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**BOARD OF GOVERNORS
MEETING MINUTES
21 July 2006
Charlottesville, VA**

Notice: 12 July 2006

Governors Present: Anthony H. Cagiati, CFA Samuel B. Jones, Jr., CFA
Alida Carcano, CFA Alex K.G. Ng *
Shirley Shea DeJarnette, CFA George W. Noyes, CFA*
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
James E. Hollis, CFA Teong Keat (T.K.) Yap, CFA

Governors Absent: Stanley G. Lee, CFA Nicola Ralston, FSIP
James M. Lyon, CFA

Incoming Governor Present: 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: Michael K. Dalton, Managing Director, Information Technology, CFA Institute
Raymond J. DeAngelo, Managing Director, Member and Society, CFA Institute
Margaret M. Eisen, CFA, Managing Director, Marketing and Communications, CFA Institute
Peter Gleason, Director of Research and COO, National Association of Corporate Directors
Gary J. Felsten, Managing Director, Human Resources, 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 and Corporate Support, CFA Institute
Roger Raber, President and CEO, National Association of Corporate Directors

Participated via Telephone

* Present for Part of Meeting

Katrina F. Sherrerd, CFA, Managing Director, Planning and Professional Development, CFA Institute
Guy P. Williams, Head, Finance and Risk Management, CFA Institute

Materials

Distributed

Prior to Meeting: CFA Institute Board Binder

Chair: John C. Stannard, CFA, FSIP

Meeting Secretary: Joseph P. Lange

Board Committee Reports

The chair of the following Board committees gave reports on their recent activities.

Executive Committee (EC)

- Reviewed the proposal for establishing Board observers on CFA[®] Program committees.
- Reviewed the proposed decision-making framework between the Board and management.
- Updated on the search for a new *Financial Analysts Journal* editor.
- Appointed Anthony Cagiati, CFA, to serve on the Board Nominating Committee.

Audit and Risk Committee (ARC)

- Affirmed with PricewaterhouseCoopers (PwC) that financial statements are on schedule for audit and publication within 90 days of the fiscal year end.
- In accordance with best practice, reviewed the CFA Institute employees' 401(k) retirement plan. Everything was reported in good order.
- Received an internal audit update. Proposal has been made to the Management Committee to expand the resources devoted to the internal audit process by adding a part-time person.
- Received compliance and legal report from the General Counsel.

External Relations and Volunteer Involvement Committee (ERVIC)

- Approved the reconfiguration of the Europe, Middle East, and Africa region (EMEA) into East EMEA and West EMEA with an additional Presidents Council Representative (PCR) to cover the new region.
- Approved some additional criteria for admission of Member Societies.
- Significant progress made in the revitalization of the Mexico Society.
- Updated on the activities of the Society Partnership Program Advisory Committee (SPPAG).
- Reviewed the volunteer committee survey results.

Planning Committee (PC)

- Reviewed the budget for FY 2007 and recommended for Board approval.
- Reviewed and provided its recommendations to the Executive Committee on the reserve fund and endowment questions.
- Continued process of revising the three main components of the strategic plan: mission statement, vision statement, and strategic objectives.

Presidents Council Representatives Report

The chair of the PCRs presented its report. The society leader meetings held in Zurich were very successful. Almost 300 members were in attendance and 131 out of 132 societies were represented. It was appreciated that the upcoming Board meeting will be held in conjunction with the Society Leaders Conference in September. It was noted that Frank Dohn, CFA, has been appointed by the PCRs to serve on the Board Nominating Committee.

President and CEO Report

The President and CEO presented his report that highlighted the following areas:

- Public Awareness – The Zurich Annual Conference was a huge success. Large amount of positive press with no fewer than statements in 76 articles and 20 television appearances have occurred since the week before the Zurich conference with quality matching quantity.
- CFA Centre – In addition to important recognition by press coverage and mentions related to Centre positions, the Centre has made three Senate/House committee appearances since the Board's last meeting. Have made timely comments and moved into the mainstream on the issue of options backdating and front loading. Have been sponsored by the FSA and UK to become an affiliate member of the International Organization of Securities Commissions.
- CFA Program – Have Board observers participating on CFA Program committees. Personal comfort level with the CFA Program processes and the quality and dedication of the volunteers involved is extremely high.
- Member Societies – The SPPAG has begun its work and last week 20 executives/administrators from society staff offices were in Charlottesville to improve relations and joint effectiveness. A research project using MDL Research has reported that *CFA Magazine* has achieved traction in Europe. One important piece of information that has come out of the study is that *CFA Magazine* is achieving global relevance to the members and is seen as providing value as the primary communication piece to members.

Volunteer Survey Report

A survey was conducted of members who served on Board appointed committees. The survey was electronically distributed to 261 member volunteers serving on 11 long standing committees. When the survey closed, responses had been received from 164 individuals, a response rate of nearly 63%. The goal of the survey was to obtain a better understanding of why members contribute their time to CFA Institute; where they feel their efforts are most effective; and how the organization could make volunteering a more rewarding experience. The specific purposes related to the survey's goals were to assess the current volunteer experience; aid in enhancing the volunteer experience in the future; and leverage existing committee strengths and provide support for areas facing challenges.

The Board was provided with the survey ratings and feedback which gave a positive picture of the volunteer experience at CFA Institute. As a result of the survey and input from ERVIC, the following recommendations were made:

- Openings for all Board appointed committees should be posted on the CFA Institute website;
- A consistent process should be developed for selection of committee members;
- ERVIC should work with the PCRs to enhance awareness of the committee structure and increase understanding of the role the Board appointed committees play in pursuing the mission of CFA Institute;

- A survey of Board appointed committees should be conducted again in 2009 and every three years following; and
- The committee chair and staff liaison of the six committees with less than a two-thirds response rate should discuss the response rate with their members to determine if there are areas of dissatisfaction that are not revealed in these results.

The survey results will be shared with all the committee chairs.

Global Investment Performance Standards Report

The managing director of the Member and Society division gave an update on Global Investment Performance Standards (GIPS) activities. The first official meeting of the new GIPS governance structure which is comprised of an executive committee and the larger country sponsor council recently held meetings in Rome. The meetings were positive and productive with the participants emerging with 90 separate action items and decision points firmly underway. By the end of the month, all of the standing GIPS subcommittees dealing with a variety of specialty areas within the performance measurement area will have been populated. All of those committees are slated to have their first meetings in August and the executive committee has a meeting scheduled for September.

Marketing and Communications Committee Report

The managing director of the Marketing and Communications division gave an update on the Marketing and Communications Committee (MAC) which has been established as a result of the reconstitution and rebirth of the Public Awareness Committee of ERVIC. The charter of the MAC states clearly that the group is to be engaged actively in the formulation and execution of strategies that build wider recognition and appreciation of the CFA designation and the CFA Program. They will be meeting to establish priorities on a regional and global basis.

The budget proposed for marketing is substantial for the upcoming fiscal year. Two campaigns are planned with one being a candidate recruitment advertising campaign and the other will be a brand building and maintenance campaign. Resources will also be invested in private client activities. It was explained that true market research would be conducted on the membership and constituents. Soon to be launched is a global employer survey and a series of surveys in the professional development area.

FY 2007 Budget

The managing director and CFO of the Finance and Corporate Support division presented the FY 2007 budget. It was explained that the strategic planning process was integrated into the budgeting process. CFA Institute views the budget not as a plan to spend money but as a plan to meet the organization's strategic objectives. The Planning Committee has discussed the budget and is comfortable with the level of detail and information presented. It is recommended that the budget be approved by the Board.

The budget contains new resources for several goals related to the priorities:

- Professional development and wealth management - \$1.5 million increase, total resource dedication \$6.0 million;
- Marketing and communications (including efforts in Asia and Europe) - \$2.0 million increase, total resource dedication \$10.4 million;

- Asia Pacific and Europe, Middle East, and Africa operations (including the CFA Centre) - \$3.5 million increase, total resource dedication \$7.6 million;
- Professional Conduct Program - \$0.4 million increase, total resource dedication \$2.3 million;
- University Relations - \$0.2 million increase, total resource dedication \$0.5 million; and
- Society Support - \$0.1 million increase, total resource dedication \$5.0 million.

The budget reflects growth in CFA members and candidate enrollment. Charterholder members will grow 10 percent and regular/affiliate members (mostly candidates who join the organization prior to earning the CFA Charter) will increase by 7 percent. The budget includes a total member count of 91,100 for FY 2007. The December 2006 and June 2007 exam sittings will involve 47,500 new Level I candidate registrations and an overall enrollment of 121,800 candidates. These figures represent a 6 percent increase in first-time CFA Program participants and a 5 percent increase in total enrollments. Such volume growth, coupled with product and program developments such as custom Level II curriculum will generate \$111.0 million in operating revenue. The maintenance of existing programs and services, and the dedication of resources to the strategic priorities as well as a complimentary FAS Anthology to members and a proposed emerging markets scholarship fund, will involve \$110.8 million in operating expenses. The resulting operating margin for FY 2007 is \$0.2 million.

The Board discussed various matters of the budget. It was suggested that future consideration should be given to distributing the recently revised Standards of Practice Handbook to the membership. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve the fiscal year 2007 Operating and Capital Budget substantially in the form presented at this meeting; and

Board of Governors Review

Legal Overview

The General Counsel provided an overview of legal issues that pertain to director liability in conjunction with aspects of Virginia law. Courts and statutes have defined the duties of directors as comprising a fiduciary duty in their stewardship of the organization through three material duties: Loyalty, Care, and Disclosure. It was explained that these three duties are sometimes difficult to separate when examined in the context of actual board decisions, as there is substantial overlap in their application. However, in Virginia, the principle rule is that directors of a company must act in *good faith* in the performance of their duties. A recent case decision from the Delaware Supreme Court (In re the Walt Disney Company Derivative Litigation) was discussed along with several good practice governance points outlined to the Board.

The General Counsel also noted two previously adopted Board governance policies that assist in providing some guidance to the governors with implementing policy based management.

Risk Management Overview

The Head of Finance and Risk Management explained the role of Enterprise Risk Management (ERM) as a method to improve the way an organization perceives and manages risk as well as provides reasonable assurance about the achievability of the organization's objectives. ERM objectives were noted as follows:

- Align risk appetite and strategy;
- Enhance risk response decisions;

- Reduce operational surprises and losses;
- Identify and manage multiple and cross-enterprise risks;
- Seize opportunities; and
- Improve deployment of capital.

The following six categories make up the ERM framework utilized by CFA Institute:

- Strategic;
- Operational;
- Reputation;
- Compliance;
- Legal; and
- Financial.

An overview of the ERM process was provided to the Board. It was noted that the Audit and Risk Committee periodically review risk management reports to determine if the residual risks are within their acceptable risk tolerances. Activities within the internal control and risk management processes are continually evaluated to provide a basis for improvement. A detailed report of risk issues currently being monitored is provided to the Management Committee as well as the Audit and Risk Committee on a periodic basis. It was emphasized that a successful risk management process requires support from the top down and involvement of an interdisciplinary working group, of which CFA Institute was stated to have both.

Consent Agenda

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

FY 2007 Executive Committee Members

RESOLVED, pursuant to Article 7.2(b)(i) of the CFA Institute Bylaws the Board of Governors appoint the following governor(s) to serve as a member of the Executive Committee for a one (1) year term commencing 1 September 2006:

Jeffrey J. Diermeier, CFA
Vincent Duhamel, CFA
Margaret E. Franklin, CFA
Emilio Gonzalez, CFA
Monique E.M. Gravel, CFA
George W. Noyes, CFA
Brian D. Singer, CFA
John C. Stannard, CFA, FSIP

FY 2007 Volunteer Committee Chairs

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 year term commencing 1 September 2006 and until their successors are chosen and qualified:

Candidate Curriculum Committee
Chair: Alan M. Meder, CFA
Council of Examiners

- Chair: James G. Jones, CFA
Professional Development Program
- Chair: Edward J. Stavetski
Disciplinary Review Committee
- Chair: Marilyn Robinson-Irvin, CFA
Annual Conference Committee
- Chair: Peter Jarvis, CFA
Financial Analysts Seminar Board of Regents
- Chair: Walter V. Haslett, CFA
Global Investors Workshop Advisory Council
- Chair: Yusuf Samad, CFA
Marketing and Communications Committee
- Chair: Katherine Schapiro, CFA
Capital Markets Policy Committee
- Chair: Frederic Lebel, CFA
Corporate Disclosure Policy Committee
- Chair: Patricia A. McConnell, CPA

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

- o FY 2007 Board Oversight Committee Members

Audit and Risk Committee	Planning Committee	External Relations and Volunteer Involvement Committee
Monique E.M. Gravel, CFA - Chair	Margaret E. Franklin, CFA - Chair	Brian D. Singer, CFA – Chair
Stanley G. Lee, CFA	Nicola Ralston, FSIP	Samuel B. Jones, Jr., CFA
John C. Stannard, CFA, FSIP	Jose Luis Velasco, CFA	Ashvin P. Vibhakar, CFA
Pierre Cardon, CFA	Thomas B. Welch, CFA	Daniel S. Meader, CFA
	Teong Keat (T.K.) Yap, CFA	James E. Hollis, CFA
	George W. Noyes, CFA	Emilio Gonzalez, CFA
	Vincent Duhamel, CFA	Alida Carcano, CFA
	Jeffrey J. Diermeier, CFA	Jeffrey J. Diermeier, CFA

- o Executive Committee Governor Appointment to the Board Nominating Committee: Anthony H. Cagiati, CFA
- o Strategic Plan Report; and
- o Financial Report.

Recognition of Retiring Governors

The Board recognized retiring governors for their involvement and service with the organization. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors for CFA Institute expresses its most sincere appreciation to:

Anthony H. Cagiati, CFA;
Shirley Shea DeJarnette, CFA;
James M. Lyon, CFA; and
Alex K.G. Ng

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 Chair

Daniel Meader, CFA, who was recently elected by the membership to serve on the Board, was recognized for his service and accomplishments during his tenure as chair of the PCRs.

Future Board Meetings and Key Event Dates

The Board noted the upcoming meetings to be held in Washington D.C. in conjunction with the Society Leadership Conference and the February Beijing meeting. The consensus of the governors was to hold next July's in-person meeting once again in Charlottesville.

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

Respectfully submitted,

Joseph P. Lange
Corporate Secretary