body for the investment industry and reflects AIMR's commitment to developing and promulgating the highest ethical standards, not only for its individual members but also for the firms that employ them. AIMR believes that the adoption of the Standards will help create greater market demand for research conducted by analysts working for firms that adopt the new Standards. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the Research Objectivity Standards for Broker-Dealers, Investment Banks, and other Firms that Sell Research substantially in the form presented at this meeting.

Revised Code of Ethics and Standards of Professional Conduct Public Comment Period

The Board reviewed and discussed the Standards of Practice Council's (SPC) proposal for an invitation for comment on the revised Code of Ethics and Standards of Professional Conduct (Code and Standards). The SPC was charged with reviewing and revising the Code and Standards to ensure that they are:

- Representative of the "highest standards" of ethical behavior;
- Relevant and appropriate on a global basis;
- Sufficiently comprehensive, practical, and specific;
- Able to be enforced; and
- Able to be tested in the CFA Exam.

The SPC concluded that the current Code and Standards needed to be updated to continue to be effective and represent the highest ethical standards in the global investment industry. It was understood that the changes to the Code and Standards have far reaching implications for AIMR members, CFA Candidates, the CFA Program, and the investment industry as a whole. Therefore, it was requested that the proposed changes should be available for comment by the membership and other industry participants (e.g., trade associations, employers, regulators) for a minimum of 90 days to ensure that AIMR receives the best input on the content of the

Code and Standards. The proposal will be accompanied by an "Invitation to Comment" explaining in detail the revisions that have been made, their rationale, and questions that the SPC would like AIMR members to address in their comments. It was noted that the materials would be posted on the AIMR Web site. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve release of the revised Code of Ethics and Standards of Professional Conduct for a 90-day public comment period substantially in the form submitted at this meeting.

FY 2004 Oversight Committee Members

The Board was presented with the member assignments to each of the four Oversight Committees for FY 2004.

Audit Committee

Denise M. Farkas, CFA (Chair)

Dwight D. Churchill, CFA

Shirley Shea DeJarnette, CFA

External Relations and Volunteer Involvement Committee

John C. Stannard, CFA (Chair)

Robert E. Angelica, CFA

Thomas A. Bowman, CFA

Anthony H. Cagiati, CFA

Emilio Gonzalez, CFA

James M. Lyon, CFA

Teong Keat (T.K.) Yap, CFA

Performance Oversight Committee

Janet T. Miller, CFA (Chair)

Thomas A. Bowman, CFA

Monique E.M. Gravel, CFA

Nicola Ralston

Malcolm M. Trevillian, CFA

Planning Committee

Jeffrey J. Diermeier, CFA (Chair)

Theodore R. Aronson, CFA

Thomas A. Bowman, CFA

Vincent Duhamel, CFA

Khalid Ghayur, CFA

Alex K.G. Ng

George W. Noyes, CFA

FY 2004 Committee Chairs

The Board was presented with the committee chair recommendations for FY 2004 for approval. The following resolution was passed unanimously.

RESOLVED, that each of the following persons are elected to serve as indicated on the committee and, if applicable, in the indicated position set forth opposite their name for a one-year term commencing 1 September 2003 and until their successors are chosen and qualified:

Education

Annual Conference Committee	Chair: Jane Farris, CFA
Candidate Curriculum Committee	Chair: James W. Bronson, CFA
CFA Examination Committee	Chair: Frank K. Reilly, CFA
Council of Examiners	Chair: Thomas B. Welch, CFA
Financial Analysts Seminar	Chair: Brian D. Singer, CFA
Global Investors Workshop	
Advisory Council	Chair: Andrew Fleming
Investment Management Workshop	Chair: Inactive
Professional Development Program	Chair: Joseph T. Dabney, III, CFA
Technology Advisory Committee	Chair: Richard K. Barnett, CFA

Stakeholder Services and Global Relations

Global Council	Chair: Ole Jacobsen
Member Admissions Committee	Chair: To Be Determined
Public Awareness Committee	Chair: Robert M. Bilkie, Jr., CFA

Professional Standards and Advocacy

Asian-Pacific Advocacy Committee	Chair: Raymond Orr, CFA
Canadian Advocacy Council	Co-Chair: Timothy P. McCafferty, CFA
	Co-Chair: David L.H. Yu, CFA
Disciplinary Review Committee	Chair: John H. Pieper, CFA
European Advocacy Committee	Chair: Frederic P. Lebel, CFA
Financial Accounting Policy Committee	Chair: Jane B. Adams
Global Financial Reporting Advocacy Committee	Chair: Patricia A. McConnell
Investment Performance Committee	Chair: James E. Hollis, III, CFA
AIMR-PPS Implementation Committee	Chair: Karyn D. Vincent, CFA
Standards of Practice Council	Chair: Lee N. Price, CFA
U.S. Advocacy Committee	Chair: James W. Vitalone, CFA

Recognition of Retiring Governors

The Board recognized retiring governors and the chair for their involvement and service with the organization. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors for the Association for Investment Management and Research expresses its most sincere appreciation to:

Frank C. Dohn, CFA;
Amaury Jordan, CFA;
Cheryl-Ann E. Lister, CFA;
Yoshiharu Okazaki, CFA;
Philippe A. Sarasin, CFA; and
Donald W. Trotter, CFA

for outstanding leadership, significant sacrifice of time and effort, and exemplary spirit of dedication purpose in advancing the profession during their terms as governors on the AIMR Board.

Meeting Minutes

The Board unanimously approved the 10-11 May 2003 meeting minutes.

Nomination Evaluation Task Force

The Nomination Evaluation Task Force presented its report and recommendations to the Board. The Executive Committee established the Task Force with the charge of evaluating the present Board of Governors nominating process and making recommendations for improvement. The Task Force consisted of three Board members, two President Council Representatives (PCRs), and the president of an extra large society. The Task Force engaged a consultant from PricewaterhouseCoopers to assist with gathering data. The consultant conducted interviews with twenty-two diverse AIMR members to obtain grass-roots input, reported on its interviews, and facilitated discussions to enable the Task Force to focus its work. Research was also conducted to identify best practices with regards to the nominations process of other for-profit and non-profit organizations similar to AIMR. After analyzing the data, the Task Force decided on the following framework for its discussions:

- Governance needs of the Board;
- Composition and continuity of the Nominating Committee;
- Structuring the Nominating Committee's work; and
- Communications with the membership.

The Task Force issued twenty-five recommendations that are interlinked. The Task Force recommended the adoption of its recommendations as a single package emphasizing that selective adoption of the recommendations could upset the delicate balance of the nominations process.

The Board proceeded to review the Task Force's report and recommendations that will be posted on the AIMR Web site.

Indemnification Policy

The Board reviewed the issue of volunteer indemnification. It was explained that the Articles of Incorporation for AIMR indemnify governors and officers from lawsuits and similar actions by third parties. The same provision provides that AIMR may, but is not required to, indemnify someone acting on behalf of AIMR. The Board's objective was to establish a uniform policy that would strive to protect the organization's volunteers, such as society leaders and PCRs.

The general process for handling a rare case involving indemnification would be for the matter to go before the Executive Committee first for review and then AIMR would hire outside counsel to defend the individual. The following resolution was passed with one abstention.

RESOLVED, it is the intent of the Board of Governors that AIMR volunteers (including committee members, society leaders, and Presidents Council Representatives) when acting on behalf of AIMR in good faith should not be put at personal risk and should be supported by AIMR. If an action is brought against a volunteer by a third party or AIMR, the Executive Committee shall be informed and the Board of Governors will determine at that time the support that should be provided by AIMR.

Concluding Remarks

The Board noted for the record its gratitude and commended all the various volunteer groups and AIMR staff for their hard work and dedication in making this year's exams such a success.

At this time, the Board meeting went into *Executive Session*.

Respectfully submitted,

Joseph P. Lange
Corporate Secretary