



Setting the global standard for investment professionals

**BOARD OF GOVERNORS
MEETING MINUTES
8 May 2005
Philadelphia, PA**

Notice: 28 April 2005

Governors Present: Robert E. Angelica, CFA
Theodore R. Aronson, CFA
Anthony H. Cagiati, CFA
Shirley Shea DeJarnette, CFA
Jeffrey J. Diermeier, CFA
Vincent Duhamel, CFA
Denise M. Farkas, CFA
Margaret E. Franklin, CFA
Emilio Gonzalez, CFA
Monique E.M. Gravel, CFA
Samuel B. Jones, Jr., CFA
James M. Lyon, CFA
George W. Noyes, CFA
Nicola Ralston
Brian D. Singer, CFA
John C. Stannard, CFA
Jose Luis Velasco, CFA
Teong Keat (T.K.) Yap, CFA

Governor Absent: Alex K.G. Ng

Incoming Governors
Present:

Alida Carcano, CFA
Stanley G. Lee, CFA
Ashvin P. Vibhakar, CFA
Thomas B. Welch, CFA

Presidents Council
Representatives
Present:

Daniel P. Broby
Kathleen C. Chrisman, CFA
Christopher G. Dunmall, CFA
Warren A. Johnson, CFA
Beth Hamilton-Keen, CFA
Stanley G. Lee, CFA
Richard Mak, CFA
Daniel S. Meader, CFA
Joni K. Pierce, CFA
William R. Warnke, CFA

Incoming Presidents
Council
Representatives
Present:

Terence E. Burns, CFA
Marla L. Harkness, CFA
Helmut Henschel
Jan Jackrel, CFA
Jeffrey Matthias, CFA

Also Present: Gayle H. Buff, CFA, CFA Preparation Task Force Member*
Michael K. Dalton, Managing Director, Information Technology, CFA Institute
Raymond J. DeAngelo, Managing Director, Member & Society, CFA Institute
Gary J. Felsten, Managing Director, Human Resources, CFA Institute
Barbara L. Higgins, Head, Client Support, CFA Institute*

* Present for Part of Meeting

Robert R. Johnson, CFA, Managing Director, CFA Program, CFA Institute
Joseph P. Lange, Corporate Secretary, CFA Institute
William P. McKeithan, General Counsel, CFA Institute
Timothy G. McLaughlin, CFA, Managing Director and Chief Financial Officer,
Finance & Corporate Support, CFA Institute
Kurt N. Schacht, CFA, Managing Director, CFA Centre for Financial Market
Integrity, CFA Institute*
Katrina F. Sherrerd, CFA, Managing Director, Planning & Professional
Development, CFA Institute
Guy P. Williams, Head, Finance & Risk Management, CFA Institute*

Materials

Distributed

Prior to Meeting: CFA Institute Board Binder

Materials

Distributed

at the Meeting: Revised Board Agenda
Planning Committee Report
Committee Structure and Governance Task Force Memo
CFA Preparation Task Force Report
CFA Preparation Task Force PowerPoint
Revised Board Meeting Minutes 4 February 2005

Chair: Monique E.M. Gravel, CFA

Meeting Secretary: Joseph P. Lange

Oversight Committee Reports

The chair of each oversight committee gave an oral overview of their recent activities to supplement the memoranda included in the Board Binders.

Audit Committee (AC)

- PricewaterhouseCoopers (PWC) has been retained to conduct the annual audit for FY05 for both CFA Institute and the Research Foundation of CFA Institute (RF).
- The position of Director, Internal Auditor, has been recently filled and reports directly to the President and CEO. His initial project will be the development of an internal audit plan.
- Complaint reporting procedures have been implemented to formalize the process for handling complaints from employees, members, or outside parties. The process will be made public and posted on the CFA Institute website.

External Relations and Volunteer Involvement Committee (ERVIC)

- The Society Resource Allocation Work Group continues to make progress. The Work Group's goal is to analyze the historical data on resources provided to Member Societies and the policies accompanying the allocation of resources and recommend appropriate modifications for more

equitable distribution of resources to the societies while at the same time meeting the strategic priorities of CFA Institute.

- ERVIC will be working with the Presidents Council Representatives (PCRs) in reviewing their roles and responsibilities with Member Societies and the Board.

Performance Oversight Committee (POC)

- Shirley Shea DeJarnette, CFA, has been appointed to serve on the Nominating Committee for the Disciplinary Review Committee (DRC).
- Management provided an update on its on going work with regards to the organization's financial reporting, benchmarking, and resource allocation.
- Work has been completed on the Committee Management objective with the formalization of the Volunteer Committee Policy.
- Discussed whether the Minimum Passing Score (MPS) Committee could add any additional insight to the Board when setting the MPS for the Level II exam of the CFA[®] Program now that it is administered in all item set format and the standard setting equating process shall be appropriately utilized.
 - The Board was in agreement that the MPS Committee shall not review the Level II exam only standard setting will be used.

Planning Committee (PC)

- Discussed and analyzed the research completed with regards to the topic of Private Wealth.
- Currently working with Management on the Strategic planning process and FY06 budget.

Oversight Committees/Division of Board Oversight Roles and Responsibilities

The chair of the Committee Structure and Governance Task Force provided an update on its activities and referred the Board to his summary memorandum handout. The Task Force's discussions have focused around the appropriateness of the committee structure for the Board to carry out its duties and responsibilities and are now turning mainly to Board structure and governance. Some of the general subject matters being reviewed by the Task Force are as follows:

- Committee based governance structure;
- Oversight committees;
- MPS Committee;
- Nominating Committee;
- Compensation Committee;
- Identifying and encouraging quality candidates for Board positions;
- Board size; and
- Requirements for proposing alternate slate of candidates for Board positions.

Some of the Task Force's final findings may recommend Bylaw changes and given the current review it may be appropriate to conduct a holistic review of Bylaws rather than taking a piece-meal approach. The Executive Committee (EC) has requested that the Office of General Counsel work with the Task Force in drafting proposed changes to the Bylaws between now and the next in-person Board meeting in July. The Task Force is scheduled to provide its final report and recommendations to the Board in July.

FY05 Members of the Executive Committee with Membership Adoption of Amended Bylaws

The EC recommended that due to the pending committee amendments to the Bylaws that the members of the EC should remain the same through the end of the fiscal year. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve with membership adoption of the committee amendments to the CFA Institute Bylaws that the members of the Executive Committee shall remain the same through the end of the fiscal year 2005.

New Candidate Enrollment Trends

The Chief Financial Officer presented information on new candidate enrollment trends and referred the Board to the summary memorandum in the Board Binder. The following data was outlined.

Candidate Counts

- New candidates in total have flattened following steady growth up until FY02.
- High water mark for new candidates was 47,500 in FY02.
- New candidates have leveled out at 39,000 to 41,000 over the last 3 years.
- Regional Data – Continued growth on mainland Asia over the last 4 years (China, India, and Pakistan).
- Issues potentially attributing to the flattening effect:
 - Pass rates;
 - Falling return rates for unsuccessful candidates;
 - Changes in overall securities industry employment levels;
 - Changes in membership requirements;
 - Maturity of the market in different regions;
 - Potential saturation in regions;
 - Lack of marketing; and
 - Pricing.

The Board discussed the matter at length. Hypothetical revenue and budget scenarios were provided as examples. Furthermore, it was explained should CFA Institute potentially have revenue/budget issues down the road societies could be affected as well. A society services survey finding noted that the two main revenue streams for societies were membership dues and support from CFA Institute. Additional revenue/budget related society issues were discussed including membership and developing a value proposition to create homogeneity among societies. The Board also looked at issues concerning candidates, such as, engaging them earlier in the CFA Program process, the job analysis and content of the curriculum, and exam administration matters.

Even though the Board has discussed over the years scenarios involving new candidate growth, CFA Institute, regardless of the current enrollment trend is still in a very envious position. With over a hundred thousand candidates, the organization has grown at astronomical rates over the last few years; however, the CFA Program has never really been promoted. There exists the opportunity to affect demand through improved candidate preparation, marketing, and employer and university outreach. These are just a few of the initiatives on which the organization will be focusing.

Private Wealth Initiative Business Plan

The President and CEO provided a historical overview and background on how the Private Wealth strategy had been approached and vetted through the various constituencies' since the matter was first brought to the Board. After a thorough analysis of the issues involved and feedback obtained, Management has recommended and the Board accepted a decision not to develop a Private Wealth lettered designation at this time. Instead, CFA Institute will continue to reach out to the 25 percent of the membership that claims to serve the market to determine what needs exist or are desired through a cost effective multi-pronged approach. For example, the CFA Program group will look hard at the CFA exam through the job analysis to determine how the existing program can best serve investment professionals, whether they serve individuals or institutional investors. It was emphasized that this action in no way implies that the CFA Program is lacking. The Research Foundation will also address this subject matter with a monograph in their Research Committee.

It was noted that it has been the experience on a society level that conferences providing content on Private Wealth, that is not overly related to sales or marketing, have normally been sold out due to the lack of almost any kind of content being available to investment professions in this market.

The President and CEO agreed to provide the PCRs with a brief one page synopsis on the current status of the Private Wealth initiative to share with their society leaders. The PCR chair agreed to develop a plan for the Board to implement to mobilize the membership serving the private wealth market so the organization can engage in constructive dialog on the subject. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors will not pursue a Stand-Alone Private Wealth designation.

Research Foundation of CFA Institute Report and Elections

The Executive Director of the RF presented its report and referred the Board to the summary memorandum in the Board Binder. It was highlighted that the RF had reaffirmed its purpose and mission within CFA Institute and will be coming back to the Board with documentation outlining its portfolio of products and services. It was explained that the current research director has indicated that he will not pursue another when his term expires in August. An immediate search for a new research director will commence.

Pursuant to the RF Bylaws, CFA Institute is the sole Voting Member of the organization. As the sole Voting member, CFA Institute is required to elect the trustees that serve on the RF. The following resolution was passed with one abstention.

RESOLVED, that Monique E.M. Gravel, CFA, is authorized to vote on the behalf of CFA Institute as the sole Voting Member of the Research Foundation at its annual meeting of members;

FURTHER RESOLVED, that Monique E.M. Gravel, CFA, is authorized to vote for the approval of Stanley W. Shelton, CFA, Brian D. Singer, CFA, and Bruce A. Tomlinson, CFA, as Elected Trustees of the Research Foundation, each to serve for a three (3) year term commencing 1 September 2005; and

FURTHER RESOLVED, that Monique E.M. Gravel, CFA, is authorized to vote on such other matters that may be presented at the above noted meeting, and to waive any notice of meeting requirements.

CFA Preparation Task Force Report and Recommendation

The chair of the CFA Preparation Task Force provided its report and recommendations to the Board. The Board was referred to the final report and PowerPoint handouts provided under separate cover. The Task Force objectives were as follows:

- Conduct a through investigation into the manner and method by which CFA Program candidates prepare for the CFA examinations; and
- Advise a course of action to support and enhance candidate mastery of the CFA curriculum and successful completion of the CFA examination process.

Over the past 8 months, the Task Force met with multiple groups in the course of its activities including societies, candidate, providers, and CFA Institute. The following findings were highlighted:

- Roughly half of the local societies contract with prep course providers;
- Existing contracts vary with no standard terms;
- There are two major independent prep course providers in the prep course materials market;
- Independent prep course providers are eager to work with CFA Institute in the CFA Program materials market;
- Societies play a vital role in communicating with candidates as key constituents and engaging them as future members; and
- Lack of communication with prep providers has resulted in incorrect, misleading, and oftentimes, inconsistent messages to candidates regarding exam preparation.

The Task Force provided the following recommendations:

- Improve Communications with Candidates;
- Bundle the CFA Curriculum with the Enrollment Fee;
- Establish Voluntary Guidelines for Prep Providers; and
- Establish Best Practices Principles for Societies.

The Board discussed the report and recommendations. It was explained that implementation of the recommendations would be scheduled to occur around the Society Leadership Conference in September. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the CFA Preparation Task Force Report and Recommendations substantially in the form presented at the meeting.

Presidents Council Representatives Roles and Responsibilities

The PCR chair explained that the purpose of this discussion was to clarify their roles and responsibilities with CFA Institute and to outline the expectations related to communication and referred the Board to the summary memorandum in the Board Binder. The PCRs are charged by the CFA Institute Bylaws to

provide communication between the Board and the Presidents Council. The communication function primary goal is creating a collaborative and inclusive governance structure. This relationship of communication balances the needs and requests of the Board and Member Societies, with an emphasis on building trust between both groups and working effectively with Management to ensure a flow of information that benefits all parties.

To be effective in their role, the PCRs proposed key expectations from the following groups:

- From the Board;
- From CFA Institute Staff; and
- What the Board and management can expect from PCRs.

The Board discussed and directed Mr. George W. Noyes, CFA, as a representative of the Board to work with the PCRs in the continuing effort to define their roles and responsibilities.

It was stated that the PCRs would be approaching the Board with the request to add an additional PCR representative in the European region.

Consent Agenda

The consent agenda consists of informational, reoccurring, and procedural matters that come before the Board. The following resolutions were passed as noted.

Board Meeting Minutes

(Unanimously Approved)

- Approved the 4 February 2005 Board meeting minutes substantially in the form presented at this meeting.

FY 2006 Board Oversight Committee Chairs

(Approved with the CFA Institute President and CEO abstaining from the Audit Committee vote as required by the Bylaws.)

- RESOLVED, that the Board of Governors accept and approve the appointment of the following governors to serve as oversight committee chairs for a one (1) year term commencing 1 September 2005 and until their successors are chosen and qualified:
 - Audit Committee
Chair: Samuel B. Jones, Jr., CFA
 - External Relations and Volunteer Involvement Committee
Chair: George W. Noyes, CFA
 - Planning Committee
Chair: Emilio Gonzalez, CFA

Election of Secretary and Treasurer

(Unanimously Approved)

- RESOLVED, that pursuant to Article 6, section 6.6(a)(ii) of the CFA Institute Bylaws, Joseph P. Lange and Timothy G. McLaughlin, CFA, are elected Secretary

and Treasurer, respectively, to each serve a one (1) year term commencing 1 September 2005 and until their successors are chosen and qualified.

Volunteer Committee Policy
(Unanimously Approved)

- RESOLVED, that the Board of Governors accept and approve the Volunteer Committee Policy substantially in the form presented at this meeting.

The following matters were for information only and presented in memorandum format in the Board Binders:

- Strategic Plan Update;
- Financial Report;
- Privacy Policy and Society Access to Candidate Information; and
- Presidents Council Representatives Report.

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

Respectfully submitted,

Joseph P. Lange
Corporate Secretary