



Setting the global standard for investment professionals

**BOARD OF GOVERNORS
MEETING MINUTES
22 July 2005
Herndon, VA**

Notice: 13 July 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
Alex K.G. Ng
George W. Noyes, CFA
Nicola Ralston
John C. Stannard, CFA
Jose Luis Velasco, CFA
Teong Keat (T.K.) Yap, CFA

Governor Absent: Brian D. Singer, CFA

Incoming Governors
Present:

Alida Carcano, CFA ☎
James E. Hollis, CFA
Ashvin P. Vibhakar, CFA
Thomas B. Welch, CFA

Presidents Council
Representatives
Present:

Daniel P. Broby
Kathleen C. Chrisman, CFA
Warren A. Johnson, CFA
Beth Hamilton-Keen, 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:

Ron Bancroft, Consultant
Lee E. Buttles, Director, Internal Audit, CFA Institute
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
Robert R. Johnson, CFA, Managing Director, CFA Program, CFA Institute

☎ Participated via Telephone
* Present for Part of Meeting

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Joseph P. Lange, Corporate Secretary, CFA Institute
Philip N. Lawton, CFA, Director, GIPS Certification Program, CFA Institute*
Alecia L. Licata, Director, Investment Performance Standards, 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
Eric J. Strucko, Director, Business Planning & Analysis, 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:

Governors Conflict of Interest Statement
Assessment of Trajectory and Movement Slide
Committee Structure and Governance Task Force Report
Revised Establishment of Oversight Committees Activities
Revisions to Strategic Plan Vision and Strategic Objectives Resolution
Proposed FY 2006 Operating Plan PowerPoint
15 July 2005 Board Executive Session Meeting Minutes
The Money Management Institute Letter dated 19 July 2005
Presidents Council Representatives Report
FY2005 Nominating Committee Wrap-up Report
Proposed Board Meetings and Other Key Dates

Chair: Monique E.M. Gravel, CFA

Meeting Secretary: Joseph P. Lange

Governors Conflict of Interest Statement

Governors were requested to review the Governors Code of Conduct and Conflict of Interest Policy adopted by the Board in February 2005 and to complete the related conflict of interest disclosure statement.

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)

- Preliminary schedules have been established and field work begun between the CFA Institute accounting staff and PricewaterhouseCoopers for the organization's FY 2005 audit of financial statements.
- The CFA Institute Internal Audit Director has submitted an internal audit plan for review.
- All elements of the Risk Assessment Plan have been implemented and the first annual report will be presented to the AC in August.
- Reviewing and clarifying the complaint reporting process and procedures.

External Relations and Volunteer Involvement Committee (ERVIC)

- The Society Resources Allocation Work Group is continuing survey work that was distributed to all Member Societies and completed by over 90 of the societies.
- Research is being conducted on building a more integrated CFA Institute/Member Society operational model by reviewing the operational models employed by other associations with component structures similar to that of the organization.
- The CFA Centre for Financial Market Integrity strategic plan document has been drafted and a final version is expected shortly.
- Employer outreach initiative will fall under the new Marketing Division. A more aggressive effort, including detailed action plans, will commence with the hiring of a Marketing Managing Director.
- Reviewing the effectiveness of CFA Institute investment in public awareness in recent years. Public awareness communication efforts will continue to be an objective for ERVIC, especially with the rollout of a new 5-year plan and the hiring of a Marketing Managing Director.

Planning Committee (PC)

- Reviewing strategic issues, including feedback from the Planning Retreat in November, revisions to the Strategic Plan, and progress on strategic milestones.
- Reviewing the proposed CFA Institute FY 2006 budget and strategic priorities within the context of the current and projected financial position.
- Reviewing the role of Board planning retreats in the CFA Institute strategic planning process.

CEO Report

The CEO presented his report and overall summary impression. Progress towards achieving the CFA Institute mission is off to a good start with much yet to be done. One of the most satisfying efforts has been the goal to reconnect with societies where 91 have adopted the CFA brand within their society name. Media coverage of the organization's activities has greatly increased due in part to the CFA[®] Program and outreach efforts. Three areas of CFA Institute activities have recently been brought to the forefront:

- Slowdown in new candidates was formally declared and recognized. This has implications for budgets, resource allocation, and reserve policy and is an element of risk for future plans and operations.
- Low examination pass rates and work done by the CFA Preparation Task Force highlighted the strategic question regarding policies the organization has as they relate to candidates.
- The CFA Centre has now organized its Strategic Plan. The challenges of whether the CFA Institute can accomplish the thought leadership the organization seeks as well as becoming viewed by members as having stood up for what CFA Institute represents ethically and professionally is now upon us.

The CEO noted key human resource issues such as promotions, new hires, and open positions. Lastly, the cooperation of the Board, society leaders, other volunteers, and staff with a new CEO has been highly appreciated and welcomed.

CFA Institute Membership Issue with Regards to the CGIPS Certification

The Director of the CGIPS Certification Program outlined the proposed membership issue. The Board previously approved the establishment of a designation to be administered by CFA Institute for investment performance evaluation practitioners to be called the Certificate in Global Investment Performance Standards (CGIPS). As part of the development of the certification and professional field it has been determined that establishing a professional association for such practitioners, apart from CFA Institute membership, is a requirement.

Members of the new professional association will be obligated to follow professional ethics the same or similar to those of CFA Institute members but would not be required to become members of CFA Institute. The professional association would not be separately incorporated but would legally be a division of CFA Institute. However, the governance structure would be set up in a way patterned on that of the CFA Centre for Financial Market Integrity with leadership positions available to CGIPS supporters, but with ultimate authority and responsibility residing with CFA Institute. The next task will be to draft articles of association and defining the governance structure with the objective of having the membership association established for 2006. The following resolution was passed unanimously.

RESOLVED, that CFA Institute is authorized to proceed in developing and organizing a professional association for CGIPS practitioners, established as a division of CFA Institute and with ultimate control over the association remaining with CFA Institute.

Establishment of Oversight Committees and Policy on Multiple Governor Terms

The Chair of the Committee Structure and Governance Task Force reported on their recent activities and proposed recommendations. With the change to the CFA Institute Bylaws at the Annual Members meeting in May 2005, the Oversight Committees of the Board, other than the Executive Committee are to be established by board resolution. The Task Force and the Executive Committee recommend establishment of the following Oversight Committees to become effective 1 September 2005:

- Audit and Risk Committee. The Audit and Risk Committee shall oversee the CFA Institute financial reporting process, system of internal control, audit process, risk evaluation and management, and the process for monitoring compliance with laws and regulations and with the CFA Institute Codes of Conduct for Governors and employees.
- Planning Committee. The Planning Committee shall oversee the CFA Institute strategic direction and priorities through activities including, but not limited to, long-range planning and budget development, including major capital expenditure plans.
- External Relations and Volunteer Involvement Committee. The External Relations and Volunteer Involvement Committee shall oversee the CFA Institute communications activities, including but not limited to, establishing communications and awareness plans with both internal and external constituents, developing relationships with other organizations, advancing the interests of members, promoting volunteer activities and society relationships, and recommending CFA Institute award recipients.

- Compensation Committee. The Committee shall establish the compensation of the CEO and shall approve all compensation policies of CFA Institute. The Compensation Committee is a subcommittee of the Executive Committee consisting of all members of the Executive Committee, but excluding the President and CEO.

The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the establishment of Oversight Committees of the Board substantially in the form presented at this meeting, effective 1 September 2005.

In addition, the Task Force and Executive Committee proposed formalizing the policy regarding consecutive terms for governors and establishing that the Board provides the following continuing instructions to the Nominating Committee as follows:

- Selection of Governor nominees shall always be made in view of the best interests of CFA Institute, the membership, and the investment public.
- Given the benefit of experience on the Board, a second consecutive, three-year term is allowed.
- There shall be a presumption that no Governor (other than the President and CEO) shall serve more than two consecutive three-year terms on the Board, barring unusual and extraordinary circumstances.
- An individual may serve more than two non-consecutive three-year terms on the Board, but the Nominating Committee shall consider the time lapse since the Governor's last term and the need for rotation and fresh input in making the nominating decision.

The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the Multiple Terms for Governors Policy substantially in the form presented at this meeting.

In addition, the General Counsel briefed the Board on the process and timeline for drafting bylaw changes that relate to the Task Force's final recommendations, circulating them for public input, and requesting membership approval with the FY 2006 proxy.

FY 2006 Strategic Plan Vision, Objectives, and Milestones

The Managing Director of the Planning and Professional Development division assessed the FY 2005 strategic milestones and presented revisions to Strategic Plan vision and strategic objectives along with strategic milestones for FY 2006. The current strategic planning process was adopted by the Board in FY 2003 and emphasizes execution and accountability. The Board reviewed the status of the FY 2005 milestones:

- Total milestones – 60
- On target or complete – 72%
- Progress made, but behind schedule – 20%
- On hold or stopped work – 8 %

Assessment of the FY 2005 milestones showed good movement toward the 2008 vision and characterized it as a foundation year in the five-year Strategic Plan cycle. Solid progress was made toward improving the strategic competitive position of CFA Institute.

Following the November Planning Retreat, the Management Committee took into consideration internal and external factors in reviewing the Strategic Plan. The Committee recommended revising the vision and strategic objectives to reflect strategic accomplishments to date and their assessment of the operational nature of the technology oriented objective. The following were the proposed vision and strategic objectives and related FY 2006 strategic priorities:

○ Vision Summary - Revised

CFA Institute will be the organization for investment professionals who are dedicated to meeting the highest standards for ethical behavior, education and ongoing professional development, and excellence of practice in the profession. It will be viewed globally as the foremost authority representing the investment community on issues of professional ethics, professional conduct, and investment practice. CFA Institute will be viewed by investment professionals as the go-to resource for educational content, providing a range of products and services to its members, other investment professionals, and the investing public, building from the global reach and gold standard status of the CFA brand and including other select fee-based services. The organization will fulfill its mission and vision through effective use of volunteers, good stewardship of resources, and effective use of technology.

○ Strategic Objectives - Revised

- Protect and build the CFA brand to ensure that CFA Institute remains the global standard for education and ethics in the profession and the CFA Charter remains the accepted standard for investment professionals.
 - Marketing the CFA Program
 - Outreach to Employers, Clients, Consultants, etc.
 - Outreach to Universities
 - Outreach to Hedge Funds
 - ID of member Value-added Proposition
 - Public Awareness
- Through a combination of traditional advocacy efforts and a focused public relations program, position CFA Centre as a thought leader in setting ethical and professional standards.
 - CFA Centre Plan
- Reshape the organization to be more flexible and responsive to serve diverse global constituencies, to reflect a more integrated CFA Institute/Society model, and to ensure good stewardship of resources.
 - Stewardship of Resources
 - Implementation of a People Strategy
 - Globalization
 - Society Integration
 - Metrics for Organization's Success
 - UKSIP
- Leverage CFA Institute core capabilities into new opportunities consistent with our mission.
 - CGIPS
 - Other revenue Sources
- Position CFA Institute as the respected leader in the field of education for investment professionals.
 - Implementation of a Life-long Learning Strategy
 - Maintaining the Integrity of the CFA Program
 - Implementing a Private Wealth Strategy
 - Investor Education

- PD Program is More Robust and Appealing to Members

The Board discussed the mechanics of how strategic priorities were ranked and requested for next year that benefit statements accompany the strategic objectives. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve revisions to the Strategic Plan vision and strategic objectives substantially in the form presented at this meeting.

FY 2006 Budget

The CFO and Managing Director of the Finance and Corporate Support Division outlined the proposed operating and capital budget for FY 2006. The organization is experiencing the revenue effects from candidate numbers leveling off and the expenses associated with continuing the implementation of the initiatives that will accomplish the strategic objectives and mission. The following points were highlighted in the operating plan:

- Candidate number leveling off while new initiatives implemented.
 - Operating impact: \$1.0 million decrease revenues; \$3.0 million increase expenses for CFA Centre, international offices, CFA Program and Education.
 - Management continues to identify efficiencies and cost savings.
- Decreased revenue and increased expenses results in operating margin deficit of \$5.6 million.
 - \$4.0 million of interest/dividends from reserves partially offset this, resulting in an expected change in net assets of a \$1.6 million accounting loss.
 - Expect \$5.0 million in positive cash flow from operations and \$5.0 million from capital investments, resulting in a first-time projected net zero impact to reserves for FY 2006.
- Biggest risk to FY 2006 Operating Plan is further decline in candidate counts and the associated revenue.
- 2 sigma negative scenario results in a \$10.0 million operating margin deficit, zero cash flow, and a \$5.0 million reduction to reserves.

The total projected revenue FY 2006 is \$91.8 million with expenses budgeted at \$97.4 million. The most significant changes to CFA Institute operations contained in the budget involve the continuing expansion of the CFA Centre and international offices, the new GIPS Certification program, the introduction of modular curriculum, a new Marketing division, and the development of a new core information system.

The Board was presented with projected candidate counts for FY 2006 as follows:

<u>Location</u>	<u>Total Candidates</u>	<u>New Candidates</u>
○ United States	40,194	14,748
○ Canada	9,897	3,359
○ Pacific Asia	24,397	9,280
○ Europe	15,920	5,943
○ Asia (India, Pakistan, others)	3,388	1,693
○ China Mainland	6,494	2,663
○ Latin America	1,708	634
○ Africa/Middle East	4,802	1,980
○ Total	106,800	40,300

The Board discussed several trends and budget issues. It was noted that exam space is becoming more costly and the member deficit is growing larger. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the fiscal year 2006 Operating and Capital Budget substantially in the form presented at this meeting; and

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

Investment Performance Council Restructure and Governance Proposal

The Managing Director of the Member and Society division presented the Investment Performance Council (IPC) restructure and governance proposal. The success of the IPC and GIPS® standards is globally recognized as evidenced by 25+ sponsoring countries and a high level of recognition from global investment management firms, investors, and regulatory agencies. With the recent revisions to the standards, it is anticipated that convergence of all local standards to GIPS will occur by 1 January 2006. In order to facilitate involvement from all stakeholders and provide a necessary conduit for collaboration of ideas and mutual engagement in the process, it is proposed to transform the IPC into a more nimble GIPS Executive Committee to take effect on November 2005. Consisting of nine members, the Committee will be part of the CFA Centre and serve as the decision-making authority for GIPS standards. The new Committee will replace the IPC and assume its responsibility to develop and promote the GIPS standards.

The Committee will be granted a degree of thoughtful autonomy in the development of the GIPS standards and with that change the CFA Institute Board would not need to review and approve GIPS positions. CFA Institute will retain appropriate oversight of the standard setting process. The Board will appoint the director of the Committee and affirm that 50% of its Committee members represent specific constituencies and key stakeholders. The remaining 50% of the Committee's membership will be directly appointed by the GIPS country sponsors.

The proposed revisions to the oversight process will empower an efficient, representational management structure for the governance of the GIPS standards and enable Country Sponsors to more effectively represent their regions in the development of GIPS standards while ensuring CFA Institute serves to balance the interests of the GIPS standards and the industry.

The Board discussed the proposal and the following resolution was passed with 1 abstention.

RESOLVED, that the Board of Governors accept and approve the GIPS Executive Committee Constitution substantially in the form presented at this meeting.

Information Technology Plan

The new Managing Director of the Information Technology department provided an overview on the current state of information technology within the organization. Overall, the organization has highly qualified people and a solid technology infrastructure. However, the organization is experiencing significant challenges in terms of the applications used and in the current practices of developing new

projects and systems. When looking at the Strategic Plan's 2008 vision from an IT capability, there are gaps and lost opportunities.

CGI is the application platform that currently drives the heart of the organization's business. It has been the organization's practice to customize simple applications to meet existing processes, which has made them very complex and difficult to support. Going forward, the organization plans to switch to vendor supported application packages in order to move away from customized software. This will require the organization to change existing processes to fit the application packages and should place the organization in a better position to support the 2008 vision.

Rollout of new applications are planned to occur in six-month increments and designed with the end in mind, but delivered in manageable phases. This should facilitate dramatic improvements in the organization's IT capabilities in a short period of time. Furthermore, it is projected that over the course of the next three years with the projected financial resources needed to move to standardized software packages overall IT costs will be reduced when taking into account savings from amortization and depreciation.

The Board discussed the matter and noted that society leaders need to be kept abreast and well informed as the IT plan is implemented.

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 15 July 2005 Board Executive Session meeting minutes substantially in the form presented at this meeting.

FY 2006 Executive Committee Members

(Unanimously Approved)

- RESOLVED, pursuant to Article 7.2(b)(i) of the CFA Institute Bylaws the Board of Governors appoint the following governors to serve as a member of the Executive Committee for a one (1) year term commencing 1 September 2005:
 - John C. Stannard, CFA (Committee Chair)
 - Vincent Duhamel, CFA
 - Monique E.M. Gravel, CFA
 - Jeffrey J. Diermeier, CFA
 - Emilio Gonzalez, CFA
 - Samuel B. Jones, Jr., CFA
 - George W. Noyes, CFA

FY 2006 Volunteer Committee Chairs

(Unanimously Approved)

- 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 (1) year term commencing 1 September 2005 and until their successors are chosen and qualified:

- Candidate Curriculum Committee / Chair: Alan M. Meder, CFA
- Council of Examiners / Chair: James G. Jones, CFA
- MPS Advisory Committee / Chair: To Be Determined
- Professional Development Program / Chair: Edward J. Stavetski
- Disciplinary Review Committee / Chair: John H. Pieper, CFA
- Annual Conference Committee/ Chair: Jane Farris, CFA
- Financial Analysts Seminar Board of Regents / Chair: Walter Haslett, CFA
- Global Investors Workshop Advisory Council / Chair: Yusuf Samad, CFA
- Investment Management Workshop / Chair: Inactive
- Public Awareness Committee / Chair: Katherine Schapiro, CFA
- CFA Centre Advisory Council / Chair: To Be Determined
- Capital Markets Policy Committee / Chair: Frederic Lebel, CFA
- Corporate Disclosure Policy Committee / Chair: Patricia A. McConnell
- Investment Performance Committee / Chair: To Be Determined
- AIMR-PPS Implementation Committee / Chair: Karyn D. Vincent, CFA
- Standards of Practice Council / Chair: To Be Determined
- Retirement Investment Policy Committee / Chair: Rodney N. Sullivan, CFA

Disciplinary Review Committee Appeal Process for Denied Applicants

(Unanimously Approved)

- RESOLVED, that the Board of Governors accept and approve a change in the professional conduct criteria for admission to the CFA Program to allow for an appeal/review process for denied applicants, in substantially the form and manner presented at this meeting.

Professional Conduct Rules of Procedure and Amendment of Relevant Bylaws

(Unanimously Approved)

- RESOLVED, that the proposed amendments to the CFA Institute bylaws and amended Rules of Procedure for the Professional Conduct Program are adopted, effective 1 September 2005.

Add Signatories on CFA Accounts

(Approved with 1 Abstention)

- RESOLVED, that the Board of Governors accept and approve that Jeffrey J. Diermeier, CFA, and Gary Felsten in their capacities as President/CEO and Managing Director, Human Resources, respectively, shall be added as authorized signatories on all CFA Institute accounts.

Recognition of Retiring Governors

(Unanimously Approved)

- RESOLVED, that the Board of Governors for CFA Institute expresses its most sincere appreciation to:
 - Robert E. Angelica, CFA
 - Theodore R. Aronson, CFA
 - Denise M. Farkas, CFA

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

Recognition of Retiring Presidents Council Representatives

(Unanimously Approved)

- RESOLVED, that the Board of Governors for CFA Institute expresses its most sincere appreciation to:
 - Daniel P. Broby, Europe, Middle East, & Africa
 - William R. Warnke, CFA, Midwestern U.S.
 - Warren A. Johnson, CFA, Eastern U.S.
 - Stanley G. Lee, CFA, New York U.S.
 - Christopher G. Dunmall, CFA, Western U.S.

for outstanding leadership, significant sacrifice of time and effort, and exemplary spirit of dedication and purpose in advancing the profession and representing the interests of Member Societies during their respective terms as Presidents Council Chair and Presidents Council Representatives.

The following matters were informational only and presented either by oral report and/or memorandum format in the Board Binders:

- FY 2006 Oversight Committee Members
 - External Relations and Volunteer Involvement Committee
 - George W. Noyes, CFA (Committee Chair)
 - Alex K. G. Ng
 - Stanley G. Lee, CFA
 - Teong Keat (T.K.) Yap, CFA
 - Alida Carcano, CFA
 - James E. Hollis, CFA
 - Thomas B. Welch, CFA
 - Vincent Duhamel, CFA
 - Planning Committee
 - Emilio Gonzalez, CFA (Committee Chair)
 - Margaret E. Franklin, CFA
 - Nicola Ralston
 - Jose Luis Velasco, CFA
 - Brian D. Singer, CFA
 - James M. Lyon, CFA
 - Anthony H. Cagiati, CFA
 - John C. Stannard, CFA
 - Audit and Risk Committee
 - Samuel B. Jones, CFA (Committee Chair)
 - Shirley Shea DeJarnette, CFA
 - Ashvin P. Vibhakar, CFA
 - Monique E.M. Gravel, CFA



- Governor Appointment to the Nominating Committee
 - James E. Hollis, CFA
- Wrap Fee/Separate Managed Accounts Provisions and Guidance for GIPS Standards
- Presidents Council Representatives Report
- FY 2005 Nominating Committee Wrap-up Report
- Proposed Board Meeting and Other Key Dates

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

Respectfully submitted,

Joseph P. Lange
Corporate Secretary