

**Board of Governors Meeting**  
**Open Session Minutes**  
21-22 July 2012  
Half Moon Bay

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**Board of Governors Present:**

Giuseppe Ballocci, CFA	Frederic P. Lebel, CFA	Matthew H. Scanlan, CFA
Pierre Cardon, CFA	Jeffrey D. Lorenzen, CFA	Jane Shao, CFA
Margaret E. Franklin, CFA	Aaron Low, CFA	Roger Urwin
Beth Hamilton-Keen, CFA	Daniel S. Meader, CFA (Meeting Chair)	Charles J. Yang, CFA
James G. Jones, CFA	Alan M. Meder, CFA	
Attila Koksai, CFA	John D. Rogers, CFA	

**Board of Governors Absent:**

Saeed M. Al-Hajeri, CFA (21-22 July 2012)	Mark J. Lazberger, CFA (22 July 2012)
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**Incoming Board of Governors Present:**

Colin W. McLean, FSIP	Mark J. Lazberger, CFA
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**PCR Representatives Present:**

Jason Bell, CFA	Marla L. Harkness, CFA (PC Chair)	Mohammad Shoaib, CFA
Sharon L. Criswell, CFA	Tom Joski, CFA	Arthur Thompson, CFA
Daniel J. Fasciano, CFA	Leyla G. Kassem, CFA	Bradford S.J. Young, CFA
Janine C.K. Guenther, CFA	Nanci Morris, CFA	

**Incoming PCR Representatives Present:**

Aaron Brown, CFA	Leah Bennett, CFA
Barry Sine, CFA	Sharon Craggs, CFA

**Leadership Team Members Present:**

Jeannie Anderson	Timothy G. McLaughlin, CFA	Jan Squires, CFA
Elaine Cheng	Nitin Mehta, CFA	Ashvin Vibhakar, CFA
Raymond J. DeAngelo	Thomas R. Robinson, CFA	
Donna Marshall	Kurt Schacht, CFA	

**Others Present:**

Chip Deale	Joseph P. Lange (Meeting Secretary)	Peter Mackey, CFA
Barbara Higgins	Craig Lindqvist	Guy Williams
Christine Krecek		

**Materials Provided:**

Travel/Scheduling Information	Institute for Global Ethics -	Systemic Risk Council Project –
Primary Meeting Pack	Ethics Newsline Posting/	Talking Points
Reference Meeting Pack	Barclays	

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**SATURDAY, 21 JULY 2012**  
**3:55 P.M. TO 4:40 P.M.**

**OPENING REMARKS**

*Presenter: Mr. Dan Meader, Board of Governors Chair*

Everyone was welcomed to the meeting in Half Moon Bay.

**FY2013 STRATEGY AND BUDGET**

*Presenters: Mr. Roger Urwin, Planning Committee Chair*

*Mr. Ray DeAngelo, Managing Director of Stakeholder Services, Marketing & Communications at CFA Institute*

*Ms. Barbara Higgins, Chief Planning Officer at CFA Institute*

*Mr. Craig Lindqvist, Head of Business Planning & Reporting at CFA Institute*

*Mr. Tm McLaughlin, Chief Administrative Officer & Chief Financial Officer at CFA Institute*

*Mr. Tom Robinson, Managing Director of Education at CFA Institute*

*Mr. Kurt Schacht, Managing Director of Standards & Financial Market Integrity at CFA Institute*

The discussion focused on explaining how the new mission and vision, in terms of the Board directive (broader mission, bolder voice, and bigger community) and implementing strategy (education, engagement, ethics, and enablers), aligned with the budget and to outline the priorities for the coming year. Summarized to the group was the risk and return of significant new and expanded initiatives proposed for the coming year. High level projects were reviewed and prioritized accordingly. It was noted that the Planning Committee had provided the Leadership Team with input on the future of finance project.

The full budget for FY13 included a modest growth in the CFA Program and members, a 5% increase in revenues, a 4% increase in expenses, a proposed net operating margin loss of \$5M, and a change of \$1.5M in net assets.

It was explained that the \$5M operating margin loss was due to a couple large scale investments for the coming year, including the organization's new Charlottesville facility and Claritas Program. It was noted that significant investments in the strategy would be funded by about \$14M in efficiency and savings, and that contingency reserves would adequately support the organization's level of investment for FY13.

The top strategic priorities as identified by management were presented. In the area of education, the Claritas Program, CFA Program content and security, and comprehensive gap analysis and product development were highlighted among the major new investment activities. In the area of engagement, the Claritas launch and marketing, the promotion of a bolder ethics voice, and the execution of the global brand strategy were highlighted among the major investment activities. In the area of ethics, the Global Advocacy Volunteer Summit, Local Society Funding Pilot and sourcing of high profile events were highlighted among the major new investment activities. In the area of enablers, supporting the Claritas launch, implementing the global

operating model and aligning product pricing to the organization's mission were highlighted among the major new investment activities. To conclude, a pie chart was presented to show that 42% of new investments were in education, 25% in engagement, 19% in ethics and 14% in enablers.

It was reported that the organization's efficiencies and savings were largely due to the change in curriculum production and distribution. If further funding became available, CFA Institute would further enhance CFA Program content delivery and security initiatives as well as CFA Program advertising, awareness and prospect generation.

It was summarized that the organization's broader mission would extend the promotion of ethical and trustworthy investment markets and services as well as education for investment professionals and other market participants. The bolder voice would provide the voice globally for an effective investment industry that reflects CFA Institute's values; and, lastly, the bigger community would broaden and rebalance the organization's global reach with those working in or using the financial markets.

**Questions, Comments and Resulting Discussions:**

Though stating that the budget was ambitious in terms of governance and management bandwidth, the Planning Committee announced they were comfortable with the \$5M in investments. It was noted that the Claritas Program was critical to the organization's mission and its progress would be reviewed regularly.

The Planning Committee also stated that the budget figure for the future of finance project was rather low given the amount of work and discussion from the Board and Leadership Team as well as its significant connection to the education and engagement initiatives. However, the group did fully support the budget substantially in the form presented at the meeting.

In reviewing the shift chart, the projects already underway vs. the projects yet to start or recently started were outlined for the group. There was a concern expressed that CFA Institute might overextend itself and not execute on all initiatives to its fullest potential.

It was asked why member revenues currently consisted of 15% of the total budget given that the organization aimed to have this amount up to 40% by this time three years ago. The response was that the organization probably underestimated the continued growth of candidates and revenues as well as the sensitivity of membership to dues increases. In addition, the Claritas Program, which was not even a factor three years ago, altered the strategy and now presented the organization with a potentially significant source of revenue. Moreover, CFA Institute was tasked with increasing the value of membership, an additional investment that may have conflicted with the original member revenues target of 40%. In the future, there was a possibility for a new member model with a portfolio of revenue streams from Claritas, the CFA Program, CIPM, and conferences, etc. to subsidize membership fees.

With the changing relationship between expenses and member revenues, there was an inquiry as to what safety barriers were being implemented from a feedback standpoint after the initial investments were in place.

It was explained that as part of the budget process management reviews for items that should be discontinued due to lack of revenue or return on mission. The organization was also striving to maintain the agility to be able make changes to mitigate risk.

The Compensation Committee was interested in using external benchmarks to guide how resources should be spent relative to other organizations and based on membership perspectives. Specifically, the Compensation Committee requested data on revenue as a percentage of total labor costs.

**The following resolution was approved with Jeff Lorenzen and Matt Scanlan opposed.**

*RESOLVED, that the Board of Governors accept and approve the fiscal year 2013 CFA Institute Operating and Capital Budget substantially in the form presented.*

**MISSION ALIGNMENT OF MEMBER DUES (BREAKOUT DISCUSSION GUIDANCE)**

*Presenters: Mr. Dan Meader, Board of Governors Chair*

*Mr. Tim McLaughlin, Chief Administrative Officer & Chief Financial Officer at CFA Institute*

*Mr. Craig Lindqvist, Head of Business Planning & Reporting at CFA Institute*

The topic was introduced as an opportunity for the Board to express ideas and sentiments about the organization's member pricing model. By using both available resources and outside expertise, CFA Institute planned to review member dues not so much in terms of the dollar amount, but in terms of perfecting the model for years to come.

The breakout sessions were designed to discuss a variety of issues related to member dues in order to help define guiding principles. These principles will help guide management in its analysis and future recommendations.

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***SUNDAY, 22 JULY 2012***

***8:00 A.M. TO 12:30 P.M.***

**MISSION ALIGNMENT OF MEMBER DUES (BREAKOUT DISCUSSION GUIDANCE)**

*Presenters: Mr. Dan Meader, Board of Governors Chair*

*Breakout Session Facilitators*

The breakout groups discussed mission alignment of member dues, and then presented their conclusions.

*Member Value – The purpose of this breakout group was to explore possible guiding principles of how the member dues structure and pricing level should relate to the value that members derive through their association with CFA Institute.*

The group discussed member value in relation to pricing. A two-dimensional matrix compared what CFA Institute offered its membership vs. what CFA Institute's membership perceived as being offered. There were services members universally identified as ethical and excellent (charter, brand awareness, etc.), and there

were services provided that members did not perceive at all (future of finance project, thought leadership, etc.). Based on the matrix, it was considered whether the organization should segment or bundle the pricing. The pros and cons of both choices were weighed with the group unable to decisively recommend one model over the other.

*Member Dues Tiering – The purpose of this breakout group was to explore principles that relate to fairness and access of members who potentially have different financial capacities to participate in the organization and its various activities.*

The group discussed member dues tiering in terms of pricing. It was proposed that member dues could be segmented by status (candidate, charter pending, retired, inactive, etc.), years since earning a charter, and geographic location. In order to attract additional members, it was suggested that the organization offer zero or reduced pricing in the beginning, and then offer the full fee around year 3 or 5. The group also proposed giving members, who had been in the industry a long time, an option to give back to CFA Institute via endowments, donations or paying for scholarships.

*CFA Institute and Society Member Dues Relationship – The purpose of this breakout group was to explore principles that relate to potential relationships between CFA Institute and society dues structures, levels, collection methods, and communications.*

The group discussed the CFA Institute and society member dues relationship. It was noted that half the group wanted the member dues bill to emphasize CFA Institute as a single organization while the other half wanted to emphasize societies as separate. All agreed that the dues bill implied a global and local duality as well as an economic, legal, programming and professional linkage between CFA Institute and society members. The services provided by the organization vs. those provided by the society as well as the importance of delivering great customer service were considered. The group considered the issues of having two separate dues bills given electronic distribution in the electronic/virtual world and pricing criteria from the simplicity of one bill one price for everything to the concept of multiple pricing and selection options. Also presented was the possibility of creating a “passport program,” in which members could participate in other society programs at the reduced member rate.

*Alternative Dues Structures – The purpose of this breakout group was to explore principles that relate to assessing alternative dues structures for the organization.*

The group discussed the potential for an alternative dues structure. The ultimate goal was to have a sustainable business model for the future and to increase the community of investment professionals that participate in and relate to the CFA Institute. All agreed that there had to be a cost associated with membership. Five alternative business structures were proposed: 1) to disaggregate the certification component from the membership component; 2) to initiate a temporary discounted rate for members early in their careers; 3) to implement a base fee and an “opt out” box; 4) to add an endowment option to fund the

promulgation of more CFA Institute content to the general public; and, 5) to include a local currency pricing overlay. The group concluded that a zero option dues model was not viable and did not convey member value.

*Sustainable Business Model – The purpose of this breakout group was to explore principles that relate member dues to an overall sustainable business model for the organization.*

The group discussed creating a sustainable business model as it related to pricing. It was observed that while the member income statement was running at a deficit, the candidate or credentialing income statement was profitable. The group concluded that the organization should look at market income statements in order to determine how best to allocate the organization’s resources going forward. They also recommended CFA Institute look at both the member and candidate income statements together as return on mission.

**Questions, Comments and Resulting Discussions:**

It was recommended that the Presidents Council develop ideas regarding the mission alignment of member dues.

Management explained that it would take all the input provided and continue to discuss further with the Board in due course. It was emphasized that any proposed revisions to the dues structure would be appropriately communicated in FY14 for subsequent implementation into the dues cycle

**OUTGOING GOVERNOR REMARKS**

*Presenters: Mr. Pierre Cardon, Board of Governor*

*Ms. Marg Franklin, Board of Governors Past Chair*

Mr. Pierre Cardon, CFA and Ms. Margaret Franklin, CFA were thanked for their contributions and years of service to CFA Institute. The two governors were then invited to give their outgoing remarks. Both expressed their gratitude to the governors, PCRs and staff, and commended the organization for its tremendous progress thus far. They also provided insightful thoughts and encouraged CFA Institute to play a key role in restoring trust to the financial services industry.

Ms. Marla Harkness, CFA was also given the opportunity to thank the outgoing PCRs – Ms. Janine Guenther, CFA, Mr. Mohammad Shoaib, CFA, Ms. Sharon Criswell, CFA and Ms. Nanci Morris, CFA.

**INCOMING CHAIR REMARKS**

*Presenter: Mr. Alan Meder, Board of Governors Vice Chair*

Mr. Alan M. Meder, CFA gave his incoming chair remarks. There was an emphasis on servant leadership, education, and knowledge gained from current and past Board members. The governors were encouraged to bring articles and books relevant to the organization’s mission and bolder voice to the Board’s attention throughout the year.

**CEO REPORT AND STRATEGIC WORK PLAN**

*Presenters: Mr. John Rogers, President and CEO of CFA Institute*

*Ms. Jeannie Anderson, General Counsel at CFA Institute*

*Mr. Ashvin Vibhakar, Managing Director of Asia Pacific Operations at CFA Institute*

It was reported that the grading and scoring process for the Level III Exam had concluded. The exam administration was highlighted as the largest in the organization's history with candidates performing very well statistically. While the new passport ID policy posed a potentially high risk situation, CFA Institute's outreach prior to the exam proved successfully, limiting the number of candidates denied entry to 0.2%.

In line with the organization's mission for a bolder voice, CFA Institute launched the Systemic Risk Council in the United States in collaboration with the Pew Charitable Trusts. It was noted that the panel included some high profile and outspoken individuals, such as Ms. Sheila Bair and Mr. Paul Volcker, subsequently giving CFA Institute confidence in fulfilling the future of finance project.

It was announced that CFA Institute had resolved its worldwide 20-year dispute with the Institute of Chartered Financial Analysts of India (Icfa). The settlement agreement was signed and in the process of being implemented. A communication explaining the settlement terms had been posted to both the CFA Institute and Icfa websites; additionally, lead organizational staff had visited the India society to explain the agreement details. With a new chairman in place, Icfa seemed ready to focus on their business activities and education initiatives, and interested in a peaceful relationship with CFA Institute in India.

An Asia Pacific (APAC) Operations update provided the group with a historical context about CFA Institute's impact in the region from a strategic point of view. Since the Hong Kong office opened in 1997, the organization had grown dramatically from 8,000 to almost 100,000 candidates. It was explained that the new ID policy now permitted CFA Institute to analyze passport information, showing that 50% of total exam candidates worldwide were from the Asia Pacific region. This percentage was reflected in APAC's membership, which reportedly increased from less than 1,000 in 1997 to around 18,000 today. As a result, CFA Institute continued to expand its capacity, moving from 14 to 48 staff members since FY08, to provide services to APAC members and candidates. It was noted that 25% of staff came from outside Hong Kong, representing a diversity of countries, such as Malaysia, Japan, and Argentina. In terms of historical strategic change, the CFA Program, which was once considered a foreign import in Hong Kong, was now increasingly recognized as a global program. The membership benefit had greatly improved with a regular platform of continuing education, conferences and a fully integrated support system. It was reported that the technology group had extensively provided education content via webinars and news briefs launched in the past year. In addition, the CFA Institute brand was now well recognized, members and candidates were more engaged with the organization, the industry relations team was establishing key partnerships, and the societies, though young, were strategically aligned with CFA Institute. It was noted that the SFMI group had improved the organization's relationship with APAC regulators, who now showed an active interest in working together on advocacy and ethics efforts. It was concluded that while the operations in the APAC region had greatly improved over the years, there was still much more to be done, especially given the market's size and opportunity potential.

It was explained that Mr. Ashvin Vibhakar would be transitioning to a new role at CFA Institute and was thanked by all for his work in the region. An update was then provided on the search for a new Managing Director of Asia Pacific Operations.

#### **ADVOCACY – SYSTEMIC RISK COUNCIL**

*Presenters: Mr. Alan Meder, Board of Governors Vice Chair*

*Mr. Pierre Cardon, Board of Governor*

*Mr. Kurt Schacht, Managing Director of Standards & Financial Market Integrity at CFA Institute*

The purpose of the Systemic Risk Council (SRC or Council) was mainly to discuss important topics in the industry with a more high profile and dramatic voice than CFA Institute possessed alone. The group was reminded that an SRC was a private sector, non-partisan body of former government officials and financial and legal experts committed to addressing regulatory and structural issues relating to systemic risk in the United States.

The Investors Working Group report highlighted that systemic risk oversight was the most important step in preventing another global collapse. How and if an early warning system could be implemented was one of the most significant debates emanating from the cascading financial crisis. There were two general views: 1) the microprudential approach, which relied on local industry regulators to communicate more collaboratively, on business leaders to install an improved enterprise risk management system, and on finding a better “clean-up” process if the economic bubble bursts; and, 2) the macroprudential approach, the more predominant view, which aimed to mitigate the financial risk from a global perspective. After the macroprudential tools, frameworks and information needs were explained, the SRC call to action and a list of talking points were passed around to the group. The SRC’s six highest priorities were also highlighted.

From *How Good People Make Tough Choices* by Rushworth Kidder, it was observed that: 1) the future ethical environment would continue to change; 2) the exposure to and awareness of ethical issues was increasing; and, 3) humans needed a framework to deal with these ethical problems. It was noted that these observations could easily be translated to financial sector concepts.

#### **COMMITTEE REPORTS**

*Presenters: Mr. Charles Yang, Audit and Risk Committee Chair*

*Mr. Aaron Low, External Relations and Volunteer Involvement Committee Chair*

*Mr. Roger Urwin, Planning Committee Chair*

*Mr. Dan Meader, Executive Committee Chair*

The Audit and Risk Committee report indicated there was a teleconference in June to review the organization’s tax documents and the external auditor’s plan for FY12. It was added that an RFP would be sent to four potential external auditors, a process occurring once every three years.



The External Relations and Volunteer Involvement Committee report indicated the Society Partnership Work Group planned to present its findings to the Board in November. The group also discussed society membership communications, SFMI updates, and updating the criteria for the volunteer awards program.

The Planning Committee report indicated their focus had changed from creating to implementing the organization’s strategy. The future of finance project was also highlighted.

The Executive Committee report indicated they received an update on the Retirement Investment Policy Committee, the new Charlottesville facility, and candidate litigation matters. It was stated that Mr. George Spentzos, CFA was selected to be the new chair for the Council of Examiners.

The oversight committee governor assignments for FY13 were then announced:

<b><u>ARC</u></b>	<b><u>ERVIC</u></b>	<b><u>PC</u></b>
Giuseppe Balocchi, CFA (Chair)	Beth Hamilton-Keen, CFA (Chair)	Jim Jones, CFA (Chair)
Dan Meader, CFA	Attila Koksál, CFA	Alan Meder, CFA
Mark Lazberger, CFA	Jeff Lorenzen, CFA	Charles Yang, CFA
Fred Lebel, CFA	Aaron Low, CFA	John Rogers, CFA
Jane Shao, CFA	Colin McLean, CFA	Saeed Al-Hajeri, CFA
Roger Urwin	John Rogers, CFA	Matt Scanlan, CFA

The Compensation Committee report indicated a great deal of information on the organization’s compensation philosophy and outside industry feedback was posted to the Board Portal. It was noted that the Compensation Committee planned to continue its benchmarking discussion at the November meeting. The OA bonus was confirmed as the organization met its goals for FY12, and the goals for FY13 were scheduled to be finalized by 1 September 2012 and shared with the Board soon after.

The Nominating Committee report indicated the intention to accelerate the nominating process with a teleconference planned for 1 August 2012. The group determined to present a slate of potential candidates by mid-November in order to avoid the holiday season delays.

The oversight committee chairs for FY12 were thanked for their leadership efforts.

**Questions, Comments and Resulting Discussions:**

To show a truly global mindset, it was suggested that the organization name some awards after people outside the United States.

**PRESIDENTS COUNCIL REPRESENTATIVES REPORT**

*Presenter: Ms. Marla Harkness, Presidents Council Chair*

The Presidents Council Representative Report indicated that the group was hard at work in preparing for the upcoming SLC in Hong Kong.

The new PCRs were then welcomed and introduced:

**Asia Pacific Region**    **Canadian Region**    **New York Region**    **South Central US & Latin America Region**  
Sharon Craggs, CFA    Aaron Brown, CFA    Barry Sine, CFA, CMT    Leah Bennett, CFA

#### **CONSENT ITEMS**

*Presenter: Mr. Dan Meader, Board of Governors Chair*

Consent items consist of reoccurring and procedural matters that come before the Board.

#### **The following resolutions were approved unanimously:**

##### **Research Foundation Board of Trustee Appointments**

RESOLVED, that Dan Meader, 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 Dan Meader, CFA, is authorized to vote for the approval of Pranay Gupta, CFA, and Brian Singer, CFA, to serve as Elected Trustees for a three year term commencing 1 September 2012;

FURTHER RESOLVED, that Dan Meader, CFA, is authorized to vote for the approval of Jeffery Bailey, CFA, to serve as Chair for a two year term commencing 1 September 2012; and

FURTHER RESOLVED, that Dan Meader, 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.

##### **Volunteer Committee Chair Appointments**

RESOLVED, that the following individuals are appointed to serve as committee chairs for the terms indicated commencing 1 September 2012 and until their successors are chosen and qualified:

- Asset Manager Code Advisory Committee (one year term)
  - Michael Trotsky, CFA
- Council of Examiners Chair (one year term)
  - George Spentzos, CFA
- Retirement Investment Policy Committee Chair (two year term)
  - Steven Horan, CFA
- Standards of Practice Council Chair (one year term)
  - James Hollis CFA

##### **Delegation of Powers of Internal Prevention Advisor (Belgium Office)**

RESOLVED, that Ms. Emily Colby (born 16 November 1968, Citizenship United States, Passport N° \*\*\*\*\* issued on \*\*\*\*\*) is effective 13 July 2012 appointed as Internal Prevention Advisor (in the sense of Article 3, §1, penultimate paragraph of the Royal Decree of March 27, 1998 on the internal services for prevention and protection at work) with all necessary powers including, without limitation:

- organisation of the cooperation with the external service;
- coordination with the external service by providing this external service all information required for the execution of its tasks;
- cooperation in the framework of a risk analysis with the external service, by assisting the prevention advisor of the external service at the examination of the work place and assist at the

examination of the causes of the occupational accidents and occupational diseases and at the drafting of inventories;

- cooperation with the external service in the framework of the implementation of prevention measures which have been determined on the basis of a risk analysis; and
- Cooperation at the execution of procedures which need to be followed in case of serious and immediate danger, the organisation of the first aid and urgent care.

#### Recognition of Retiring Governors and PCRs

RESOLVED, that the Board of Governors for CFA Institute expresses its most sincere appreciation to Pierre Cardon, CFA, and Margaret Franklin, 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.

RESOLVED, that the Board of Governors for CFA Institute expresses its most sincere appreciation to Sharon L. Criswell, CFA, Janine C.K. Guenther, CFA, Nanci Morris, CFA, and Mohammad Shoaib, 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 Presidents Council Representatives.

***The Board went into a scheduled Executive Session with and without the CEO.***

Meeting adjourned