

## **Board of Governors Meeting Open Session Minutes 18-19 May 2013 Singapore**

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### **Board of Governors Present:**

Saeed M. Al-Hajeri, CFA  
Giuseppe Balocchi, CFA  
Beth Hamilton-Keen, CFA  
James G. Jones, CFA (Phone)  
Attila Koksai, CFA  
Mark J. Lazberger, CFA

Frederic P. Lebel, CFA  
Jeffrey D. Lorenzen, CFA  
Aaron Low, CFA  
Colin W. McLean, FSIP  
Daniel S. Meader, CFA  
Alan M. Meder, CFA (Meeting Chair)

John D. Rogers, CFA  
Matthew H. Scanlan, CFA  
Jane Shao, CFA  
Roger Urwin  
Charles J. Yang, CFA

### **Incoming Governors Present:**

Heather Brilliant, CFA

Robert Jenkins, FSIP

Sunil Singhania, CFA

### **PCR Representatives Present:**

Jason Bell, CFA  
Leah Bennett, CFA  
Aaron Brown, CFA  
Sharon Craggs, CFA

Daniel J. Fasciano, CFA  
Tom Joski, CFA  
Leyla G. Kassem, CFA

Kathy O'Connor, CFA  
Arthur Thompson, CFA  
Bradford S.J. Young, CFA

### **Leadership Team Members Present:**

Jeannie Anderson  
John Bowman, CFA  
Elaine Cheng  
Raymond J. DeAngelo  
Stephen Horan, CFA

Donna Marshall  
Timothy G. McLaughlin, CFA  
Nitin Mehta, CFA  
Thomas R. Robinson, CFA

Kurt Schacht, CFA  
Paul Smith, CFA  
Jan Squires, CFA  
Ashvin Vibhakar, CFA

### **Others Present:**

Joe Clift  
Nancy Dudley  
Stephanie Ennaco  
Rebecca Fender, CFA

Barbara Higgins  
Christine Krecek  
Rahul Keshap  
Joseph P. Lange (Meeting Secretary)

Craig Lindqvist  
Steven Wellard  
Guy Williams

### **Materials Provided:**

Primary Meeting Pack

Reference Meeting Pack

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**FRIDAY, 18 MAY 2013**  
**2:40 P.M. TO 4:40 P.M.**

**WELCOME**

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

The meeting was called to order, and everyone was welcomed to Singapore.

A list of major initiatives requiring the Board's attention in FY2013 was reviewed. A few items noted included the roll out of the Claritas Investment Certificate, the continued work on the Future of Finance project, and the evaluation of Board effectiveness and governance. It was also observed that tomorrow there would be breakout sessions to brainstorm and share ideas on how to build a better and more interactive bigger community as defined in the CFA Institute mission and vision narrative.

**CEO REPORT AND STRATEGIC WORK PLAN**

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

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

*Mr. Joe Clift, Chief Marketing and Communications Officer at CFA Institute*

*Mr. John Bowman, Managing Director and Co-Lead of Education at CFA Institute*

A few items in the CEO Report and Strategic Work Plan were highlighted for the group.

It was reported that since the last meeting, the Board's decision on the Society membership language issue had been presented and successfully received at the regional meetings. There was a high level of partnership with societies at these events.

The beta program for the Claritas Investment Certificate had been executed, and the organization was on the brink of open registration.

The APAC region had identified specific opportunities in China and India with regards to the organization's second and third largest candidate pools, and more details would be forthcoming at the July meeting.

As one of the many results of Claritas, the organization had realized how critical and effective vis-à-vis business interaction was within CFA Institute. This focus will help craft the organization's response to challenges in the next year, such as addressing the decline in candidate registrations.

Overall, CFA Institute was executing on its strategic initiatives and looking toward additional opportunities to engage the Board in the Future of Finance Project, whether this remained a standalone project or became embedded into CFA Institute in the long term was still to be determined.

**Financials and CFA Program Candidate Registrations**

Though by a small margin, this was the first year in CFA Institute's history in which the total candidate count was less than that of the previous year. As a result, a renewed focus on registration figures going forward was emphasized. The organization was already approaching the subject from various perspectives, viewing it through a Marketing and causal lens.

It was noted that CFA Institute's business model relied heavily on candidate counts, which represented its biggest revenue stream. However, at the interim part of the year, the organization remained in good position,

reporting higher revenues despite the lower candidate counts and lower expenses than what was budgeted. Although a \$5M operating margin loss was budgeted for FY2013, it was anticipated that the actual loss will come closer to \$2M. Overall, the organization was doing well financially, exhibiting reserves in good condition and a work plan on target to achieve its objectives. Regardless, there would be a renewed focus on the total candidate counts and how their current trajectory would affect the FY2014 budget.

### **Global Operations Center**

A facility update was then presented to the group. It was reported that although the organization had encountered some challenges with the adaptive reuse site along the way, it had managed to keep the project's budget and timeline on target. The move in date for the new operations center was still scheduled to take place in December 2013. As part of the consent agenda, it was emphasized that the Board would be asked to approve items relating to the Historic Tax Credit position of the Global Operations Center project at today's meeting. In the United States, the Internal Revenue Service (IRS) recognized the benefit of revitalizing urban areas and therefore permitted nonprofits, such as CFA Institute, to legally take advantage of historic tax credits by bringing in a taxable investor. Negotiations were nearing completion with the pertinent transaction documents now in review by the CFA Institute team and closure of the tax equity partnership was expected in late May.

### **Americas Operating Platform**

It was announced that Tom Robinson, CFA, had assumed the role of Managing Director, Americas operations and was in the process of forming a cross functional Americas Engagement Team. The Americas Region would provide regional input for the global strategy, implement global strategy locally, and engage with stakeholders locally. In addition, John Bowman, CFA and Steve Horan, CFA had been promoted to managing directors and co-leads of the Education Division. They would provide strategic leadership for the education division's functional areas including educational content, examinations, educational programs and program relationships.

### **Claritas Investment Certificate**

Claritas remained on track for global launch in Singapore on Monday, 20 May 2013, with the pilot phase concluding and approximately 3,400 pilot candidates in 45 countries scheduled for testing in April.

It was noted that the Claritas pilot had started with three main objectives, which were reviewed in detail for the group.

The first objective was to build strong relationships with the 70 firms and candidates who had signed up and were willing to participate in the beta program. Based on the initial feedback, which was documented in the form of quantitative surveys and anecdotal conversations, the sponsoring companies reported an 84% satisfaction rate and offered some ideas for functional enhancements, particularly to the administrative portal. All suggestions would be considered and prioritized appropriately for FY2014. It was emphasized that the Claritas pilot exemplified the importance and benefit of business to business interaction.

The second objective was to test a representative sample of candidates in order to validate assumptions about the product, conduct standard setting, and determine a minimum passing score. In terms of psychometric purposes, the 3,400 individuals registered were considered a significant sample size. In addition, 41% were from the Americas, 26% from EMEA and 33% from APAC, showing a strong diversity across regions. Furthermore, 17% came from an operations background, 16% from IT, 9% from accounting and 7% from sales. The Claritas group was surprised to find that the candidate pool's average age was 35 and over 40% had more than 10 years of experience with some form of financial training, such as a formal certification or self-study program. The feedback on the curriculum was generally good, but there was a request for a more consistent

tone and voice. The Claritas group was therefore working with journalistic resources to move toward an enhanced literary and cohesive style that would improve curriculum reading.

The third objective was to stress test the operational execution of the Claritas program. It was stated that the strategic partner, Pearson Vue, played a significant role in representing CFA Institute to the candidates and therefore carried a great deal of reputational responsibility to implement the exam well.

### **Marketing and Communications**

It was announced that Joe Clift, CFA Institute's new Chief Marketing and Communications Officer, had joined CFA Institute on March 1<sup>st</sup> and would be supported by Mr. Ray DeAngelo. In this role, Mr. Clift would bring together all Marketing and Communications staff globally working out of the EMEA office in London.

Mr. Clift introduced himself to the group and let them know that he was attracted to CFA Institute's clearly defined and compelling mission, effective governance structures, and fundamentally strong brand. He was eager to enhance CFA Institute's mission, move to a multi-product portfolio, and expand the organization's global and regional footprint. Mr. Clift stated that he shared values with CFA Institute and realized the importance of collaboration, clarity and bringing a commercial orientation to the organization with a focus on the customer. He expressed a desire and ability to effect change in CFA Institute's Marketing and Communications function by broadening and building capability across the team, embedding greater strategic and operational rigor, joining up previously less connected functions, inspiring and serving.

Since his arrival, Mr. Clift had observed that CFA Institute's Marketing and Communications resources, activity and budget were generally very well managed. While the headcount was largely sufficient for now, there would be a need for growth in APAC and EMEA. In his opinion, the absolute marketing budget could be higher, but was reasonable relative to the organization's revenues and cost base. CFA Institute had sound, basic campaign metrics, but needed to report them in a clearer, louder and more frequent manner. Mr. Clift encouraged the CFA Institute to vigorously promote its success and to be smarter and more efficient and effective in its organizational and functional alignment.

A Marketing and Communications management team, with several directors reporting in to Mr. Clift, was currently being established to represent global and regional functions. A chart showing the role of Marketing and Communications at CFA Institute was presented to the group. It stated that their objective was to drive product demand, protect and enhance the brand, and increase stakeholder engagement by articulating the voice of CFA Institute and the perspective/need of its customers through developing and executing marketing strategies and campaigns, leveraging market and customer insights, and contributing to product strategy.

The draft Marketing and Communications plan for FY2014 was reviewed for the group and included three goals that neatly aligned with the 2015 Strategic Priorities. In terms of Broader Mission, the goal was to engage all target audiences and enhance the customer experience to raise awareness and brand loyalty for CFA Institute. In terms of Bolder Voice, the goal was to voice and exemplify the Bolder Voice/Future of Finance mission to the world through all CFA Institute initiatives and products. In terms of Bigger Community, the goal was to grow candidate registrations and increase awareness of the value of the comprehensive CFA Institute product and service portfolio.

The Board was encouraged to help the Marketing and Communications effort through strategic counsel and guidance, transparency and clarity.

## **Questions, Comments and Resulting Discussions from the Board:**

### **Claritas Investment Certificate**

With regards to strategic partner risk, it was questioned whether Claritas was at an industrial state of product delivery yet. There needs to be an amplified level of synergy between Pearson Vue and CFA Institute. It was noted that Pearson Vue recently experienced a system blackout on a worldwide basis, affecting all of its exam takers and not just those tied to Claritas. Thus, CFA Institute was requesting that Pearson Vue mitigate the chance of future system failures.

Societies were instrumental in the recruitment of pilot candidates for the Claritas program and would continue to be instrumental going forward. On the frontlines, societies had the relationships and opened the doors in nearly every case. Alternatively, Claritas had presented societies with a great way of expanding opportunities and interacting within their own locales as they had never done before. The goal would be to build deeper relationships, give way to more events and programs, and increase new membership opportunities in the community.

It was explained that Claritas was not designed to satisfy the IMC's requirements to provide financial education to professionals who are client-facing. However, in particularly developing markets with little qualification options, the Claritas Investment Certificate might be a good start.

### **Marketing and Communications**

It was highlighted that increasing candidate registrations by capturing the maximum volume of interested parties was a significant part of next year's Marketing and Communications plan.

Marketing activity around the Future of Finance project had started last month and would be rolling out in multiple markets around the world in May, June and July. The Future of Finance advertisements at the Singapore Airport were noted.

It was explained that the Marketing and Communications group had plans to measure the organization's brand awareness in the coming year, giving them the opportunity to understand how people currently viewed the CFA Institute brand and what perceived values they associated with it. The last brand awareness campaign took place three to four years ago, and the organization was eager for a fresh and updated assessment of the CFA Institute brand.

### **FUTURE OF FINANCE**

*Presenters: Mr. Ashvin Vibhakar, Managing Director, Senior Advisor at CFA Institute*

*Ms. Rebecca Fender, Director and Project Leader for Future of Finance at CFA Institute*

Since the last Future of Finance presentation, it was reported that substantial progress had been made, with a number of products coming out and a strong Marketing and Communications effort underway to create impact. An overview of the advancements made over the past few months and the project's direction going forward were then presented to the group.

The Future of Finance launched publicly on 18 March, with the announcement of six topical areas to be addressed, a website, the Statement of Investor Rights, and the Future of Finance Advisory Council. The launch had been positively received thus far, which seemed to reinforce the idea that the Future of Finance project was relevant. The objective would be to provide tools to motivate and empower actors in the financial ecosystem to commit to fairness and integrity.

The Future of Finance initiative conveyed that CFA Institute was becoming more self-aware, desiring to create positive change and stepping up as a voice in the market place on critical issues.

The Future of Finance message seemed to be reaching a wider audience – a Twitter map graphic showed that the *#FutureFinance*, in the early weeks of its launch, was being used by individuals within and beyond CFA Institute’s existing community. In addition, a coordinated global advertising and social media campaign had resulted in 4.8 million and 5.5 million impressions respectively, and had about 220,000 individuals on Facebook clicking through to and engaging with the CFA Institute website. The organization was endeavoring to make Future of Finance a sustainable effort.

It was explained that the Future of Finance website acted like a hub, with all information on the Future of Finance and *It Starts With You* campaign housed there. The organization continued to drive traffic to the website, which continued to be updated with curated content in the six topical areas, sourced from both CFA Institute and third parties.

The Advisory Council members, mainly investment professionals and industry leaders alike, were excited to be involved and to use their networks and expertise to guide the Future of Finance project.

It was noted that societies would be essential to building awareness around Future of Finance. With a mission to set up global principles of a change culture and to restore trust in the industry, the organization looked to partner with societies not only to bring Future of Finance to the local level but also to make it relevant. Currently, half a dozen societies were working on Future of Finance events, and it was recognized and understood that these events might look different from one society to the next as per the respective society’s interaction with its local community.

In terms of Future of Finance outputs, the group was encouraged to think about Future of Finance as the platform and organizing theme for CFA Institute’s mission, one driven by the ultimate benefit of society. A matrix of *Risk vs. Resources Required* was presented to the group. On the lower end of the spectrum, there was Building Awareness, which laid the project’s foundation with advertising, social media, interviews and individuals contributing articles and content. In the middle of the spectrum, there was Leveraging CFA Institute Core Competencies, which included resource management and infusing Future of Finance themes into publications and events already being worked on by CFA Institute, such as holding a Future of Finance session at every Annual Conference going forward. On the higher end of the spectrum, there was Setting the Reform Agenda, which would indeed be a riskier initiative requiring more resources and included items such as the Statement of Investor Rights – an effective but simple document declaring that the customer comes first. Consistent with CFA Institute’s goal of inspiring action, feedback had been received as to how people were using the Statement of Investor Rights and how they were also encouraging others to support it. The rights had been translated into more than a dozen major languages, and the organization was finalizing a document that would provide users with additional guidance.

#### **Questions, Comments and Resulting Discussions from the Board:**

It was commented that the Future of Finance team consisted of staff members from various groups, who were all contributing a certain percentage of time to this endeavor. To be more effective, it was suggested that Future of Finance could not remain a side project and would instead need to become a central part of the organization’s strategy. While embodying the themes of the three B’s initiative, Future of Finance deserved more thought from an operational perspective as the project moved into its second and third year of development.

In terms of the six topic areas, CFA Institute was cognizant that it would be a challenge to cover all Future of Finance content, particularly setting the reform agenda. It was therefore paramount that the organization

continued to engage the expertise of thought leaders, academics, the Advisory Council and other sources to support Future of Finance and broaden its network. Salon meetings, which had been mission specific in nature, were admittedly critical to the process as they encouraged participation from outside CFA Institute. Governors, if interested in a particular topic and willing and able, were invited to contribute content as well. The organization recognized that it had resource limitations and could not accomplish everything, and was currently identifying which topics could be done internally versus externally.

### **ANNUAL MEMBER SURVEY**

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

The Annual Member Survey was based on reactions from a randomly selected, though geographically and otherwise balanced, sample of members. In this case, of the 45,000 members invited to participate, 15% (6,550 members) responded, surpassing the organization's 10% goal set with ERVIC as well as the 13% response rate from FY2012. The regional breakdown of respondents was 29% from the Americas, 34% from APAC, and 36% from EMEA. Aggregate results were re-weighted by region to reflect the true geographic distribution of CFA Institute members.

Overall, members continued to rate the value of the CFA charter, their CFA Institute membership, and CFA Institute offerings as valuable; the value of society membership was showing continued positive movement though it still lagged behind CFA Institute membership. 93% of members agreed, consistent with prior years, that the organization was effectively implementing its mission.

In terms of current strategic initiatives, there were opportunities to increase member satisfaction as 91% of members thought it was important for CFA Institute to focus on shaping a more trustworthy financial industry, yet only 43% thought the organization was successfully doing so. 66% perceived CFA Institute as an ethical leader in the industry, and 53% agreed the organization had an effective presence in advancing ethics and standards in their local market (down from 68% in FY2012). The ability to make an impact, and thus increase member satisfaction, could come by increasing awareness of CFA Institute and its ethics/standards efforts, improving its regulatory presence, collaborating and communicating with the industry, and increasing conferences and events. Meanwhile, members were also taking an active, personal role in this area to help build a more trustworthy financial industry.

Members continued to stress the importance of ensuring awareness and promotion of the CFA charter, and overall satisfaction with brand awareness at the local level increased significantly from 51% in 2012 to 67% in 2013. It was predicted that even more members would perceive CFA Institute as successful in raising the value of the brand in next year's survey due to the Future of Finance initiative. Furthermore, 86% indicated it was important that CFA Institute focused on promoting awareness of the charter (66% thought CFA Institute was successful), and 77% indicated it was important that their society engage in local promotion of the charter (42% were satisfied with their societies' efforts).

Aside from a focus on ethics and increasing awareness, the survey's open-ended question section revealed that many members wanted more educational and career development opportunities at the local level. By delivering on this request, the organization had a clear opportunity to increase member satisfaction and engagement with CFA Institute and societies. With only 35% of members satisfied with the continuing professional development offerings available in their local markets, the organization planned to use member feedback to develop and deliver products and resources aligned with their needs.

CFA Institute had started the process of socializing the survey results internally with its various groups. For example, elements of the survey that specifically pertained to ethics, standards and advocacy were recently

shared and reviewed with the Standards and Financial Market Integrity division. Moreover, in cases where thirty or more members from an individual society responded, an individual society report would be created, giving that society the chance to compare and contrast their member responses against that of the overall membership.

Board members who were interested in seeing a deeper analysis on any segment of the survey were encouraged to contact the Marketing and Communications group.

#### **Questions, Comments and Resulting Discussions from the Board:**

The organization recognized that brand awareness was higher in the United States than in other countries around the world and was therefore reallocating its resources and focus to target markets that needed to see an increase in CFA Institute brand awareness.

#### **COMMITTEE REPORTS**

*Presenters: Mr. Giuseppe Balocchi, Audit and Risk Committee Chair*

*Ms. Beth Hamilton-Keen, External Relations and Volunteer Involvement Committee Chair*

*Mr. Jim Jones, Planning Committee Chair*

*Mr. Alan Meder, Executive Committee Chair*

*Mr. Dan Meader, Awards Committee Chair*

#### **The Audit and Risk Committee Report**

The Audit and Risk Committee (ARC) reported that the only objective pending for FY2013 was the review of additional oversight responsibilities in lieu of the Global Operating Model. As ARC's responsibilities for the year came to a close, there was some thought given to the importance of continuity. The group discussed the possibility of creating a document of formalized recommendations based what had been done in the past so as to benefit and appropriately inform future Chairs.

ARC also had a vibrant discussion on total candidate counts and wanted to better understand the reasons behind this year's reduction, particularly in the Asia Pacific region in countries like Korea. The group suggested examining a breakdown of candidate counts by industry.

Since the last meeting in Mumbai, ARC had expressed concern over the execution risk associated with membership language but was content with the results thus far. The group congratulated management for its efforts.

It was noted that while no change was requested to the ARC guidelines, the committee would like to delve deeper and address how to improve the organization's overall risk management. There was a desire to understand the connection between CFA Institute's cultural elements – i.e. servant leadership, partnership mindset, leadership courage, etc. – and what it means in the practice of risk management.

ARC felt that in speaking with a bolder voice, CFA Institute risked running against people, some of whom were its members, and organizations, some of whom employed its members, still pursuing a business model that was not in the best interest of investors. This particular element of risk would need to be addressed going forward.

#### **Planning Committee Report**

The Planning Committee (PC) reported it had received an overview of CIPM's revamped curriculum and marketing plan, which included an innovative and digital approach to contacting potential candidates. In addition, a three-year plan outlining the expectations for CIPM's progress was shared with the group.

There was continued discussion on the strategic dashboard metrics. The committee had worked closely with a consultant, who helped them come up with ways to measure the success of a mission driven organization such as CFA Institute, and hoped to present some finalized metrics by July.

### **The External Relations and Volunteer Involvement Committee Report**

The External Relations and Volunteer Involvement Committee (ERVIC) reported it had received updates on CFA Institute's scholarship program, Research Challenge and SFMI activities.

The committee then discussed the status of the member renewal process and asked for more presentations on this topic at future meetings. ERVIC wanted to highlight the fact that there were 20,200 charter pending candidates, individuals who had passed the Level III exam but not become members yet.

### **Executive Committee Report**

The Oversight Committee Chair selections for FY2014 were announced to the group:

*Audit and Risk Committee Chair: Giuseppe Balocchi, CFA*

*External Relations and Volunteer Involvement Committee Chair: Colin McLean, FSIP*

*Planning Committee Chair: Fred Lebel, CFA*

In the coming weeks, the Vice Chair would populate each committee with Board members, and those with strong interests or preferences were encouraged to notify him.

The Executive Committee had been focusing on operational items, specifically crafting agendas and assessing how meetings had been conducted and how they could be improved going forward.

### **Awards Committee Report**

The Awards Committee consisted of the following individuals:

*Aaron Low, CFA*

*Alan Meder, CFA*

*Matt Scanlan, CFA*

*Dan Meader, CFA (AC Chair)*

*John Rogers, CFA*

The committee had decided to give out six awards in FY2013, starting with the reception in Singapore honoring Mr. Ng Kok Song with the Thomas L. Hansberger Leadership in Global Investment Award. It was reported that five different venues would be selected for the remaining awards, which would be presented by various Board members and handed out over the next few months.

The committee had also relayed its suggestions to ERVIC on how best to improve the awards process. One meaningful change that had already been accepted was the honorarium attached to each award. CFA Institute would now make a donation to an educational institution of the award recipient's choice, an addition that has been positively received and impactful.

### **PRESIDENTS COUNCIL REPRESENTATIVES REPORT**

*Presenter: Mr. Jason Bell, Presidents Council Representative for the Western US Region*

It was reported that the Presidents Council meetings were held at the three regional meetings in March. The governors were thanked for their participation.

At the Americas Regional Meeting in Newport Beach, California, the Presidents Council convened a quorum and voted to authorize two working groups, a Governance Work Group and a Board Continuity Work Group. The terms of reference for both groups had been drafted, and there was a plan in place to send out a formal

call for volunteer participation, consisting of three Presidents Council Representatives and two society leaders from each geographic region.

In addition, ad-hoc groups were currently working on developing materials to help the Governance Work Group and Board Continuity Work Group hit the ground running, once formally convened. The intent was for the two work groups to present their findings and slate of recommendations to the Presidents Council at the September meeting in Washington, D.C.

It was announced that the PCRs had elected Leyla Kassem, CFA as the Nominating Committee representative for the Board of Governors. Furthermore, the following PCRs had been elected to serve in FY2014:

*Leyla Kassem, CFA (2<sup>nd</sup> Term, Midwestern US)*  
*Dan Fasciano, CFA (2<sup>nd</sup> Term, Eastern US)*  
*Anne Katrin Scherer, CFA (1<sup>st</sup> Term, EMEA West)*  
*Christian Heuer, CFA (1<sup>st</sup> Term, Southeastern US & Caribbean)*  
*Ken Yee, CFA (1<sup>st</sup> Term, Western US)*

It was noted that the ERVIC group had discussed the increase in organic collaboration across societies and geographies, particularly the positive steps made by CFA Society Texas and CFA Society California.

#### **CONSENT / REFERENCE ITEMS**

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

Consent items consist of recurring and procedural matters that come before the Board. These matters require Board action. A single request for approving all the consent items was provided to the Board for ease of handling.

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

#### **Global Operations Center / Approval of PNC Bank Loan and Historical Tax Credits Guarantees**

##### Project Update

On 19 September 2012, CFA Institute closed on the purchase of the Global Operations Center (the “Project”) located at the former Martha Jefferson Hospital site in Charlottesville, Virginia. The initial project costs were \$5,372,000 which included the land and building. Construction on the renovations began almost immediately after closing and is on schedule for completion and subsequent target move-in December 2013. Whiting-Turner was selected as the general contractor, in part for their experience in historic renovations and repurposing of older buildings. Although the adaptive reuse of the existing building does at times present challenges that may not have been anticipated, the schedule is being maintained. Whiting-Turner remains confident that they can make up for any identified delays. The current projected total project cost is \$35,682,000 without historic tax credits. Net of the expected historic tax credits, the project cost to CFA Institute is estimated to be \$25,000,000.

PNC Bank provided construction financing in the loan amount of \$22,900,000 at an interest rate of 30-day LIBOR plus 90 basis points (0.90%) (the “Loan”). To mitigate interest rate risk, a \$22,900,000 interest rate swap agreement was simultaneously executed. The Loan was largely underwritten based upon CFA Institute entering into a long-term sublease of the building.

##### Historic Tax Credit Closing

As part of the financing of the Project, it was anticipated that historic rehabilitation tax credits, both federal and Virginia, (the “Historic Tax Credits”) would be pursued and that the estimated total Historic Tax Credits

that could be realized for the Project would be approximately \$4 million in value. The Project will now realize approximately \$10 million in Historic Tax Credits. The mechanism for realizing the benefits of the Historic Tax Credits involves an actual investment in the Project by a tax equity investor, in this case, Nationwide Life Insurance Company. While we have already closed on the purchase and financing of the Project, the closing with Nationwide for the Historic Tax Credit aspect of the deal is scheduled for 21 May 2013.

Since CFA Institute, a tax-exempt entity, cannot use the tax credits directly, Nationwide will realize the tax credits through its investment in the related entities established specifically for this purpose. This structure has been approved by the Internal Revenue Service for this purpose.

The realization of the Historic Tax Credits remains subject to certain approvals by the applicable state and federal agencies, but those approvals are expected to be received by the end of June 2013.

It is customary for tax equity investors such as Nationwide to require a guaranty of the Historic Tax Credits. Therefore, as part of the closing with Nationwide, CFA Institute will guaranty the Historic Tax Credits. In addition, the PNC Bank loan documents and other documents have been amended accordingly. While the substance and intent of the loan documents taken as a whole has not changed, modifications to form have been made including reducing the term of the sublease. Therein, PNC Bank will now require a separate unconditional guaranty over the full term of the loan, which will substitute for their relying on the long-term sublease of the building to secure performance as was originally anticipated.

The Board is asked to ratify various actions pertaining to the PNC Bank loan, as well as to provide express authorization for the Historic Tax Credits guaranty and for the PNC Bank guaranty. Please note that these are simply guarantees for repayment of an obligation that the organization has already committed to repay through the sublease. Because CFA Institute always intended to repay the loan through the sublease, the guaranty does not represent anything different from the organization's original intent.

#### **Resolution**

**RESOLVED, that the terms of the PNC Term Sheet, dated 4 September 2012 (as may be amended or modified from time to time), agreed to by PNC Bank and the borrower, are hereby ratified and affirmed;**

**RESOLVED, that CFA Institute is hereby authorized to unconditionally guaranty the Loan as well as the Historic Tax Credits;**

**RESOLVED, that the form, terms, and provisions of the Historic Tax Credit documents and related agreements, and leases, including without limitation, the Tax Credit Guaranty (the "Credit Guaranty") and the Lease, as amended by that certain Amended and Restated Commercial Sublease, dated as of 21 May 2013, and such other documents as may be required by the Lender or the tax equity investors or desired by CFA Institute, as the case may be, are hereby, in all respects, approved and authorized; and that the President of CFA Institute, is authorized to execute and deliver in the name and on behalf of CFA Institute, all such Historic Tax Credits documents, agreements, and leases in the forms as approved by the President, with such changes therein as the President may approve, as evidenced by his execution thereof;**

**RESOLVED, that the form, terms, and provisions of the Loan guaranty (the "Loan Guaranty"), which PNC shall require CFA Institute to execute, hereby are, in all respects approved and authorized; and that the President and CEO of CFA Institute, is authorized to execute and deliver in the name and on behalf of CFA Institute, in the form as he approves, as evidenced by his execution thereof;**

**RESOLVED, that the President is authorized to take such action from time to time on behalf of CFA Institute as he may deem necessary, advisable or proper in order to carry out and perform the obligations of CFA Institute under the Lease, the Loan Guaranty and the Credit Guaranty, and under any other agreements**

and documents executed and delivered by CFA Institute pursuant to or in connection with the transaction contemplated herein;

**RESOLVED, that any action heretofore taken by the President, on behalf of CFA Institute in connection with the purchase or financing of the Project, prior to the date hereof that is within the authority conferred herein is ratified, confirmed and approved; and**

**RESOLVED, that the authority herein given to said President shall remain irrevocable as far as PNC Bank and the tax equity investor are concerned until any such party is notified in writing of the revocation of such authority and shall have acknowledged in writing receipt of such notification. In the absence of such written notice, PNC Bank and the tax equity investor may assume that the President named herein is authorized to act on behalf of CFA Institute.**

### **Awards Committee / Approval of Recipient Recommendations**

#### Background

Each year the Awards Committee makes recommendations to the Board for the conferring of awards, which are presented at various CFA Institute events.

#### Resolution

**RESOLVED, that the Board of Governors accept and approve the following award nominees:**

- **Thomas L. Hansberger Award for Leadership in the Global Investment Profession presented to Ng Kok Song (*No society*)**
- **Alfred C. "Pete" Morley Distinguished Service Award presented to Robert R. Johnson, PhD, CFA (*No society*)**
- **Award for Professional Excellence presented to Joan Payden, CFA (*CFA Society Los Angeles*)**
- **C. Stewart Sheppard Award presented to Richard Ennis, CFA (*CFA Society Chicago*)**
- **Special Service Award presented to Todd Lowe, CFA (*CFA Society Louisville*)**
- **Daniel J. Forrestal III Leadership Award for Professional Ethics and Standards of Investment Practice presented to Michael M. Mayo, CFA (*No society*)**

### **Disciplinary Review Committee / Member Appointments**

#### Executive Summary

Three nominees are presented to serve on the Disciplinary Review Committee (DRC). These individuals have the strong recommendation of each member of the DRC Nominating Committee. The nominee recommendations are: Ronald I. Mandle, CFA, Ville Heikki Toivakainen, CFA, and Robinn Y. Yale-Kearny, CFA, CIPM. These nominees reside in New York, Finland, and South Africa, respectively.

In addition, the DRC Nominating Committee seeks the renewal of the DRC members' term of service for 1 September 2013 – 31 August 2014.

Barbara Insley, CFA, is submitted for renewal as the DRC Chair.

#### Background

The five-person Nominating Committee for the DRC consisted of Phil Graham, CFA (Board Representative), James Arens, CFA (DRC Representative), David Stevens, CFA (former DRC chair), Jeannie Anderson (CFA Institute Staff Liaison) and Barbara Insley, CFA (DRC chair).

The Nominating Committee followed a structured process. The call for DRC volunteers was published in CFA Magazine and the website. In addition, targeted e-mail notices of the nomination opportunity were sent to members who had indicated an interest in volunteering in ethics and the disciplinary process.

The Nominating Committee was in agreement that past volunteer experience with CFA Institute would be an advantage in the selection process as well as several years of experience working in the industry. The role of a DRC member requires leadership ability in Hearing Panels in the presence of members and candidates who might be less experienced with CFA Institute. It was, therefore, important to the Nominating Committee that the final nominees be able to effectively represent the reputation of CFA Institute, its members, and the disciplinary process. The ability to manage and lead small groups was also determined by the Nominating Committee to be an important factor in the selection of an applicant.

The Nominating Committee received 77 timely applications of which 41 were from the Americas, 23 from Asia Pacific, and 13 from EMEA. In total, there were 23 different countries represented by applicants. The initial screen required each committee member to review all the applications and determine, using their own criteria, their top list of candidates. The group then interviewed 11 candidates by telephone.

All applicants at this stage were strong candidates. The committee believes the proposed nominees have a mix of professional and volunteer experiences as well as geographic representation appropriate for service on the DRC.

#### FY2014 DRC Proposed Member Bios

Ronald Mandle, CFA is retired, residing in New York City. Mr. Mandle's professional background is in US financial stocks, including investment research and portfolio management. He was most recently employed by the Singapore sovereign wealth fund, GIC, where he was a Senior Vice President and Investment Analyst/PM covering regional and money center banks, brokers, asset managers, specialty finance companies, payments providers, and exchanges. Mr. Mandle has previous experience working for Sanford C. Bernstein & Co., Paine Webber, Inc. and Oppenheimer & Co. Mr. Mandle served as the President and multi-term director of Financial Services Analysts Association of NY. Mr. Mandle is a member of New York Society of Securities Analysts (NYSSA) and joined the NYSSA Advocacy Committee in 2012. Mr. Mandle will bring a wide range of experience, strong work ethic, and extensive cross-cultural exposure to the committee.

Ville Toivakainen, CFA is a Portfolio Manager, Insurance and Pension Investments, for Pohjola Asset Management Ltd. in Helsinki, Finland. Mr. Toivakainen's professional background is in asset allocation, fund selection and fund research/due diligence, and quantitative analysis. Mr. Toivakainen's educational background is in economics, accounting and finance, statistics, and business law and he completed his M.Sc in Economics at the University of Tampere. Mr. Toivakainen has previously volunteered with CFA Institute as a grader. Additionally, he is an active member of CFA Society Finland, where he has been on the board since 2008, holding various roles, including President. Mr. Toivakainen's professional background and educational experience, as well as his demonstrated volunteer commitments will be beneficial to the committee.

Robinn Yale-Kearney, CFA is based in Johannesburg, South Africa and is a self-employed consultant preparing financial and operational evaluations of mining investments. Ms. Yale-Kearney's professional experience is primarily in equities—research and dealing. Prior to her current role, Ms. Yale-Kearney was employed by Barnard, Jacobs, Mellet Holdings Ltd, Johannesburg as Director and Chief Operating Officer. Ms. Yale-Kearney has previously volunteered with CFA Institute in multiple capacities—standard setting and grading. Ms. Yale-Kearney has also volunteered as the Chair (and still as a trustee) of an education trust to identify and support previously disadvantaged students in engineering and geology. In addition to recently completing the CIPM program, Ms. Yale-Kearney recently received the professional Certificate in Sustainable Investments (SIPC), which included a module on business ethics. Ms. Yale-Kearney is a member of the CFA Society of South Africa.

#### List of DRC Members for Renewal of Membership

Matthew Andrade, CFA

James Arens, CFA

Kimberly Bingle, CFA

Emile Boullineau, CFA

Harold Chaffee, CFA, CIPM

Gabriela Clivio, CFA

James Conversano, CFA

Biharilal Deora, CFA, CIPM

Robert Dubé, CFA

Ruth Fialko, CFA

Cassandra Frost, CFA

Craig Giventer, CFA

Darlene Halwas, CFA

Sajal Jagdish Heda, CFA

Barbara Insley, CFA

Geeta Kapadia, CFA

Asjeet Lamba, CFA

Wei Foong Lee, CFA

Todd Lowe, CFA

Lynn Mander, CFA

Cary W. Raditz, CFA

Ian Robertson, CFA

Gerald Rothstein, CFA

Catherine Roy-Heaton, CFA

Toshihiko Saito, CFA

Parameswaran (Kanna) Sriskanthan, CFA

Wendy Werner, CFA

#### Resolution

**RESOLVED, that the Board of Governors accept and approve the appointment of new incoming and continuing members to serve on the Disciplinary Review Committee for a one year term commencing on 1 September 2013 and until their successors are chosen and qualified; and**

**FURTHER RESOLVED, that Barbara Insley, CFA, is appointed to continue to serve as the Chair of the Disciplinary Review Committee for a one year term commencing on 1 September 2013 and until her successor is chosen and qualified.**

#### **GIPS Executive Committee / Member Appointment**

##### Background

The GIPS Executive Committee (EC) is a committee of CFA Institute and serves as the decision-making authority for the GIPS standards and assumes responsibility to develop and promote the GIPS standards.

According to the Board approved GIPS EC Constitution, the EC consists of nine (9) members (including CFA Institute members and non-members). Four technical seats on the GIPS EC are appointed by CFA Institute Board to represent specific constituencies and stakeholders. Currently these positions are as follows:

- Verification/Practitioner Subcommittee Chair – Karyn Vincent, CFA, CIPM (USA)
- Interpretations Subcommittee Chair – Yoh Kuwabara (Japan)
- Investor/Consultant Subcommittee Chair – Colin Morrison (United Kingdom)
- Investment Manager Subcommittee Chair – Sue Pike, CFA, CIPM (USA)

One of CFA Institute Board appointed seats, Investor/Consultant Subcommittee Chair, will rotate on 1 September 2013. A total of three applications were received during the nominations period. The candidates were reviewed by the GIPS EC Nominations Committee, consisting of Jonathan A. Boersma, CFA (GIPS Executive Director), Michael Director, CFA (GIPS Council elected representative; USA), Jenny Lor, CIPM (CFA Institute appointed representative; Hong Kong), and Martin Schliemann (GIPS Council Chair; Germany).

The Nominations Committee has completed its evaluation of the applicants for the rotating Investor/Consultant Chair position on the GIPS EC. The following table outlines the Committee's recommendation for appointment to the GIPS Executive Committee.

Recommended GIPS Executive Committee Nominee

GIPS Investor/Consultant Subcommittee Chair and GIPS Executive Committee Member
John P. Meier, CFA Managing Director Strategic Investment Solutions, Inc.
<ul style="list-style-type: none"> <li>• Member of the CIPM Advisory Council (8 years)</li> <li>• Past Chair of CIPM Advisory Council</li> <li>• Published article that was included in CIPM curriculum.</li> <li>• Managing Director and one of the founding employees of Strategic Investment Solutions an investment consulting firm with one of the largest average client size of US based consulting firms.</li> </ul>

Resolution

**RESOLVED, that the Board of Governors accept and approve the appointment of John P. Meier, CFA, as a GIPS Executive Committee member and Chair of the Investor/Consultant Subcommittee commencing on 1 September 2013 and until his successor is chosen and qualified.**

**FY2014 Board Oversight Committees / Chair Appointments**

Resolution

**RESOLVED, that the Board of Governors accept and approve the appointment of the following governors to serve as oversight committee chairs for a one year term commencing 1 September 2013 and until their successors are chosen and qualified:**

**Audit and Risk Committee**

**External Relations and Volunteer Involvement Committee**

**Planning Committee**

**Chair: Giuseppe Balocchi, CFA**

**Chair: Colin McLean, FSIP**

**Chair: Frederic Lebel, CFA**

**SATURDAY, 19 MAY 2013**

**8:30 A.M. TO 11:30 A.M.**

**BREAKOUT DISCUSSIONS ON THE THEME OF BIGGER COMMUNITY**

*Presenters: Mr. Giuseppe Balocchi, Audit and Risk Committee Chair*

*Ms. Beth Hamilton-Keen, External Relations and Volunteer Involvement Committee Chair*

*Mr. Charles Yang, Vice Chair*

*Mr. Aaron Low, Board of Governor*

It was explained that while the organization had a clear understanding of the broader mission and bolder voice initiatives, it would like more input from the Board on what it meant to be part of a bigger community. As a result, the Board, PCRs and Leadership Team were divided into breakout sessions to address the following four topic areas: 1) Membership Categories; 2) Membership and Dues; 3) Engagement; and, 4) Forms of Affiliation.

These topics were discussed at the Board level previously, but later tabled due to more pressing matters. However, now was the opportunity to consider these concepts on the bigger community theme and help management move forward in a unified manner.

The goal of the breakout sessions was not to provide prescriptive answers, but rather to freely brainstorm ideas and generate viable conclusions that could possibly expedite the next steps in the process. Participants were reminded that they need not limit themselves to the questions provided. The following key assumptions, risks and benefits from each breakout session were shared with the group.

### **Membership Categories**

- There was a mismatch between CFA Institute's broader mission and current membership structure.
- Strong recommendation to revisit the current membership structure in order to reach a bigger community and evaluate the risks and benefits when deciding to expand the membership.
- Sought a bigger community, but also wanted to maintain distinctions among different membership categories:
  1. Core: members and societies
  2. Fellows
  3. Affiliate Members
  4. Industry Practitioners
- Potential for membership with CFA Institute to automatically confer membership with a society.
- Concluded that CFA Institute was both a mission driven organization with members and a member organization with a mission.
- Benefits: added member value, engaged candidates and increased membership.
- Risks: potential disenfranchisement and/or dilution of current members.
- Lingering Questions: If new groups were added, would they be bound by the same code of ethics? Where would fiduciaries potentially fit into the new membership structure? How would the new model work with societies?

### **Questions, Comments and Resulting Discussions from the Board:**

To keep them engaged, it was proposed that charter pending candidates be able to bundle their membership and Level III exam enrollment. Consequently, for the next four years, as long as these individuals remained charter pending candidates and signed the annual professional conduct statement, they could become members. It was added that this approach could also be used with nonvoting members.

There were comments and questions on whether the organization's resources would be impacted should it suddenly decide to enlarge its membership net.

### **Membership and Dues**

- Data analysis of a three-year time period showed CFA Institute membership was fairly inelastic to price, but there was risk in extending the study's results farther into the future based on the relatively small sample size.
- Concluded that CFA Institute and society membership dues should remain separate and not be combined into a single bundled structure.
- Benefit of having a bundled structure: it made everyone a member
- Risks of having a bundled structure: less incentive for societies to provide their value proposition to extend local membership, a higher overall fee that could pose problems for emerging countries, and an unrealistic, one-size-fits-all dues structure.

- CFA Institute should consider providing members vouchers to apply a portion of their CFA Institute dues to society dues at any location, thereby creating an open market for society membership. Noted that small areas not meriting the size of a society would have to be addressed.

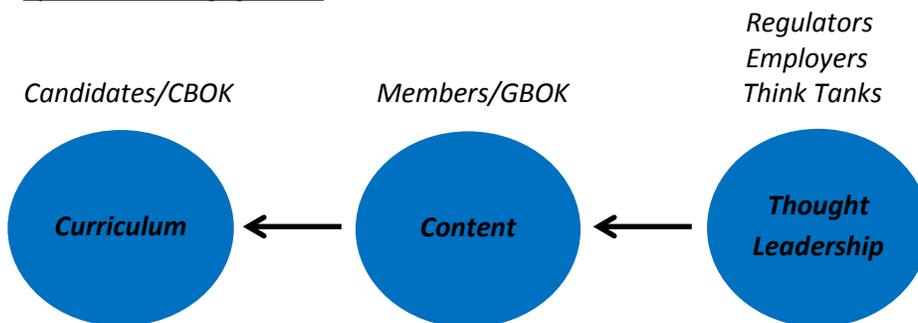
**Questions, Comments and Resulting Discussions from the Board:**

By moving toward a voucher system and thereby changing its operational funding model, CFA Institute might indirectly encourage more partnering between societies and subsequently create an incentive for fewer, larger societies that offered more value.

**Engagement**

- Who: focus on candidates and regulators for maximum results.
- Why: to continue candidate growth and demand, build trust, advance the organization’s mission, and enhance the value proposition for CFA Institute’s members.
- What: to redefine and influence the industry through effective message delivery and content.
- How: depends on a cost impact and benefit basis.

Spectrum of Engagement



- Defined engagement as a relationship of a sufficient intensity to have influence.
- Noted spectrum could be used for different markets based on their level of development and sophistication.
- Current opportunity (to stay relevant) exists in engaging with regulators as global lawmakers redefine minimum levels of professionalism, competency, and operational landscape.
- Further outreach: leveraging on the work done by staff and further engagement with societies to communicate with employers and regulators on evolving universal standards and policy dialogues.

**Questions, Comments and Resulting Discussions from the Board:**

The group felt that CFA Institute had done a great job of engaging universities, but wanted to think more about ways the organization could create more job placements to fill the demand side of the equation.

**Forms of Affiliation**

- Agreed that the current model had limited flexibility within countries and neglected the organic advantage that came from passionate groups of volunteers.
- Recommended more emphasis on options and platforms for administrative support to enhance the value societies provide to CFA Institute.
- Decided CFA Institute needed to improve methods of incubation by sponsoring rather than owning groups. Realistic support for the mutual benefit of societies/pre-formed societies’ direction and passion with that of CFA Institute’s goals and objectives. Partnering should be enabling but not imposed.
- The spectrum of the relationship defined the negotiated service agreement or commitment that CFA Institute was willing to engage in with its societies and volunteers. On one end of the spectrum was a franchise model with quality control centrally driven downward, and on the other end was an organic

model with no brand identity, common theme or purpose. CFA Institute was in the middle, the central identity that cascaded down to a vibrant, local community.

- Encouraged stakeholder mapping within societies to provide a better strategic direction on how they fit in overall and can engage with stakeholders to further the organization's mission.
- Lukewarm on creating or putting a lot of effort into interest-based associations. Maintaining current resources was recommended. CP, Claritas, CIPM could be more loosely defined forms of affiliation that would be another way, though not an alternative to a society, to engage that group, possibly on a social media platform facilitated by the organization.
- Opposed mandatory society membership as it diluted vibrancy and grass roots opportunities generated from the independent society model.

**Questions, Comments and Resulting Discussions from the Board:**

It was explained that there were already topic-based LinkedIn groups created by like-minded members. CFA Institute could monitor them, enable them or even harness their energy and content. However, CFA Institute's focus was not to create interest based associations.

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

Meeting adjourned.