

Association for Investment Management and Research

**BOARD OF GOVERNORS
MEETING MINUTES
14 November 2003
Hong Kong**

Notice: 5 November 2003

Governors Present: Robert E. Angelica, CFA ☎*
Theodore A. Aronson, CFA
Thomas A. Bowman, CFA
Dwight D. Churchill, CFA
Jeffrey J. Diermeier, CFA
Anthony H. Cagiati, CFA
Shirley Shea DeJarnette, CFA
Vincent Duhamel, CFA
Denise M. Farkas, CFA
Khalid Ghayur, CFA
Emilio Gonzalez, CFA
Monique E.M. Gravel, CFA
James M. Lyon, CFA
Janet T. Miller, CFA
Alex K.G. Ng
George W. Noyes, CFA
John C. Stannard, CFA
Malcolm M. Trevillian, CFA
Teong Keat (T.K.) Yap, CFA

Governors Absent: Nicola Ralston

President Council
Representatives

Present: Daniel P. Broby
Kathleen C. Chrisman, CFA
Christopher G. Dunmall, CFA
Warren A. Johnson, CFA
William K. Kovalchuk, CFA
Stanley G. Lee, CFA
Joseph Y.S. Lim, CFA
Daniel S. Meader, CFA
John M. Rickel, CFA
William R. Warnke, CFA

Also Present: Chris Abelt, Consultant, Citigate*
James M. Cudahy, Vice President, Marketing & Communications,
AIMR ☎*
Raymond J. DeAngelo, Senior Vice President, Stakeholder
Services and Global Relations, AIMR
Joseph P. Lange, Associate, Office of General Counsel, AIMR
Lee, Kha Loon, Vice President, Global Affairs Asia, AIMR
William P. McKeithan, Senior Vice President and General
Counsel, AIMR
Timothy G. McLaughlin, Senior Vice President and Chief
Financial Officer, AIMR
Katrina F. Sherrerd, CFA, Senior Vice President, Educational
Products, AIMR
Alan Sewell, Consultant, Gallup Organization ☎*

☎ Participated via Telephone

* Present for Part of Meeting

Materials

Distributed

Prior to Meeting: AIMR Board Book

Materials

Distributed

at Meeting: ERVIC Committee Report
Revised Exhibit B – Proposed AIMR Professional Standards &
Advocacy Restructuring Plan

Chair: Theodore A. Aronson, CFA

Meeting Secretary: Joseph P. Lange

Global Advocacy Policy

The Board was presented with a proposal to restructure and refocus the AIMR Professional Standards & Advocacy (PSA) department as the CFA Center for Financial Market Integrity (the “Center”). The initiative is a culmination of efforts that started back in the spring with the Planning Committee (PC) and issues outlined in the Gravel Report. Through a series of meetings involving Governors, PCRs, Society Leaders and AIMR Advocacy Committee representatives, a comprehensive range of inputs were solicited regarding the current status of AIMR’s professional standards and advocacy work and potential directions for future activities. Using these inputs as a starting point, a new vision and structure for PSA was created.

The proposal for the Center plays an integral part with the global AIMR restructuring efforts designed to further the AIMR Mission, which was defined as follows:

To lead the investment profession globally by setting the highest standards of education, integrity and professional excellence.

Furthermore, the Center was intended to be responsive to all the strategic objectives that support the AIMR Mission with its primary goal to achieve the following:

Through a combination of traditional advocacy efforts and a focused public relations program, position AIMR as a thought leader in setting ethical and professional standards and establish the CFA designation as the accepted standard for investment professionals.

The Center will be founded on the principles embodied in the AIMR Code of Ethics and Standards of Professional Conduct, and the values that AIMR has identified as core to the organization. Structurally, the Center would enhance high-level member volunteer involvement through the creation of an Advisory Council, integrated with expanded

professional management and staff. The ultimate goal of the Center is to advance these most basic principles and values not only for the investment professional, but for all investors.

The Board would continue to have an extremely important role in professional standards and advocacy by providing the mandate for the Center and approving the overarching operational framework. It is envisioned that the Board would be less involved in the day-to-day activities of determining the specific issues that the Center would address. In the instances where the Advisory Council recommends staking out new ground, those proposals would appropriately come back to the Board for consideration and authorization.

The Center's name is designed to capture as clearly, and as succinctly, as possible the roles and objectives of AIMR's professional standards and advocacy activities both as currently conducted and as envisioned in the strategic objectives. The use of the CFA brand in the title of the Center is designed to further the recognition of the CFA Charter as representing the best practices and highest standards for the global investment profession, which in turn, will enhance the professional stature of all CFA charterholders and AIMR members.

It was also emphasized that the Center would have a designated society ombudsman that would be specifically charged with interacting with Member Societies in communicating various positions and get feedback on issues they would like to address. The Board discussed the proposal at length and noted the need for additional financial resources to establish the Center. The following resolution passed unanimously.

RESOLVED, that the Board of Governors accept and approve the Vision, Milestones and Restructuring Plan for Professional Standards & Advocacy substantially in the form presented at this meeting;

FURTHER RESOLVED, that the Board of Governors provide a set of policy end statements to give guidance to the initiative; and

FURTHER RESOLVED, that the adoption of the Vision, Milestones and Restructuring Plan for Professional Standards & Advocacy be effective 1 January 2004.

Professional Conduct Program

The Board was requested to provide feedback on the overarching objectives and direction of the Professional Conduct Program (PCP) which all AIMR members and CFA candidates are subject. With the unprecedented attention that has been drawn to the professional behavior and actions of financial analysts and other investment professionals in the U.S. and elsewhere during the past year by regulatory and legislative bodies and the media, it seemed a particularly opportune time for AIMR to examine the PCP to determine if the focus and structure meet the current and future needs of AIMR members and the investment community globally. In addition, the Board recognized the need to consider environmental factors that can, and likely will, impact its ability to implement the PCP to an ever-growing population of

AIMR members and CFA candidates in more than 100 countries. The Board reviewed and discussed the following issues:

- What should be the strategic objectives(s) of the AIMR Professional Conduct Program?
- Are the current responsibilities of the PCP appropriate?
- Do changing member/candidate demographics pose new challenges for the PCP? How should they be addressed?
- Are adequate resources being applied to ensure AIMR members and candidates have adequate and timely due process?
- What are the communication challenges the PCP faces now and will face as AIMR visibility increases?

Name Change

At the July meeting, the Board approved going forward with the process of considering a new name for the organization and conducting due diligence. AIMR retained its advertising agency, Citigate, which has extensive experience in the area of corporate branding to assist with this initiative. Citigate gave an in-depth presentation on the activities undertaken to date, their findings and recommended course of action. A few of the points noted during the presentation are as follows:

Origins

- The organization's name does not leverage its greatest asset-the CFA brand
- Outside North America, the letter "A" in "AIMR" often is thought to stand for "American"
- Charterholders and Candidates make up a supermajority of the membership
 - 94% are affiliated with the CFA Program
 - As Charterholders 83%
 - As CFA candidates (future charterholders) 11%

Possible Drawbacks

- "AIMR" does have brand equity in certain circles
- Perception that a name with "CFA" would allow non-charterholders to coat-tail on the prestige of the CFA designation
- Certain products and services are tied to existing name-AIMR-PPS or "AIMR Compliant"

Name Considerations

- Reflective of the organization and its mission
- Suitable for use on a global basis
- Viable for long-term use

Situation Analysis

- Brand audit

- Interviews with AIMR Staff, Board Members, PCRs, Society Leaders
- Online society and chapter survey

Key Findings and Conclusions

- Consensus on the fact that the current name “doesn’t work”
- CFA should be in name
- CFA should be prominent and not disguised
- Memorable, distinctive, appealing acronym
- Globally acceptable
- Able to trademark

In addition, the Gallup Organization conducted a random survey of 625 members on various issues concerning a potential name change. A discussion ensued and the following resolution passed unanimously.

RESOLVED, that the Board of Governors authorize AIMR to continue to study the feasibility of changing its name to incorporate the letters “CFA,” including communications to members on the benefits of such a name change and polling to gauge member support for a new name.

Budget Guidelines and Resource Allocation

The Board was requested to provide feedback on principles for developing the AIMR budget and allocation of resources. Each year, AIMR has improved its budget processes. However, there still remains the need to coordinate budget development with long-range strategic planning and the alignment of resource allocation with strategic objectives. The Board proceeded to discuss the issues and questions outlined below.

- As a matter of policy, should AIMR budget a surplus?
- Should there be subsidization by one product line for another, and if so, should there be guidelines?
- Reserves
 - What is the purpose of AIMR’s reserves?
 - Should any part of AIMR’s reserves be considered an endowment?
 - Should AIMR’s reserves be used for special projects or initiatives whose costs exceed annual surpluses?
 - Should AIMR’s reserves have a target level? If so, what should that level be?
- Should the budget be developed with percentage allocations in mind for major initiatives or activities?
- Should the budget be policy driven?

Member Benefits and Dues Policy

In preparing to implement the recently approved Product Delivery Strategy, AIMR management felt that the Board should address AIMR's dues and benefits policy prior to rolling out a significant change in the delivery of one of its core benefits, educational publications. The current dues policy is a two-tier structure for Regular Members, with CFA charterholders paying higher dues and receiving an enhanced benefit package. This structure began with the combination of the FAF and the ICFA in 1990. Several years later, non-CFA members were offered the option to upgrade their membership to receive the additional educational benefits for the dues differential (currently \$75). Approximately 28.5% (3,527) of the non CFA members that are eligible elect to upgrade their benefits.

The Board discussed the key principles governing the current policy and the ramifications of changing to a uniform dues and benefits policy would have on various Member Societies affiliate memberships. The Board emphasized the need for timely and clear communication on the matter to the membership. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors adopt a policy that relates to uniform dues and benefits to be implemented in conjunction with the FY 2006 dues and with due consideration to the issues of affected members and Member Societies.

Next, the Board reaffirmed its desire to retain a dues category for retired members where their dues would be less than Regular Members but the benefits remain the same.

Financial Results and Audit Report

The Board was presented with the Audit Report and accompanying financial statements for FY 2003. The Audit Committee received a very favorable report from AIMR's auditors, PricewaterhouseCoopers (PwC). It was noted that AIMR staff were well prepared for the audit and that there were no disagreements with management, no material control point issues and no audit adjustments. It was the view point of PwC that AIMR maintains a culture of high ethics and standards.

This year AIMR was able to close the year end books within six business days of fiscal year end. The draft financial statements were completed with sixty days and the annual report was completed within ninety days of year end.

FY 2003 marked a significant change in AIMR's business patterns, and involved an unforeseen global event that directly impacted the organization's financial results. The December Level I exam administration and the global Severe Acute Respiratory Syndrome (SARS) event shifted candidate volume and revenue from FY 2003 to FY 2004. Offering on-line candidate registration caused a shift in candidate enrollments to the earlier, lower priced deadlines, resulting in lower than expected revenues. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the Audit Report and accompanying audited financial statements of AIMR for the year ending 31 August 2003 substantially in the form presented at this meeting.

Nomination Evaluation Task Force

The Nomination Evaluation Task Force (NETF) was established by the Executive Committee to evaluate the present governor nomination process and make recommendations. The NETF reported its findings at the July Board meeting. The report contained 25 recommendations, including changes to the structure of the Nominating Committee. The Board requested the Task Force to consider whether the number of members of the Nominating Committee should be an odd number to prevent a possible deadlock.

The NETF submitted to the Board its report and supplemental memorandum for consideration and approval. The Board discussed the proposed structure of the Nominating Committee and concluded to adopt an amended structure that would enlarge the membership from 5 to 7 as follows:

- Immediate AIMR Past Chair (Chair)
- Current AIMR Chair
- 2 representatives from at-large Board members
- 2 representatives selected by the PCRs
- 1 representative with alternating terms being selected by the Candidate Curriculum Committee (CCC) and Council of Examiners (COE)

The following resolution passed with 2 opposed and 4 abstentions.

RESOLVED, that the Report and Supplemental Memorandum of the Nomination Evaluation Task Force (NETF), as amended at this meeting with regard to the structure of the Nominating Committee, be accepted and approved by the Board of Governors; and

FURTHER RESOLVED, that changes to the AIMR Bylaws recommended by the NETF Report and Supplemental Memorandum, as amended, be prepared for submission to the Board of Governors at its next meeting as part of the year 2004 AIMR proxy.

Meeting Minutes

The Board unanimously approved the following meeting minutes:

- 15 July 2003 – Executive Session;
- 26 July 2003 – Executive Session; and
- 26 July 2003 – Open Session.

Governor Appointments to Nominating Committee

Pursuant to the AIMR Bylaws, the Executive Committee recommended to the Board for approval two governors to serve on the FY 2004 Nominating Committee. The following resolution was passed with one abstention.

RESOLVED, that pursuant to authority granted under Article 9, Section 9.1(b)(ii) of the AIMR Bylaws, the following two (2) Regular Members In Good Standing who are serving as a Governor shall serve on the 2003-2004 Nominating Committee:

- Robert E. Angelica, CFA; and
- Alex K.G. Ng.

Provisions to Global Investment Performance Standards (GIPS®)

Before the Board for adoption were two new provisions to the GIPS standards. Having been approved by ERVIC, these provisions were developed by the Investment Performance Council (IPC) to address some of the technical areas that needed to be included in the GIPS standards to ensure convergence across the various existing local standards and to promote best practice in investment performance reporting. The following resolution was passed unanimously.

RESOLVED, that the Fee Provisions for the GIPS standards be adopted and effective as of 1 January 2005; and

FURTHER RESOLVED, that the Private Equity Provisions for the GIPS standards be adopted and effective as of 1 January 2005.

Principles of Affiliation

The Board was updated on the status of the Principles of Affiliation project and governors were requested to provide feedback on the 13th draft of the materials provided in their Board books. For nearly two years, a task force of ERVIC has endeavored to develop a framework that identifies the separate and shared responsibilities of AIMR and its Member Societies in their representation of the global investment management profession. The task force was comprised of Governors, PCRs and AIMR management.

A discussion ensued with regards to the procedural issues of obtaining Board review and soliciting public comment on the materials. The matter is scheduled to come before the Board at its February meeting for approval.

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

Respectfully submitted,

Joseph P. Lange

Corporate Secretary

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