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**BOARD OF GOVERNORS  
MEETING MINUTES  
4 November 2005  
Atlanta, Georgia**

Notice: 26 October 2005

Governors Present:

Anthony H. Cagiati, CFA	James M. Lyon, CFA
Alida Carcano, CFA	Alex K.G. Ng
Shirley Shea DeJarnette, CFA	George W. Noyes, CFA
Jeffrey J. Diermeier, CFA	Nicola Ralston
Vincent Duhamel, CFA	Brian D. Singer, CFA
Margaret E. Franklin, CFA	John C. Stannard, CFA
Emilio Gonzalez, CFA	Jose Luis Velasco, CFA
Monique E.M. Gravel, CFA	Ashvin P. Vibhakar, CFA
Samuel B. Jones, Jr., CFA	Thomas B. Welch, CFA
Stanley G. Lee, CFA	Teong Keat (T.K.) Yap, CFA

Governor Absent: James E. Hollis, CFA

Presidents Council  
Representatives

Present:

Terence E. Burns, CFA	Jan Jackrel, CFA
Kathleen C. Chrisman, CFA	Richard Mak, CFA
Beth Hamilton-Keen, CFA	Jeffrey Matthias, CFA
Marla L. Harkness, CFA	Daniel S. Meader, CFA
Helmut Henschel	Joni K. Pierce, CFA

Also Present:

Lee E. Buttles, Director, Internal Audit, CFA Institute  
Michael K. Dalton, Managing Director, Information Technology, CFA Institute  
Charles W. L. Deale, Head, Society Services, CFA Institute\*  
Raymond J. DeAngelo, Managing Director, Member & Society, CFA Institute  
Margaret M. Eisen, CFA, Managing Director, Marketing and Communications, CFA Institute  
Gary J. Felsten, Managing Director, Human Resources, CFA Institute  
Robert R. Johnson, CFA, Managing Director, CFA Program, CFA Institute  
Joseph P. Lange, Corporate Secretary, CFA Institute  
Philip N. Lawton, CFA, Director, GIPS Certification Program, CFA Institute\*  
William P. McKeithan, General Counsel, CFA Institute  
Timothy G. McLaughlin, CFA, Managing Director and Chief Financial Officer, Finance & Corporate Support, CFA Institute  
Katrina F. Sherrerd, CFA, Managing Director, Planning & Professional Development, CFA Institute  
Guy P. Williams, Head, Finance & Risk Management, CFA Institute

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\* Present for Part of Meeting

Materials

Distributed

Prior to Meeting: CFA Institute Board Binder

Materials

Distributed

at the Meeting:

Revised Meeting Agenda  
CFA Program Special Purpose Task Force

- Revised Resolution
- Revised Terms of Reference
- Roster

Draft Planning Retreat Agenda  
Board Committee Reports

- Executive Committee
  - Terms of Reference
  - Goals and Objectives
- External Relations and Volunteer Involvement Committee
  - Terms of Reference
  - Goals and Objectives

Revised Presidents Council Representatives Report  
Resolution /Approval of Chair and Member Appointments to the Advisory  
Council of the CFA Centre for Financial Market Integrity  
Strategic Plan Report  
Resolution / Approval of Designated Officer to the Professional Conduct  
Program

Chair: John C. Stannard, CFA

Meeting Secretary: Joseph P. Lange

**CFA® Program Special Purpose Task Force**

The Planning Committee formed a CFA Program Special Purpose Task Force with the purpose to engage in a broad-ranging dialogue about the CFA Program and the goal of generating relevant background material for the Planning Retreat in February. The Task Force member roster was discussed along with the terms of reference presented for adoption. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the terms of reference for the CFA Program Special Purpose Task Force substantially in the form presented at this meeting.

**February Planning Retreat Update**

The Board was briefed on the preparations being made for the February Planning Retreat. The purpose of the retreat is to engage participants in an open and transparent discussion of the issues facing CFA Institute with the goal of generating valuable input to the Board for policy and strategy setting. Several past Board chairs and other representatives of the membership will be participating with Board members

and Presidents Council Representatives (PCRs) in the retreat. The objectives of the retreat were identified as follows:

- Engage attendees in an open dialog on key issues facing the organization;
- Build consensus and buy-in among participants on the organization's strategic direction; and
- Generate thoughtful recommendations that can guide future Board action and strategy.

In addition to the CFA Program Special Purpose Task Force input, the Planning Committee is tasked with preparing background materials for framing the business model and growth issues for an effective discussion in February.

### **Board Committee Reports**

The chair of the following Board committees gave overviews of their recent activities to supplement the memoranda included in the Board binders.

#### Executive Committee

- Hunton & Williams presented their findings on the legal risks to CFA Institute based on their extensive review of the organization's activities.
- Terms of reference were drafted for the Executive Committee and Compensation Subcommittee.
- Guidance was prepared for the Nominating Committee.
- Human Resources presented enhancements to the CFA Institute employee compensation plan proposed by management to move to a performance based system to support a results based culture with differentiated performance rewards.
- Discussed methods by which to evaluate governor performance.

#### Audit and Risk Committee

- PricewaterhouseCoopers completed the audit of the financial statements for CFA Institute and the Research Foundation of CFA Institute for the year ended 31 August 2005.
- The Internal Audit charter was adopted.
- Met with outside legal counsel as part of an annual process to keep the Committee informed of latest developments in best practices.
- The Committee approved its terms of reference.

#### External Relations and Volunteer Involvement Committee

- Appointed liaison to the Public Awareness Committee.
- The Committee approved its terms of reference.
- Reviewed and discussed the results from the society survey, particularly the areas identified by respondents as being operational or programming priorities in the future.
- Begun discussions on the initial areas for priority focus with the integrated business model.

#### Planning Committee

- Began work on the February Planning Retreat.
- Affirmed its role and purpose and adopted a terms of reference.

### **Presidents Council Representatives Report**

The chair of the PCRs presented its report to the Board. It was noted that the participation and goodwill on the part of the Board, staff, and society volunteers had risen and continues to result in a spirit of partnership across the organization. Five newly elected representatives have recently joined the PCRs. The Board was also updated on the evaluation data gathered from the Society Leadership Conference held in September.

The PCRs have adopted the Presidents Council Organization and Rules of Operation document that outlines the process by which the PCRs and the chair are elected. It also addresses the manner in which issues or topics are advanced to the Board. The group is currently working on the PCR Roles and Responsibilities: Guiding Principles, which will serve as a statement of purpose and operating philosophy to which the PCRs and the Board will refer going forward. The PCRs are also considering putting in place a Code of Conduct.

It was explained that society integration was an important initiative on the PCRs agenda. Integration was noted not to mean just between the CFA Institute and specific societies but to encompass having societies working together to integrate in positive ways for all involved.

### **CEO Report**

The CEO presented his report. The most significant events of the period included new candidate activity, preliminary year-end results, new hires, and work to prepare for a substantial offsite retreat in February. New candidate registrations for the December exam increased as the final registration date approached so that the gap between budget and realizations largely evaporated. There was also a late increase in curriculum sales such that budget results came in better than recently forecast.

In the last several months, the following senior positions had been filled: Managing Director for Marketing and Communications; Director of University Relations; and Designated Officer for the Professional Conduct Program.

The organization had successfully implemented a new performance management program, which is a process by which all employees are reviewed and compensated and goals/objectives are established for the new fiscal year. This process now fully integrates the organization's strategic and operational goals.

Other areas highlighted were the progress made on preparing for the planning retreat, initiatives of the CFA Centre for Financial Market Integrity, and the implementation of information technology improvements.

### **Financial Results and Audit Report**

The CFO presented the fiscal year 2005 financial results and Audit Report. It was explained that the Audit and Risk Committee had met with the CFA Institute external auditor, PricewaterhouseCoopers LLC, to review their report as well as to review the financial statements and the financial results.

CFA Institute experienced lower than expected candidate sittings compared to budget, which resulted in lower operating revenues. Candidate volume compared to prior year reflected a slight decrease in new candidates and a modest increase in total candidates when prior year is adjusted for the SARS incident.

Revenues for fiscal year 2005 were \$93.9 million, only \$0.1 million lower than the prior year but \$3.8 million below budget. Candidate fee revenue ended the year \$3.8 million below budget due to the enrollments shortfall. In addition, programs and conferences, member dues, royalties and commissions, and other member income fell short of budget levels, but all exceeded prior year levels. The publications product line exceeded both budget and prior year. When compared to the prior year, the increases in revenue offset the decrease in candidate revenue. Operating expenses were managed downward in response to lower than budgeted revenues. In total, expenses were \$4.1 below budgeted levels, resulting in an operating margin deficit of (\$0.2 million), or \$0.3 million better than budget.

Investment income in the form of interest, dividends, and realized gains/losses of \$3.6 million was \$1.0 million over budget. Unrealized gains on investments (which are not budgeted) ended the year at \$4.1 million. With favorable results from investments, the total change in net assets for CFA Institute unconsolidated was \$7.3 million and the organization's reserves are now at \$97.7 million.

Fiscal year 2005 total candidate count was 110,747 with the Level I exam comprising 40,563 candidates. Membership total was 79,985 with 67,824 being CFA charterholders.

The audit was completed on time and there were no negative findings by the auditors: no adjustments, no disagreements with management, no materials control weaknesses, and no reportable conditions. CFA Institute is in the position to publish the Audited Financial Statements within 90 days for year end, in essence meeting the requirement of Security and Exchange Commission registrants.

The Board discussed the financial results and Audit Report. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors approve the Audit Report and accompanying audited financial statements for the fiscal year ending 31 August 2005 substantially in the form presented at this meeting.

### **Committee Structure and Governance Task Force**

The chair of the Committee Structure and Governance Task Force presented its report and recommendations. The recommendations of the Task Force build on the prior work done by the Nominations Task Force, which introduced changes to the governor nominating process. The changes recommended in the report of the Task Force will enhance Board and committee effectiveness, provide a methodology for Board oversight of CFA Institute without interference with management's role, and provide a process for policy-based governance by the Board.

The Board discussed the proposed Bylaw amendments to be presented to the membership for adoption at the annual members meeting held in May. The revisions to the Bylaws would:

- Allow more flexibility for the Board;
- Clear up inconsistencies;

- Reduce level of prescription and detail; and
- Focus on relationships and governance.

It was explained that the proposed Bylaw revisions would be published to the membership for a 60-day comment period to solicit feedback. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the Report of the Committee Structure and Governance Task Force, and

FURTHER RESOLVED, that the *Operating Understanding on Board Governance and Managerial Responsibility Policy*, the *Policy Development Guidelines Policy* and the *General Oversight Committee Policies* are adopted, and

FURTHER RESOLVED, that the amended bylaws and subject to input by the Board and Presidents Council Representatives, be published to the membership of CFA Institute for a comment period of 60 days and that comments received be considered and reported to the Board at its next meeting.

#### **CGIPS Articles of Association**

The Board was presented with interim Articles of Association of CGIPS Association for consideration and approval. During the start-up phase, the affairs of the CGIPS Association will be managed internally by an Operating Committee and stakeholders input communicated through an Association Advisory Council. When there are sufficient members to sustain volunteer involvement, CFA Institute will propose to the Board a more formal, inclusive governance structure. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the proposed Article of Association of CGIPS Association substantially in the form presented at this meeting.

#### **Disaster Recovery Plan**

CFA Institute has prepared a detailed Emergency Response Plan with the objective of providing a clear, concise action plan in the event of an emergency. The plan is designed to facilitate a timely, coordinated response and address senior management and staff members' roles and responsibilities. The plan consists of three main components encompassing a wide range of potential scenarios with varying degrees of probability. The current business recovery plan includes a 72 hour set-up of core servers and the requirement that essential staff travel to several locations to man phones and manage information systems support requirements. It was noted that emergency plans have been developed for all the CFA Institute offices both domestic and overseas.

#### **Consent Agenda**

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

Chair and Member Appointments to the Advisory Council  
of the CFA Centre for Financial Market Integrity

*(Unanimously Approved)*

- RESOLVED, that the Board of Governors accept and approve the appointment of John B. Neff, CFA, to serve as Chair of the Advisory Council of the Centre for Financial Market Integrity for a one-year term commencing 1 September 2005 and ending 31 August 2006, or until his successor has been duly selected and qualified; and
  
- FURTHER RESOLVED, that the Board of Governors accept and approve the appointment of the following individuals listed below to serve as members on the Advisory Council of the CFA Centre for Financial Market Integrity for a one-year term commencing 1 September 2005 and ending 31 August 2006, or until their successors have been duly selected and qualified.
  - Gary P. Brinson, CFA
  - Alan J. Brown
  - Vincent Duhamel, CFA
  - Jelle Mensonides
  - Walter P. Stern, CFA
  - Amy T.K. Yip

Revision to the Request for Proposals Policy

*(Unanimously Approved)*

- RESOLVED, that the Board of Governors accept and approve the revised Request for Proposals Policy, to place responsibility with CFA Institute management for ensuring an appropriate policy is in place for procurements greater than or equal to \$500,000, substantially in the form presented at this meeting.

Effective Date for Amended Rules of Procedure  
for Proceedings Related to Professional Conduct

*(Unanimously Approved)*

- RESOLVED, that the effective date for amended Rules of Procedure for Proceedings Related to Professional Conduct shall be 1 January 2006.

Appointment of Designated Officer to Professional Conduct Program

*(Unanimously Approved)*

- RESOLVED, that the Board of Governors appoint Christine I. Koppel, CFA, as the Designated Officer to the Professional Conduct Program.

The following matters were informational only and presented in memorandum format in the Board binders:

- Strategic Plan Update
- Society Leadership Conference Evaluations



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

Respectfully submitted,

Joseph P. Lange  
Corporate Secretary

BOG Open Session Meeting Minutes 4 11 05.doc