



Setting the global standard for investment professionals

**BOARD OF GOVERNORS  
MEETING MINUTES  
21 May 2006**

Notice: 9 May 2006

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

Governor Absent: James E. Hollis, CFA Alex K.G. Ng

Governor Nominees Present: Pierre Cardon, CFA Daniel S. Meader, CFA

Presidents Council Representatives Present: Terence E. Burns, CFA Jan Jackrel, CFA  
Kathleen C. Chrisman, CFA Todd Parker Lowe, CFA (Chair)  
Beth Hamilton-Keen, CFA Richard Mak, CFA  
Marla L. Harkness, CFA Jeffrey Matthias, CFA  
Helmut Henschel Joni K. Pierce, CFA

Also Present: 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 and CGIPS Programs, CFA Institute  
Jim Jones, CFA, Chair of the Council of Examiners, CFA Institute\*  
Timothy R. Konold, Psychometric Consultant, UVA\*  
Christine I. Koppel, CFA, Designated Officer, Professional Conduct 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  
Robert A. McLean, CFA, Director, University Relations, CFA Institute\*

Charlottesville Hong Kong London

560 Ray C. Hunt Drive  
PO Box 3668  
Charlottesville, VA  
22903-0668 USA

434 951 5499 tel  
434 951 5262 fax  
info@cfainstitute.org  
www.cfainstitute.org

\* Present for Part of Meeting

Alan Meder, CFA, Chair of the Candidate Curriculum Committee, CFA Institute\*  
Nitin M. Mehta, Managing Director, Europe, Middle East and Africa Operations, CFA Institute  
Frank K. Reilly, CFA, Chair of the Research Foundation of CFA Institute\*  
Katrina F. Sherrerd, CFA, Managing Director, Planning & Professional Development, CFA Institute  
Jan R. Squires, CFA, Managing Director, Asia Pacific Operations, CFA Institute\*

Materials Distributed  
Prior to Meeting:

CFA Institute Board Binder

Materials Distributed  
at the Meeting:

Globalization and EMEA Region PowerPoint  
CFA Institute Research on the Global Market of Investment Professionals  
PowerPoint  
Planning Committee Meeting Summary (Key Points and Decisions)  
20 May 2006

Chair: John C. Stannard, CFA, FSIP

Meeting Secretary: Joseph P. Lange

### **CFA Program**

Candidate Curriculum Committee Report

The chair of the Candidate Curriculum Committee (CCC) presented its report. The CCC is comprised of the Executive Advisory Board (5 members), Project Managers (3 members; examination level orientation), Topic Area Coordinators (10 members; topic area orientation), and the Working Body (approximately 100 draft study session reviewers), all supported by a staff of CFA Institute professionals. The Executive Advisory Board operates under the following CCC Ground Rules:

- The curriculum is selected to teach the knowledge, skills, and abilities required of an investment generalist as identified by the Practice Analysis process and defined by the Candidate Body of Knowledge, Degree of Understanding Outline, and Test Specifications matrix;
- The CCC prioritizes development of, selects, and regularly reviews curricular materials that are appropriate for a distance-learning environment for a global candidate base, including (1) clear and accurate presentation, (2) correctly worked examples, and (3) end-of-chapter questions/problems with correct solutions; and
- The CCC avoids curricular materials that are (1) predominantly empirical/historical in nature, (2) topical (current events oriented or survey articles), (3) country-centric (including government rules and regulations), and /or (4) specialist in nature.

The Practice Analysis process is the foundation of the curriculum for the CFA Program. This year several improvements have been made as follows:

- Creation of a Practice Analysis Task Force to provide Board, Executive Advisory Board, and

- general practitioners participation in the oversight of Practice Analysis;
- Reduction in the granularity of the Candidate Body of Knowledge;
- Equal attention to the more familiar knowledge areas and to an array of responsibilities and competencies of a new CFA charterholder; and
- A commitment to using our annual global review of the curriculum as an opportunity to move to conducting continuous Practice Analyses.

With the 2006 curriculum, the Level I readings were assembled into a modular format consisting of four self-contained volumes in order to maintain affordability and enhance the format of the curriculum. These packaging improvements will be phased into the Level II and III curriculum in 2007 and 2008, respectively. It was further noted that, in the future, the CFA curriculum (or sections of the curriculum) could potentially be repackaged into an electronic or internet-based format.

Several additional initiatives have been undertaken with curriculum operations with some of the major activities noted below:

- Less granular Learning Outcome Statements;
- Less formula orientation;
- Use of higher level Learning Outcome Statements to introduce learning goals in study sessions; and
- Increased use of the Financial Analysis Journal and Research Foundation monographs in the curriculum.

The Board proceeded into a question and answer session.

#### Council of Examiners Report

The chair of the Council of Examiners (COE) presented its report. The COE is comprised of the Editorial Board (9 members), Examination Writers (26 members; Essay or Item Set teams), and CFA Institute staff (6 primary, 5 review). Additionally, domestic and global reviewers (approximately 35 members, charterholders who provide feedback) were involved in the COE process.

The development of the CFA examination is a multi-stage process, of which the COE is a part. The process begins with the Practice Analysis which leads to the creation of the Test Specifications and Degree of Understanding documents. These documents define the topic areas to be tested and the expected level of competency a candidate needs to demonstrate to qualify for the CFA Charter. The COE's mandate is to create an examination that meets four specific criteria:

- The examination must be, over multiple examination cycles, consistent with the Test Specifications document;
- Each question must be consistent with the Degree of Understanding document;
- Each question must be supported by one or more Learning Outcome Statements; and
- Each question must be consistent with the curriculum and not violate best practices in the investment industry.

In meeting these criteria, there are certain actions the COE cannot take:

- Choose to ignore certain topics included in the Test Specifications document (while recognizing the practical limitations may not allow each of the topics scheduled to be tested to appear on the examination); and
- Ask questions that are not specifically addressed in the curriculum.

It was explained that the COE introduced some changes to the 2006 examination development process relating to the creation of backup examinations and the structure of the item set and essay questions. Additional changes expected to be implemented in the coming examinations cycles were also discussed with the Board.

The Board proceeded into a question and answer session.

#### Standard Setting

The Board was presented with an in-depth overview by a psychometric consultant of the methods utilized for setting performance standards by the testing community. Also discussed were the various methods of standard setting. The Board proceeded into a question and answer session with the following resolution passing unanimously.

RESOLVED, that the Board of Governors accept and approve the use of standard setting as the primary basis for establishing the minimum passing score along with other data input for the Level I and II examinations in the CFA Program.

#### **Professional Conduct/Designated Officer Report**

The designated officer of the Professional Conduct Program (PCP) provided its report. The following documents were noted to govern the PCP:

- CFA Institute Bylaws;
- Code of Ethics and Standards of Professional Conduct;
- CFA Examination Rules and Regulations; and
- Rules of Procedure for Proceedings related to Professional Conduct.

The primary purpose of the PCP is to protect the integrity of the profession, the CFA examination which leads to the award of the CFA Charter, and the CFA Charter.

Professional conduct investigations originate from two types of cases; industry and examination. Industry cases investigate industry related conduct with information sources provided through self-disclosure, complaints, and the media. Examination cases investigate examination related conduct with information sources provided through proctor incident reports and other means.

As of 31 December 2005, there were 543 cases pending: 418 industry cases and 125 examination cases. With the additional staff support and resources provided to the PCP in FY2005 a total of 328 cases were closed compared to 141 in FY2004. It was noted that the PCP opens approximately 700 cases a year. Covered persons accepted sanction determinations in 75 percent of cases that reside in the PCP. The remaining 25 percent of the cases go onto the Disciplinary Review Committee and through the hearing panel process.

The Board was briefed on the disposition and types of violations that the PCP handles along with the typical processing cycle for both industry and examination cases. It was explained that the PCP has several hurdles in fully processing industry cases:

- CFA Institute is not a Self-Regulatory Organization – Cannot subpoena evidence;
- Jurisdiction – Only members and candidates;

- Members are individuals; and
- Allegations require evidence.

The Board proceeded into a question and answer session.

## **Globalization**

### Asia Pacific Regional Report

The managing director of the Asia Pacific Operations presented its report. When taking into account the total count of various CFA Institute constituencies, the Asia Pacific region is comprised of:

- 12 percent of members;
- 13 percent of charterholders;
- 11 percent of society members; and
- 34 percent of candidates.

The six objectives for the Asia Pacific region are as follows:

- Supporting a growing candidate base;
- Increasing constituent awareness;
- Supporting and developing societies;
- Enhancing member education;
- Promoting CFA Centre ideals and initiatives; and
- Strengthening AP office capabilities.

The Board was provided with sample impressions on a wide range of topics received from candidates, members, employers, regulators, and universities. Also outlined was the three-year vision plan for the Asia Pacific region and potential obstacles to that vision.

### Europe, Middle East, and Africa Regional Report

The managing director for the Europe, Middle East, and Africa (EMEA) Operations presented its report. The EMEA region from a geographical stand point is roughly 10,000 miles long and 7,000 miles wide and comprised of 32 Member Societies. Steady growth has been seen and is projected to continue in the region, however, market penetration is relatively low. Client complexity involving diversity, multiplicity, and variety of needs was noted as a challenge in the region. Another challenge identified was competition encompassing direct, indirect, and academic forms and was emphasized not to be underestimated.

## **Market Research on the Potential Global Market for the CFA Charter**

The managing director and chief financial officer of Finance and Corporate Support presented research on the global market of investment professionals. This project was undertaken to address the priority identified in the 2005 Annual Report Executive Message:

- To develop “a sufficiently clear idea of what defines the market we serve or, consequently, what type of market penetration we have.”

The challenges with this project regarding the lack of secondary source data and existing matching primary source data, along with the solutions utilized to handle these issues were outlined for the Board. The results of the research completed to date comprising information from 20 cities in 18 countries provided a global extrapolation of data for investment professionals that have earned the CFA Charter:

- Global estimated penetration of 5 to 7 percent; and
- Individual countries ranging from 2 to 50 percent.

Work will continue on the project to vet the information, expand on the number of analyzed cities and countries, and seek meaningful relationships of the data.

### **Research Foundation Report**

The chair of the Research Foundation of CFA Institute presented its report. The Research Foundation's mission was noted to promote the development and dissemination of relevant research for investment professionals worldwide. An overview of the subject content of recent and upcoming monographs along with research workshop activities and related web casts of the workshops were discussed. A new product coming out is the web linked literature reviews. Rather than only produce monographs which take a fairly long time to do and are very detailed, the literature reviews will provide individuals with quick review of topics by providing information on recent literature and how and where it fits.

Pursuant to the Research Foundation Bylaws, CFA Institute is the sole Voting Member of the Research Foundation. As the sole Voting member, CFA Institute elects the trustees serving on the Research Foundation board.

The 2006-2007 Board of Trustees of the Research Foundation will be composed of eighteen (18) trustees, including eleven (11) Elected Trustees, four (4) *Ex Officio* Trustees, and three (3) Trustees *Emeritus*. The following resolution was passed with one abstention.

RESOLVED, that John C. Stannard, CFA, FSIP, 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 John C. Stannard, CFA, FSIP, is authorized to vote for the approval of: John J. Nagorniak, CFA; Jean L.P. Brunel, CFA; Roger G. Clarke; and W. Van Harlow III, CFA, each to serve as an Elected Trustee for a three (3) year term commencing 1 September 2006;

FURTHER RESOLVED, that John C. Stannard, CFA, FSIP, is authorized to vote for the approval of: Fred H. Speece, Jr., CFA, to serve as Trustee Emeritus for an indefinite term commencing 1 September 2006; and

FURTHER RESOLVED, that John C. Stannard, CFA, FSIP, 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 Program Partner Report**

The director of University Relations presented its report. The rationale for the CFA Program Partner initiative is as follows:

- To lead the investment profession globally by setting the highest standards of ethics, education, and professional excellence;

- To work with local societies to recruit talented, ethical young professionals into investment management;
- To increase the visibility of CFA Institute and the CFA Charter; and
- To lead the way in ethics and education for investment management practice, and to support university efforts to develop well prepared student-candidates.

Benefits of the partnership:

- Use of the CFA Program Partner logo;
- Recognition on a prominent new web page, with hotlink to partner's web page;
- Access to the CFA Institute web site equivalent to that of a candidate;
- Complimentary set of curriculum materials;
- Access to educational opportunities;
- Complimentary statistical service report;
- Five student scholarships each year; and
- Societies play an important role – partners and local societies can participate in reciprocal exchanges.

CFA Institute has established partnerships with the following institutions:

- University of Oxford (first partner);
- Bocconi University;
- Boston University;
- Concordia University;
- Hong Kong University of Science and Technology; and
- Marquette University.

The second class of five partners will be announced in late May 2006, and the third class of five partners will be announced in early to mid July 2006.

The Board proceeded into a question and answer session.

### **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

- Working on formalizing the decision-making framework between the Board and management.
- Recommended that Board adopt changing the name of the Certificate in Global Investment Performance Standards (CGIPS) program to Certificate in Investment Performance Measurement (CIPM) program. The name change is in response to advice from CGIPS program candidates, employers, volunteers, and Country Sponsors of the GIPS standards. CIPM is considered a stronger and more accurate description of this comprehensive study and examination program for investment performance professionals. The new name will become effective 1 November 2006. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve changing the Certificate in Global Investment Performance Standards (CGIPS) program and association name to Certificate in Investment Performance Measurement (CIPM).

#### Audit and Risk Committee

- No issues to report, referred to report in Board binder.

#### External Relations and Volunteer Involvement Committee

- Approved revised admissions criteria for new Member Societies.
- Positive progress made on reconstituting the Member Society in Mexico.
- The Public Awareness Committee has been dissolved and replaced with the formation of the Marketing and Communications Committee.

#### Planning Committee

- Reviewed pass rate analysis that focused on the Level I examination.
- Discussed the principle findings and recommendations that came out of the February 2006 planning retreat, referred to Board handout.
- Discussed the policy and purpose of the reserve funds.
- Discussed the value proposition for members.

### **Presidents Council Representatives Report**

The chair of the Presidents Council Representatives (PCR) presented its report. Three of the nine PCR positions were up for election for terms commencing 1 September 2006. Richard Mak (Asia Pacific Region), Elizabeth Hamilton-Keen (Canada Region), and Joni Pierce (South Central and Latin/South America Region) were all incumbent PCRs and ran unopposed for re-election.

A PCR Code of Conduct and Conflict of Interest Policy was proposed to the Board for adoption to replace the existing Confidentiality Agreement. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors approve the Code of Conduct and Conflict of Interest Policy adopted by the Presidents Council Representatives and that the practice of requiring Presidents Council Representatives to sign confidentiality agreements be discontinued.

The society growth trend in the past several years has been primarily within the Europe, Middle East, and Africa (EMEA) region and reflects country-based societies instead of city-based societies. With the addition of Egypt and Bahrain to the region raises the count to 32 societies in the region. The PCRs and CFA Institute staff agree that an additional PCR for the EMEA region is needed to provide the level of support and service required by the region. It is recommended that the Board approve the additional representation noting that the reconfiguration split of the societies between the two PCRs still needs to be determined. The following resolution was approved unanimously.

RESOLVED, that the Board of Governors accept and approve the addition of a 10<sup>th</sup> Presidents Council Representative to serve in the Europe, Middle East, and Africa region, effective 1 September 2006.

The Board was updated on the status of the Society Partnership Program initiative.



## President and CEO Report

The president and chief executive officer referred to his memorandum provided in the Board binder.

### CFA Institute Staff Compensation Plan

The managing director of Human Resources presented the staff compensation plan. In FY2006, the compensation program was revised so that all employees could participate in the incentive program. The plan reinforces the organization's increased emphasis on results and employee performance. The program utilizes lower base salary increases; however, offers the potential for greater total compensation opportunity. It was explained that the compensation expense to CFA Institute will vary with performance of the organization. The sum of expected employees' incentives forms the target incentive pool. The target incentive pool will be adjusted for actual organizational performance based on these key components:

- Strategic Plan;
- Financial;
- Base Business Plan; and
- Constituent Scores.

The distribution of the incentive pool will be administered as follows:

- The revised incentive pool approved by the Compensation Subcommittee;
- The revised incentive pool allocated to CFA Institute divisions, taking into account for their performance;
- Managers recommend individual awards based on employee performance; and
- The Management Committee reviews recommendations and approves awards.

The Board proceeded into a question and answer session.

### Consent Agenda

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

#### Retention of External Auditor (*Unanimously Approved*)

RESOLVED, that the Board of Governors accept and approve the retention of PricewaterhouseCoopers as the external auditor for CFA Institute for the year ending 31 August 2006.

#### FY07 Board Oversight Committee Chairs (*Unanimously Approved*)

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 2006 and until their successors are chosen and qualified:

- Audit and Risk Committee Chair: Monique E.M. Gravel, CFA
- External Relations and Volunteer Involvement Committee Chair: Brian D. Singer, CFA
- Planning Committee Chair: Margaret E. Franklin, CFA

Minimum Passing Score (MPS) Advisory Committee Chair (*Unanimously Approved*)

RESOLVED, that the Board of Governors approve the appointment of Rossa O'Reilly, CFA, as Chair of the Minimum Passing Score (MPS) Advisory Committee for a one (1) year term and until his successor is chosen and qualified.

Appointment of GIPS North America Investment Performance Committee Chair  
(*Unanimously Approved*)

RESOLVED, that the Board of Governors approve the appointment of Neil Riddles, CFA, as Chair of the North America Investment Performance Committee for a one (1) year term and until his successor is chosen and qualified.

CFA Institute Secretary and Treasurer Appointments (*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 2006 and until their successors are chosen and qualified.

Rules of Procedure for Proceedings Related to Professional Conduct (*Unanimously Approved*)

RESOLVED, that the Board of Governors approve the Rules of Procedure for Proceedings Related to Professional Conduct as amended, effective 21 May 2006.

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

- Strategic Plan Report; and
- Financial Report.

**Future Board Meeting Dates/Locations**

Board meeting dates and locations were provided through April 2007. Beijing, China, was noted to be the location for the February 2007 meeting.

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

Respectfully submitted,

Joseph P. Lange  
Corporate Secretary