



Setting the global standard for investment professionals

**BOARD OF GOVERNORS  
MEETING MINUTES  
29 April 2007  
New York, NY**

Notice: 18 April 2007

Governors Present:

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

Incoming Governor Present: Jeffrey D. Lorenzen, CFA

Presidents Council Representatives

Present:

Terence E. Burns, CFA	Ralph Lehman, CFA (Incoming)
Elizabeth Hamilton-Keen, CFA	Todd Parker Lowe, CFA (Chair)
Marla L. Harkness, CFA	Richard Mak, CFA
Helmut Henschel	Jeffrey Matthias, CFA
Jan Jackrel, CFA	Joni K. Pierce, CFA*
Attila Koksál, CFA	

Also Present:

C. Jeannie Anderson, Associate General Counsel, CFA Institute  
Lee E. Buttles, Director, Internal Audit, CFA Institute  
Raymond J. DeAngelo, Managing Director, Member & Society, CFA Institute  
Gary J. Felsten, Managing Director, Human Resources, CFA Institute  
Barbara L. Higgins, Chief Planning Officer and Head, Registration and Event, CFA Institute  
Robert R. Johnson, CFA, Managing Director, Education Division, CFA Institute  
Rahul Keshap, Associate General Counsel, CFA Institute  
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

\* Present for Part of Meeting

Timothy G. McLaughlin, CFA, Managing Director and Chief Financial Officer,  
Finance and Corporate Support, CFA Institute  
Nitin M. Mehta, Managing Director, Europe, Middle East and Africa Operations,  
CFA Institute  
Marilyn Robinson-Irvin, CFA, Chair of the Disciplinary Review Committee,  
CFA Institute\*  
Kurt N. Schacht, CFA, Managing Director, CFA Institute Centre for Financial  
Market Integrity\*  
Jan R. Squires, CFA, Managing Director, Asia Pacific Operations, CFA Institute  
Guy P. Williams, Head, Finance and Risk Management, CFA Institute\*

Materials

Distributed

Prior to Meeting: CFA Institute Board Binder

Materials

Distributed

At the Meeting: Financial Summary FYTD 2007 through March PowerPoint  
Candidate Counts PowerPoint

Chair: Vincent Duhamel, CFA

Meeting Secretary: Joseph P. Lange

### **Board Committee Reports**

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

Executive Committee

- Discussed CFA Institute's relationships with hedge funds and alternatives. Requested the CFA Centre to review its Asset Managers Code for gaps in addressing hedge funds and to report back with recommendations.
- Discussed several CFA Program matters regarding retention of external security consultants, standard setting, and minimum passing score.
- Regarding the Reserve Funds, approved increasing the Contingency Reserve to a minimum of 65 percent of projected operating expenses to include marketing remediation funds. Staff was requested to present in July the proposed revised Investment Policy Statement.
- Received an update on the recent activities on the India litigation.
- Discussed the issue of members reporting sexual harassment and concluded that the organization did not have the experience nor was equipped to handle such matters.

Audit and Risk Committee

- Reviewed the exam security audit being headed by the Risk Management Officer.
- Noted that the internal audits were on track.

External Relations and Volunteer Involvement Committee

- In the process of reviewing the work experience requirements for Regular Members.
- Received an update on employer outreach and SPPAG.

- PCR update and noted work with extra large societies.

#### Planning Committee

- Received financial update.
- Presented with alternative approach to Asia strategy with focus on India.
- Continuing Education Task Force formed with Janet Miller, CFA, and Denise Farkas, CFA as co-chairs.

### **Presidents Council Representatives Report**

The chair of the Presidents Council Representatives (PCRs) provided a few brief remarks to supplement his written report. It was noted that the recently held regional society meetings went very well. The Society Partnership Program was moving ahead and emphasizing how societies maintain relevancy. PCR elections were held according to the Presidents Council Rules of Operation, adopted by the Presidents Council in September 2005. The PCRs were pleased to report the following election results:

- Eastern U.S. – Terence Burns, CFA (2<sup>nd</sup> term)
- EMEA-West – Helmut Henschel (2<sup>nd</sup> term)
- Midwest U.S. – Jeffrey Matthias, CFA (2<sup>nd</sup> term)
- Southeast U.S. and Caribbean – Ralph Lehman, CFA (1<sup>st</sup> term)
- Western U.S. – Marla Harkness, CFA (2<sup>nd</sup> term)

### **CEO Report**

The CEO provided a few brief remarks to supplement his written report. Overarching goals for fiscal year 2007 involve three areas:

- Develop the competencies to be able to deliver on the era of the member;
- Begin a more potent process on lifelong learning; and
- To lay out a plan for the Asia/pacific region.

It was explained that other activities are important to CFA Institute's return on mission concept; however, these key strategic items are currently in the spotlight at this time. An update was provided on the Education Division activities with regards to education content and the private wealth initiative. Other items highlighted:

- CFA Institute Vision;
- Candidate Growth;
- China;
- India;
- CFA Centre;
- Society Partnership Program;
- Education Division;
- Financials; and
- Staffing.

### **Financial Report**

The Chief Financial Officer presented CFA Institute's financial summary for the seven months ended 31 March 2007. The organization is experiencing a significant rise in candidate enrollment, resulting in revenue exceeding budget by \$9.6 million. Year-to-date operations include open staff positions, and

lower than expected professional service and advertising expenses, resulting in a \$3.9 million favorable budget variance. This circumstance yields an operating margin that is \$13.5 million better than budget. The CFA Institute operating cycle generates approximately 90 percent of annual revenue in the first seven months of the fiscal year, while only 50 percent of expenses occur during the same period, causing a high operating margin at this point in the year.

It was noted that there were lower than expected purchases of the Level I and II custom curriculum and fewer Level III candidates becoming members. Total candidates for fiscal year 2007 were 139,700, which resulted in:

- 36 percent increase in new Level I growth from fiscal year 2006 to 2007; and
- 20 percent increase in total candidate growth from fiscal year 2006 to 2007.

Preliminary indications for the December 2007 Level I:

- 41 percent increase in new candidate growth from fiscal year 2007 to 2008; and
- 34 percent increase in total candidate growth from fiscal year 2007 to 2008.

Preliminary fiscal year 2008 forecasts (un-vetted):

- New candidates (84,000); and
- Total candidates (181,000).

### **Risk Management and Emergency Response Plan**

The head of Risk Management gave an overview of Enterprise Risk Management (ERM). ERM is designed to improve the way an organization perceives and manages risk. It provides reasonable assurance about the achievability of the organization's objectives and helps us understand the interdependencies of risks, establish priorities, and allocate appropriate levels of resources. A significant amount of risk management is about reducing operational volatility as well as identifying opportunity.

CFA Institute's ERM framework includes six categories of risk:

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

The organization's response to inherent risks is dependent upon the nature of the risk and the result of a cost-benefit analysis. The strategies for managing risks may include insuring, out-sourcing, and preventative control procedures. CFA Institute's business planning process includes the development of various financial scenarios along with sensitivity analysis linked to key strategic and financial objectives. Areas of potential risk in CFA Institute were identified and discussed.

Next, the organization's Emergency Response Plan along with various event scenarios was outlined. The framework for declaring an emergency, communication process among management/staff, and backup operation facilities were discussed.

### **India Litigation**

The General Counsel provided an update on the trademark litigation involving the Institute of Chartered Financial Analysts of India (ICFAI). A brief overview of the trademark litigation against ICFAI and the August 2006 interim injunction issued by the Delhi High Court resulting in a favorable ruling for CFA Institute was explained. The ICFAI has appealed the ruling and a hearing date has been delayed several times, however, it is currently set for 23 May.

Two other developments have been initiated by ICFAI. They have proposed a legislative bill that would essentially set up an Indian self-regulatory organization that would have ICFAI or one of its adjuncts as the only organization that could issue a CFA designation in India. CFA Institute is monitoring the bill closely.

ICFAI also filed a suit against CFA Institute in a remote Indian state of Tripura on the grounds that CFA Institute has not registered/obtained approval to operate from the Indian authorities (University Grants Commission or the All India Council for Technical Education (AICTE)). It was explained that CFA Institute does not fit the educational model prescribed under the regulations of these Indian authorities and subsequently should not be applicable to the CFA Program. The General Counsel recently met with AICTE officials to explain CFA Institute's position.

### **Professional Conduct Program Report**

The Designated Officer gave an update on the Professional Conduct Program (PCP). In calendar year 2006, the PCP opened a total of 464 new cases of which 193 were industry cases and 271 were exam cases. In the same time period, the PCP closed 203 industry cases and 256 exam related cases. It was noted that in a little over a year the overall case backlog had been reduced by 75 percent.

The largest source of cases is through self-reporting. Most activity comes through when individuals submit their Professional Conduct Statement that is typically done in the May timeframe. The dispositions of exam cases were highlighted. The majority of these cases result in cautionary letters or private censures. About 25 percent of all cases go to the Hearing Panel. Details of the Hearing Panel process were discussed.

The PCP reviews any professional conduct disclosures in applications for the CFA exam and CIPM exam. They also support the Disciplinary Review Committee and Office of General Counsel in their efforts, and the CIPM Program. The PCP also assisted with training aspects and editing of the Rules of Procedure.

The three-year plan for the PCP was noted as follows:

- Expand sourcing alternatives to actively develop cooperative relationships with externals that will reach around the world. Explore developing relationships with regulatory and professional bodies globally;
- Develop and implement an outreach program. Need to assess CFA Institute's constituents, knowledge, level of awareness, and set of expectations; and
- Keep the operational aspect of the PCP running efficiently while handling ongoing candidate and member growth and implementing enhancements to the PCP.

## **Disciplinary Review Committee Report**

The chair of the Disciplinary Review Committee (DRC) provided an overview of the enforcement process. The DRC is established by the CFA Institute Bylaws and is responsible for writing the Rules of Procedure and enforcing the Code of Conduct. It was explained that the DRC utilizes the following subcommittees to work on longer-term projects:

- Alternative Sanction Subcommittee;
- Incident Report Subcommittee; and
- Sanction Guidance Subcommittee.

Specific ongoing issues were identified:

- Modifications to Rules of Procedures;
- Consistency of decisions;
- Training and feedback;
- New DRC website; and
- Utilizing technology.

The DRC proposed the following CFA Institute Bylaw change for Board adoption. The bylaws provide that a disciplinary matter may continue despite the resignation of a member. However, the bylaws do not provide for the commencement of a disciplinary case for conduct if the member resigns before the case commences. The bylaws would be amended to allow for a disciplinary case involving conduct as a member to be initiated after the member resigns. The following resolution was passed unanimously.

RESOLVED, that section 11.4(c) be amended to read as follows:

Disciplinary proceedings may be commenced and continue for any conduct by the Covered Person while an Individual Member or Candidate, and the Disciplinary Review Committee may impose Disciplinary Sanctions notwithstanding the Covered Person's resignation from CFA Institute, a member Society, or status as a Postponed Candidate.

## **CFA Centre for Financial Market Integrity Report**

The managing director for the CFA Centre for Financial Market Integrity presented its report. It was explained that the CFA Centre was launched in November of 2004 as a separate division of CFA Institute with the following mission:

- To be a leading voice on issues of fairness, efficiency, and investor protection in global capital markets; and
- To promote high standards of ethics, integrity, and professional excellence within the investment community.

The Board approved vision for the CFA Centre was noted to subsume the profession's standards and advocacy and by 2008 would:

- Be recognized globally as a thought leader;
- Provide CFA brand enhancement;
- Support societies through communication and outreach;
- Support members through communication and outreach; and
- Produce outputs appropriate to the issue.

It was stated that the CFA Centre was on track to complete most of its 2007 goals. The makeup of the Advisory Council to the CFA Centre was highlighted and noted that two to three of its members would be rolling off at the end of the fiscal year. Furthermore, the Advisory Council's Chair would be stepping down at the conclusion of his current term.

The process by which projects are identified and the decision tree/litmus test was explained. The following key projects were discussed:

- XBRL initiative;
- Pension fund trustee Code of Conduct; and
- GIPS 2010 project.

It was also noted that the CFA Centre faces the following challenges:

- Staffing expertise;
- Developing media relationships;
- Enhancing research capabilities;
- Prioritizing issues.

The Board was presented with a motion to add the word "Institute" to the CFA Centre's official name. The following resolution was passed unanimously.

RESOLVED, that the Board of Governors accept and approve revising the name of the CFA Centre to the CFA Institute Centre for Financial Market Integrity.

### **Research Foundation Report**

The executive director of the Research Foundation of CFA Institute gave brief remarks. 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 2007-2008 Board of Trustees of the Research Foundation will be composed of sixteen (16) trustees, including ten (10) Elected Trustees, two (2) *Ex Officio* Trustees, and four (4) Trustees *Emeritus*. The following resolution was passed with one abstention.

RESOLVED, that Vincent Duhamel, 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 Vincent Duhamel, CFA, is authorized to vote for the approval of John J. Nagorniak, CFA, to serve as Chair for a three (3) year term commencing 1 September 2007;

FURTHER RESOLVED, that Vincent Duhamel, CFA, is authorized to vote for the approval of James P. Garland, CFA, Julie Hudson, CFA, and Arnold S. Wood, each to serve as an Elected Trustee for a three (3) year term commencing 1 September 2007; and

FURTHER RESOLVED, that Vincent Duhamel, 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.



## Consent Agenda

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

### Retention of External Auditor

- RESOLVED, that the Board of Governors accept and approve the retention of PricewaterhouseCoopers as the external financial auditor for CFA Institute for the year ending 31 August 2007.

### FY08 Board Oversight Committee Chairs

- 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 2007 and until their successors are chosen and qualified:

Audit and Risk Committee

Chair: Ashvin P. Vibhakar, CFA

External Relations and Volunteer Involvement Committee

Chair: Margaret E. Franklin, CFA

Planning Committee

Chair: Thomas B. Welch, CFA

### CFA Institute Secretary and Treasurer Appointments (Agenda Item 12C)

- 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 2007 and until their successors are chosen and qualified.

### Appointment of Corporate Disclosure Policy Council Chair (Agenda Item 12D)

- RESOLVED, that the Board of Governors approve the appointment of Gerald I. White, CFA, as Chair of the Corporate Disclosure Policy Council for a term ending 31 August 2007 and until his successor is chosen and qualified.

The Strategic Plan Report (quarterly update) was informational only and presented in memorandum format in the board binders.

## Other Business

### Proxy Update

The Corporate Secretary gave a short summary of the proxy results that closed on Friday, 27 April. It was noted that the Annual Meeting of Members will be held today at 5:30 p.m.

### Future Board Meetings and Key Event Dates

The Chair noted upcoming meeting and key event dates through May 2008.





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

Respectfully submitted,

Joseph P. Lange  
Corporate Secretary

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