

Board of Governors Meeting

Open Session Minutes

5-6 March 2014
Beijing

Board of Governors Present:

Giuseppe Balocchi, CFA
Heather Brilliant, CFA
Beth Hamilton-Keen, CFA
James Jones, CFA
Attila Koksai, CFA
Robert Jenkins, FSIP

Mark Lazberger, CFA
Frederic Lebel, CFA
Aaron Low, CFA
Colin McLean, FSIP
Alan Meder, CFA
John Rogers, CFA

Matthew Scanlan, CFA
Jane Shao, CFA
Sunil Singhania, CFA ☎
Roger Urwin
Charles Yang, CFA (Meeting Chair)

Board of Governors Absent:

Saeed Al-Hajeri, CFA

PCR Representatives Present:

Leah Bennett, CFA
Aaron Brown, CFA
Sharon Craggs, CFA
Daniel Fasciano, CFA

Christian Heuer, CFA
Leyla Kassem, CFA
Anne-Katrin Scherer, CFA

Kathy O'Connor, CFA
Arthur Thompson, CFA
Ken Yee, CFA

PCR Representatives Absent:

Marla Harkness, CFA

Leadership Team Members Present:

Jeannie Anderson
John Bowman, CFA
Elaine Cheng
Raymond DeAngelo

Stephen Horan, CFA
Donna Marshall
Timothy McLaughlin, CFA
Nitin Mehta, CFA

Thomas Robinson, CFA
Kurt Schacht, CFA
Paul Smith, CFA
Jan Squires, CFA

Others Present:

James Albertini
Matthew Andrade, CFA
Eulas Boyd
Joe Clift
Tom Collimore, CFA
Nancy Dudley

Emily Dunbar
Rebecca Fender, CFA
Robert Gowen, CFA
Christine Krecek
Joseph Lange (Meeting Secretary)

Craig Lindqvist
Tony Tan, CFA
Ashvin Vibhakar, CFA
Guy Williams
Janet Wise

Materials Provided:

Primary Meeting Pack

Reference Meeting Pack

WEDNESDAY, 5 MARCH 2014
1:30 P.M. TO 5:30 P.M.

WELCOME

Presenter: Mr. Charles Yang, Board of Governors Chair

Everyone was welcomed to the meeting in Beijing. In the opening remarks, it was highlighted that the Executive Committee had been working to streamline the coordination of all meeting materials.

CEO REPORT AND UPDATE ON FY2014 INITIATIVES

*Presenters: Mr. Craig Lindqvist, Head of Global Planning and Reporting at CFA Institute
Mr. Tim McLaughlin, Chief Administrative Officer and Chief Financial Officer at CFA Institute
Mr. John Rogers, President and CEO at CFA Institute*

Summary

At the mid-point of the 2014 fiscal year, the organization was very busy with a number of important projects and launches. The Leadership Team members and CFA Institute staff were thanked for their efforts thus far.

While the organization had coped with capacity issues last year, it was now watching the variability of its top line due to three new items in FY2014.

First, there was uncertainty around the forecasted 10,000 Claritas registrations as included in the budget, leading to a projected reduction in the initial figure. As of 31 December 2013, there were 944 FY2014 Claritas sales consisting of 448 non-voucher registrations and 496 vouchers purchased. Based on the non-voucher sales trend and a detailed review of the institutional pipeline, the current FY2014 sales forecast was 4,200 consisting of 1,400 non-voucher registrations and 2,800 voucher sales. This forecast was projected to translate into 1,810 exam administrations in FY2014.

Second, modifications to the CFA Program pricing structure had gone into effect in FY2014. It was explained that the average registration price had increased, but there was now a lower cost option for candidates who signed up earlier. The adjustment was meant to not only incentivize candidates to register sooner, but also address equitability across the globe. The organization recognized the potential impact of these changes and was closely monitoring the results.

Third, the e-book, and no longer the print copy of the curriculum, had been bundled into the price of registration. The organization had estimated that roughly 43% of candidates would opt for the print version of the curriculum, which they would have to pay for separately. However, the actual figure had been closer to 20%, making this particular revenue stream much lower.

It was anticipated that the overall operating margin would fall in line with the original budget, but these three factors suggested the standard deviation of returns could be potentially meaningful. In terms of the work plan, the organization was executing well on its initiatives and felt confident in the future of the Claritas Investment Certificate. In addition, the CFA Program exam results would be observed with great interest in order to identify if more candidates signing up earlier had any bearing on the pass rate results in FY2014.

Financial Statements

As of 4 March 2014, the financial results showed the organization was approximately \$1.2 million under budget in revenue, largely driven by the lower than anticipated Claritas numbers and changes to the CFA Program pricing structure. In terms of expenses, the organization was \$10 million over budget, mainly due to the timing of the candidate volume and other elements, such as spending less than expected on the China and India project. It was reported that while the operating margin was \$9 million over budget at the end of January, this figure would change throughout the year based on the timing of expenses and managing its relationship with regards to the revenue stream. The organization stated, however, that it would be able to deliver on its originally promised surplus of \$300,000 plus or minus \$1 million by the close of the fiscal year.

In terms of candidate counts for the CFA Program, the organization had budgeted 203,000 total registrations based on its experience up through the second deadline. The midyear financial results showed a forecast of 207,000 registrations as compared to the 215,000 in FY2013. It was highlighted that as of 4 March 2014, CFA Institute had already achieved its 207,000 mark with another week and possible a few thousand more registrations pending. It was also noted that the candidate counts in China and the United States were continuing to increase in FY2014 as opposed to the numbers for India and Hong Kong.

Questions, Comments and Resulting Discussions from the Board:

It was noted that the modified pricing structure could significantly affect the demand for the CFA Program, especially in emerging markets struggling with business downturn in the financial sector and/or devaluations. The organization was aware of these challenges and would continue to monitor any declines in demand going forward.

CHINA AND INDIA PROJECT

*Presenters: Mr. James Albertini, Head of Web Strategy and Services
Mr. Robert Gowen, Head of Product Solutions at CFA Institute*

In terms of key points, it was determined that the China and India Project needed to adhere to CFA Institute's strategic vision and Global Operating Model principles, have a tactical and flexible 3-year work plan, recommend tactics based on market intelligence, outside consulting work and iterative discussions with staff, and define success on strong society partnership and establishing local credibility.

As the overall tactical plan developed, the project team recognized the need to prioritize and focus its efforts, and therefore concentrated on identifying the outcomes that would drive CFA Institute's business objectives and mission forward regardless of geographic location. Based on the responses received, six themes were established: to build strong societies, change the messaging and communication, foster strong employer partnerships, enhance member value, market integrity and advocacy, and invest in infrastructure. These ideas ultimately formed the basis of the project plan outcomes, which were all consistent with the global strategy, and addressed the unique needs and challenges of each market.

Guided by its six themes, the project team sought to measure impact through both a qualitative and quantitative lens. Progress on increasing member value (i.e. renewal rates above 80%), enhancing the stature of programs and advocacy (i.e. stable and growing CFA Program candidate counts), and building strong society partnership (i.e. increased events) would be tracked diligently in the first year to set a strong baseline for future years.

It was stated that the China and India Project outcomes plus impact would equal a return on mission. While the size of the markets alone made them compelling, it was felt that the real opportunity was through

partnership with the local societies, employers, and regulatory bodies to make a lasting impact. Advancing the mission in two countries with vastly different cultures would be challenging, and it was thought that the recommended measures and strategies would ultimately succeed. It was also stated that adaptation based on local inputs would help drive effective execution and mission return over a long-term commitment.

Potential risks to the China and India Project included the inability to recruit the right people to lead the plan and mission forward, the society partnership model falling short of expectations, the costs of the China and India offices exceeding the benefit provided, and the candidate numbers increasing without requisite increase in member value. While some risks, such as the recruiting process, could be addressed now, others would have to wait until operations were underway in both countries. It was stated that the organization's flexibility would be the biggest factor in mitigating risk going forward.

Questions, Comments and Resulting Discussions from the Board:

It was agreed that the organization was entering China and India primarily to learn about each market and effectively position itself within the region. Translating and eventually originating content in China, for example, would be an important step to adapting content to reflect the local market and inspiring local contributions to finance to be delivered on a worldwide scale.

It was agreed that a long-term strategy was the best way to mitigate the risks and challenges associated with entering a new market.

The \$4 million budget for the China and India Project was a good starting point and would likely increase in the future due to long-term staffing requirements. It was reported that a more detailed breakdown of the budget would be provided in the coming months as the project team was in the process of determining the appropriate salary and benefit levels, and looking at lease rates for potential office space in Mumbai and Beijing.

The engagement plan in China and India would focus on working with the societies to provide funding and resources for their local outreach efforts. Instead of being presumptuous, the organization would encourage the societies to shape their overall approach to engagement – whether it was powered by networking events, career services, or translated content – in their respective regions. The longevity of CFA Institute's relationship with every charterholder was a significant outcome, and it was clear that engagement was contingent on a very successful rapport with the societies.

In terms of advocacy and financial market integrity, the vast differences in China and India would require customized tactics for each country. The importance of becoming acquainted with the key players in China (i.e. ministries, associations, etc.) at the outset was emphasized as it would be difficult for CFA Institute to step in and have a huge impact on its own. By contrast, discussions with regulators had already occurred in India, and there was an interest in seeking input from CFA Institute. While the organization's philosophy in recent years had focused on a more regional perspective, it was recognized that there would need to be two different, individualized strategies for China and India.

The organization was encouraged to be patient when executing the project plan in China given its current period of internal reform and transition. Changes to policies, regulators, and government agencies were likely in the months ahead, and it would be important for CFA Institute to take its time in finding the right people, establishing priorities, and managing expectations from key stakeholders within the country.

Based on the Board's shared experiences from the outreach sessions, it was perceived that employers in China believed there was great value in the CFA exam. However, they were not as keen on the organization's membership proposition, which they felt lacked a strong continuing education component. It was recommended that the next strategic plan address this particular item.

The New Office Registration Team (NORT) was an internal group at CFA Institute tasked with creating and executing the tactical plans for establishing the China and India offices.

It was noted that each country had its challenges. In India, for example, candidate and membership renewal rates were showing signs of deterioration while only the latter was occurring in China. There were two reasons provided for India's declining numbers. First, the continued depreciation of the Indian rupee had created poor economic conditions for candidate and membership levels. Second, surveys conducted by the organization had revealed a prevalent sentiment in India that CFA Institute was not meeting the country's expectations in terms of career placement. It was agreed that setting the proper expectations for what CFA Institute could and should deliver in India needed to be addressed going forward.

From the thought leadership perspective, it would be important to make a strong distinction between the CFA Program and the Claritas Investment Certificate when introducing these educational offerings to employers. The marketing and industry relations staff planned to create a clear messaging campaign around each product.

It was stated that CFA Institute needed to systematically and effectively become a more indispensable resource to employers outside of the United States, Canada, and the United Kingdom. The industry relations piece would be of enormous strategic importance in increasing the visibility of the CFA Program and CFA Institute portfolio with employers, showing that the experience and skills needed to obtain the charter as well as the commitment to lifelong learning and ethics through membership were tremendously valuable. Since there were many variable outcomes to this approach, a long-term commitment in both countries was reinforced by the Board.

The charter pending numbers would be monitored and incorporated into the project team's metrics for success. It was explained that the majority of this population in China and India had insufficient work experience while others believed passing the Level III exam was an acceptable stopping point. With the establishment of the new offices, membership value could be more effectively conveyed, not simply through language, but through a relevant portfolio of continued educational offerings.

Once the new offices were operational, the organization would speak directly with the society leaders and discover what resources were needed to support and enhance their efforts. As local members, it was argued, they had a better understanding of the elements required to advance their agenda. Through a heavy focus on partnership, CFA Institute planned to both protect and expand its core membership values in China and India.

EXECUTIVE FUNCTION REVIEW PROJECT

*Presenters: Mr. Eulas Boyd, Director of Talent Acquisition and Workforce Planning
Mr. John Rogers, President and CEO at CFA Institute*

It was explained that the objective of the Executive Function Review Project was to consider and recommend a future state executive structure that enabled and supported CFA Institute's global operating model, 2015-2022 strategic plan and shift charts, cultural values, and workforce performance. As part of the organization's long-term strategy, this project would be deployed and implemented over the next five to ten years.

Consistent with the organization's three strategic norms of broader mission, bolder voice, and bigger community, it was recommended that the senior-most level of leadership should transition to become focused on externally-facing, stakeholder-driven, communications activities; combine geographic and functional leadership responsibilities; and, increase the time it spent on strategic activity in relation to tactical execution.

The project team also promoted a regrouping of CFA Institute's current business activities into five key functional areas: standards, education, community, communications, and operations.

It was explained that the new structure would have two leadership teams. Directly under the CEO would be an executive leadership team, composed of individuals to manage the global strategic planning for the organization's five functional areas. And, directly under the executive leadership team would be a larger, operational leadership team to manage day to day activities and regional strategic planning.

The executive leadership team members would experience a significant change in role, transitioning to a primarily externally facing group to deliver the organization's message more frequently and on a more impactful basis.

Questions, Comments and Resulting Discussions from the Board:

It was clarified that the executive leadership team would consist of five members geographically distributed around the globe whereas the operational leadership team would remain similar to its current size and structure. No reductions were anticipated as high level subject matter expertise in each functional area was necessary for effective implementation of the work plan.

Concerns over the recommendation for increased hierarchy were discussed. The purpose of an additional tier of leadership was to enhance the organization's agility, particularly in a more crowded thought leadership market place. The five members selected for the executive leadership team would all have CEO talent potential and the ability to speak on behalf of the organization at the regional and global level. Though structural changes would be gradual, it would ultimately affect the work content for employees and current workforce strategy, and it would be best to connect staff to these new business units organically.

With regards to the global strategic planning process, the Board would still interface similarly with the CEO and executive leadership team in the future model while the operational leadership team would participate primarily by providing depth and support to the executive leadership team.

It was explained that the five-year time frame would help with the short- and long-term decisions on workforce and strategy issues. Furthermore, a gradual implementation plan would create less disruption and ensure everyone was moving in the same direction.

The community functional area would focus on learning from CFA Institute's external stakeholders, particularly their views on the organization's products and services.

The new structure was not modeled after an existing company due to the notion that CFA Institute was too dissimilar from other organizations. Instead of looking externally, the project team felt their recommendation should be based on CFA Institute's main drivers.

It was suggested that the new structure would clarify project ownership and responsibilities as well as reporting lines within the organization.

The project team had considered the large investment required by adding five executive level team members and had weighed it against the potential improvements to the effectiveness of the organization overall.

Maintaining long-term relationships with key stakeholders would be facilitated by the new structure.

Looking forward, the Human Resources Team and Leadership Team would collaborate to develop a step by step implementation plan.

PROFESSIONAL CONDUCT RULES OF PROCEDURE

Presenters: Ms. Jeannie Anderson, Managing Director and General Counsel at CFA Institute

Mr. Matthew Andrade, Disciplinary Review Committee Chair

Background information on Matthew Andrade, the current chair of the Disciplinary Review Committee, was presented.

The division of labor under the Professional Conduct (PC) division was reviewed. The Standards of Practice Council (SPC) was a volunteer group responsible for writing the code and standards, the Disciplinary Review Committee (DRC) was a volunteer group tasked with hearing cases against members and candidates, and the Professional Conduct Program (PCP) was a division of staff members that investigated and brought allegations against members and candidates. It was added that the DRC partnered with the PCP to set policy and train its members.

The PCP had evolved over the past few years, particularly in response to the financial crisis, which had increased the number of cases brought before the DRC. However, in relation to the size of the candidate pool, the DRC still only saw cases from less than 1% of the total population.

The DRC was composed of 30 charterholder members roughly matching CFA Institute's global membership (59% Americas; 31% EMEA; 10% APAC). The group endeavored to increase its geographic and practice diversity in every nominating cycle. On average, it was noted that DRC members devoted about 250 hours a year to hearing cases and attending in-person meetings.

Prior to sitting on any disciplinary panels, new DRC members were required to attend a two-day "boot camp" or training session in September. The purpose was to onboard these individuals, update them on current committee activities, and review the code and standards.

In FY2014, the DRC was focused on training and continuous improvement on process. Customized training had been implemented at every in-person meeting on the Rules of Procedure, best practices in disciplinary proceedings, and exam security efforts. In addition, there were also plans to include training on data forensics, hearing summary suspension cases, and the new Review Panel rules. The DRC had also created a Sanction Theory Working Group, consisting of PCP staff and DRC members tasked with analyzing many different aspects related to issuing sanctions. This group would ultimately establish guiding principles and review the sanction matrix, which listed factors to consider when imposing a sanction (intent, harm to client, etc.). A final report from the DRC would be presented in fall 2014.

The DRC's time on exam hearing panels had increased while industry cases remained relatively stable and reflective of market conditions. Candidate growth and data forensics had resulted in an increase in candidate hearings; however, the percentage of hearings compared to the total candidate pool still remained very small:

.037% in 2010 and .077% in 2013. It was stated that the committee was committed to keeping the number of exam hearings within or below the 175-200 range.

It was reported that the DRC had the power to impose a wide range of sanctions, and did impose severe measures in the appropriate cases. The committee was very mindful of protecting the charter and the brand as the gold standard in the industry, and recognized that harsh sanctions were, at times, warranted.

The new vision for Professional Conduct (PC) sought to protect the integrity of CFA Institute membership and programs. It was a global team that innovated to manage complex cases and acted as ambassadors for CFA Institute ethics and professional standards.

To become more innovative, the PC group would endorse team-based decision making, form strong internal partnerships, establish efficient processes, and have a peer-review focus. The need to be more creative when handling exam cases was recognized as they could become very resource intensive.

To become more global, the PC group, which was wholly based in Charlottesville, would reach out to globally capable PC staff and resources for input from a non-North American litigation perspective. It would also be important to monitor and track cases from global sources and regulators.

To become ethics ambassadors, the PC group would need visible leadership in order to build relationships with regulators, employers, and industry groups. Along with the DRC, they wanted to speak to the state of ethics in the industry, and the everyday relevance of the code and standards for an investment professional.

Efforts to achieve the new vision were outlined in four building blocks. The organization was almost complete with the first step: to engage a new PC leadership model. Previously, there had been a Designated Officer, but it was felt that this title and role was conflicted and created a misperception of independence from CFA Institute. The position of Head of Professional Conduct was therefore created and would be filled by a charterholder who exhibited dedication and understanding of the code and standards, a compliance background, and global industry experience.

While the search for a Head of Professional Conduct was still underway, the organization had started to tackle the second step: to review PC structures and processes. A new leadership model had been implemented, starting with the PCP team investigating cases and making allegations against members, and then moving to the DRC hearing presentations and making independent, objective decisions. In addition, it was noted that the new leadership model had been revised in the Rules of Procedure, which was presented to the Board for consideration.

Once the first two building blocks were in place, the PC team would move to build a global team and accompanying relationships, and ultimately become global, innovative, ethics ambassadors for CFA Institute.

Questions, Comments and Resulting Discussions from the Board:

It was clarified that while 2012 was a low year for hearings, there were still many cases opened at that time.

The PC and DRC budgets combined totaled approximately \$4.6 million.

The majority of cases came from professional conduct statements, whereby members disclosed customer complaints and the like, while the rest were brought forth through PCP monitoring efforts. It was added that

there were around 400 cases on the docket in FY2014. Typically, about 80% of cases were closed without action, mainly because they were not relevant to the code and standards.

It was reported that cases were heard telephonically in the past, which introduced numerous complications into the process. Exam cases were now purely written testimony. The industry cases, however, tended to be more complex and therefore heard in-person. To save on expenses, the DRC would primarily send members in the area to attend.

CFA Institute had endeavored to make the PC process feel less like a courtroom experience and more like a peer-review process.

In terms of the new model, the Board was assured that the PCP would deliver a balanced set of facts given the serious informational and experiential asymmetry between the PCP and the covered person. It was also stated that the DRC understood the potential impact of their decisions on other people's lives and careers, and would not become a rubberstamping body. To further that point, the DRC had created an Executive Team, composed of five DRC members, to act as conduits for feedback and self-correction. At least one member of the Executive Team would sit on each hearing panel to monitor the process for consistency and bring forth any potential issues. Finally, the DRC relied on the PCP group to compile the relevant details and recommend an appropriate sanction. The DRC members then had to review the information and determine whether or not an individual had indeed violated the code and standards. The work being conducted had greatly improved over time, and it was reported that the case backlog had been reduced from 300 to 10.

The full DRC had seen and endorsed the revised Rules of Procedure.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accept and approve the revised Rules of Procedure for Professional Conduct substantially in the form submitted.

FUTURE OF FINANCE

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

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

It was announced that Mr. Raymond DeAngelo was now the Leadership Team sponsor for the Future of Finance (FoF) Project, and that there would be a recommendation on an internal structure to support and carry the initiative forward.

The governors were thanked for all of their work on the FoF thus far.

Back in July 2013, the Board had determined that the FoF should continue as a long-term effort that was supportive of the mission, and a great way to communicate with membership and the broader community across geographic regions and age groups. It was also decided that the FoF should give equal importance to content and engagement.

The Board was reminded that after preliminary conversations with individual Leadership Team members, the FoF team had created a shift chart to focus their efforts. The first type of shifts were strategic and included establishing a coherent message that effectively explained CFA Institute's values, broadening participation from a bigger financial community, and becoming more proactive with an increased attention to strategic

issues. The second type of shifts were operational and included recognizing a suite of products and standards beyond the CFA Program, intentional and coordinated research choices for better allocation of resources, and working together for dynamic content that was usable, accessible, and relevant for different audiences. The third type of shifts were cultural and included promoting an innovative, high impact and inspiring platform, a shared sense of purpose, and a focus on globally important principles broad enough to be regionally relevant.

In terms of global content, the FoF team felt it should be opportunistic in developing markets and advocate global principles that could be applied locally. Keeping the structure of the FoF broad enough so that people could localize and personalize it was considered a key to success.

It was stated that the FoF Project would not be incorporated into the overall structure of the organization as originally planned at the close of FY2014. The recommendation was to continue to lead the initiative forward through a core team consisting of three to four staff members devoting 100% of their time to the FoF; a content council with representation across the organization to promote communication and collaboration, and affix the majority of content behind one of the six themes on the FoF portal; an impact team to drive the engagement element; and, the existing Advisory Council to continue the salon sessions and generate ideas valuable to the FoF. It was noted that the much of the work conducted by the impact team could potentially be absorbed by the recently expanded marketing and communications team in the near future.

The FoF recommendation was budget neutral, since most of the content would be produced internally. Over the next couple of years, the core team would ultimately become fully integrated into the organizational structure of CFA Institute.

Questions, Comments and Resulting Discussions from the Board:

There was a request for an evaluation of the FoF Project in terms of society and volunteer engagement, ongoing internal costs, and achievement on its deliverables, especially those focused on establishing long-term partnerships with wealth managers, asset owners, trustees, and those who could reposition the public perception around CFA Institute. It was also asked that the organization discuss what the internalization of the FoF Project would achieve going forward.

The idea of using existing content was fully supported.

It was reported that the societies had overwhelmingly embraced the FoF with much excitement and engagement. The project was resonating with dozens of societies, enabling them to effect change by localizing the content per their regional interests. Moreover, a number of societies were creating FoF committees to enhance engagement efforts. It was added that one of the core team members would be responsible for coordinating with societies to support their involvement in the FoF.

In May, there would be several society events around the theme of Putting Investors First, providing an ideal platform for employer and regulator outreach. It was agreed that the FoF was a great leverage point for societies to connect with these entities and other associations in the community.

There seemed to be some fear in the investment community that the future of finance might be good for investors, but potentially problematic for financial firms in the short-term.

COMMITTEE REPORTS

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

Mr. Colin McLean, External Relations and Volunteer Involvement Committee Chair

Mr. Fred Lebel, Planning Committee Chair

Mr. Alan Meder, Compensation and Governance Committee Chair

Mr. Charles Yang, Executive Committee Chair

Mr. Aaron Low, Awards Committee Chair

The Audit and Risk Committee Report

Last year, the Audit and Risk Committee (ARC) highlighted two topics, risk and culture, and there was a continued emphasis on monitoring the current and imminent cultural shifts taking place at CFA Institute. The committee had also discussed a paper, *The People's Side of Risk*, which stated that the responsibility for maintaining the new risk culture extended to the Board. As such, ARC would be discussing the organization's risk appetite in FY2014 and supporting the opinion that the full Board should evaluate the Leadership Team's statement on the subject.

It was noted that risk appetite had to be linked to the operational aspects of the organization, making the empirically observed risk preferences explicit to all staff, since these varied dramatically from one activity to the next. This would empower CFA Institute staff to either take or mitigate risk in certain areas.

It was noted that dialogue on the risk appetite statement would continue at the July meeting and ultimately have an impact on the ARC manual and terms of reference.

ARC also heard presentations from the information technology team and particularly engaged with the scorecard used to track their achievements. It was suggested that the scorecard include input from external stakeholders going forward.

Additionally, ARC learned that the internal audit function at CFA Institute received a very positive evaluation.

Finally, the committee heard a number of measures on how to improve treasury operation and business continuity plan issues. While the ARC members approved of opening another bank account, it felt that more information on the introduction of a credit line was needed. Since it did not appear to be an extremely time sensitive matter, further details from management were requested. Procedurally, if this measure were approved, ARC would prefer to update the debt guidelines in the ARC manual to include the credit line as well.

The External Relations and Volunteer Involvement Committee Report

The External Relations and Volunteer Involvement Committee (ERVIC) was pleased with the engagement from its PCR liaisons, who had helped improve society outreach efforts and obtain more feedback, particular on items relevant to the Society Partnership Agreement. The committee would continue to monitor society relations and assess the potential for extending use of good practices and replicating good projects developed by individual societies.

It was explained that the member language transition, supported by the make-whole policy, had experienced a much more favorable outcome than originally anticipated, largely due to the work conducted by the societies and society relations team. Given some societies remained concerned about the future impact, ERVIC would continue to monitor the situation.

It was announced that ERVIC had admitted two more societies with approximately 50 to 60 members each, CFA Society Qatar and CFA Society East Africa, bringing the organization's total to 142.

The committee had also reviewed the candidate experience and potential to enhance it, with reference to the Candidate Survey Report, universities, CFA prep course providers, and other feedback.

Lastly, ERVIC had discussed the charter pending issue, including the final report provided by the Charter Pending Work Group. It was noted that many of the work group's proposals had been implemented. However, the original target of reducing the charter pending numbers by 50% had been deemed impractical and therefore set aside, and the idea of creating a separate member class was revisited with little support. Moreover, it appeared that the charter pending figure was not increasing disproportionately with regards to the overall membership. ERVIC felt that the charter pending issue was under control, and decided it should regularly review the topic and provide annual trending updates.

Planning Committee Report

In the last few months, the Planning Committee (PC) had concluded its discussion on the metrics, which would be presented in the form of a two-page scorecard going forward. The importance of creating a narrative around the data was emphasized as both depth and perspective were needed to monitor the organization's progress. To make the scorecard a useful prevention tool, the committee also reasoned there should be alerts in place when numbers reached a significant tipping point.

It was reported that Claritas had made great progress. While the committee had taken note of the revised target of 4,200 registrations for the current fiscal year, it believed it was more important to position the program for long-term success over meeting the original projection of 10,000 sales. The group looked forward to this product being used more globally in the future.

The Planning Committee also heard reports from the Global Operating Model (GLOM), the Marketing Opportunities for Educational Programs (MOEP), and the Future of Finance, and reviewed the changes to the Professional Conduct Program.

The committee had read and discussed a book by Kai Hammerich, *Fish Can't See Water*, which explored the impact of national culture on a business' success. The PC members then took a survey, which showed that they believed CFA Institute was not negatively impacted by its U.S. heritage, did not fit the standard model of a U.S. corporation, and was becoming more globally diverse in terms of its cultural and national traits. The book also outlined the five lifecycles of an organization: innovation, geographical expansion, product line expansion, scale, and maturity. The group determined that CFA Institute was in the midst of two phases, the geographical expansion and product line expansion, and should clarify what needed to be done in each stage. The ultimate message stated that a business controlled of its own destiny, and having the right corporate and institutional culture was crucial for growth.

Compensation and Governance Committee Report

The Compensation and Governance Committee had begun the process of reviewing all governance-related documents (i.e. policies, procedures, guidelines, etc.), and involved the oversight committee chairs for their input as well. It was noted that materials would be reviewed annual or periodically based on how they were ultimately ranked in terms of risk and significance to the organization.

The committee had also created a document on the suggested evaluation process to be conducted at the Board, Board member, and oversight committee level. It was highlighted that there would be feedback

solicited annually from the Board on its performance; an individual, one-on-one, Board member review; and, a more streamlined transition from one year to the next for the oversight committees. Improving the agenda setting process and effectiveness of each oversight committee would also be discussed.

It was announced that the CGC would be retaining Steven Hall & Partners and McLagan to help initiate the process of peer review to look at other entities pay practices in relation to those at CFA Institute. Guided by consultants and the human resources team, the process would begin by interviewing members of the CGC, management, and select governors. The main questions would focus on CFA Institute's compensation philosophy and culture.

The CGC had started to think about the content of its guidance to the Nominating Committee for FY2015. Furthermore, there were discussions on having a parallel process by which ERVIC ensured all of CFA Institute's standing committees had a robust nominations committee approach. Management had been asked to create a way for ERVIC to see a slate of members and assess the overall diversity needs.

With four incoming governors in FY2015, the CGC wanted to make sure there was a solid orientation process in place. The vice chair would be equipped not only with the Board manual, but also with information on current projects and items of interest at the oversight committee level to more effectively share the essence of the Board's work on behalf of CFA Institute.

Executive Committee Report

The Executive Committee had reviewed and used feedback from the London meeting to help coordinate the Board and oversight committee meeting agendas.

Awards Committee Report

The Awards Committee thanked the Board members for their recipient recommendations and encouraged them to submit names throughout the year for future consideration.

The Award Committee was composed of the following members in FY2014:

Mr. Aaron Low, CFA (Chair)

Mr. James Jones, CFA

Mr. Charles Yang, CFA

Ms. Beth Hamilton-Keen, CFA

Mr. John Rogers, CFA

The seven awards considered by the Awards Committee every year were the:

Alfred C. "Pete" Morley Distinguished Service Award

Award for Professional Excellence

C. Stewart Sheppard Award

Daniel J. Forrester III Leadership Award for Professional Ethics and Standards of Investment Practice

Nicholas Molodovsky Award

Special Service Award

Thomas L. Hansberger Leadership in Global Investment Award

It was explained that of the seven awards, only three were presented on an annual basis while the others fell under a biannual or three to five year timeline. In FY2013, the organization exceeded its average of five awards and honored six recipients.

This year, the selection process had taken approximately four months. The seven awards were divided up among the committee members, who then reviewed and made final recommendations to the full Awards Committee. There was a consensus that the awards should be given to nominees currently not serving in a volunteer capacity. With the guidelines provided by ERVIC in mind, the Awards Committee considered both the recommendation list and frequency rate, and voted to approve three award recipients in FY2014:

Alfred C. "Pete" Morley Distinguished Service Award

Recipient: Ms. Margaret E. Franklin, CFA

C. Stewart Sheppard Award

Recipient: Dr. Gregory M. Noronha, CFA

Daniel J. Forrestal III Leadership Award for Professional Ethics and Standards of Investment Practice

Recipient: Mr. David B. Stevens, CFA

Background information on each candidate was provided.

The committee felt that the other four awards had strong candidate recommendations and would keep these names in the database for future reflection.

PRESIDENTS COUNCIL REPRESENTATIVES REPORT

Presenter: Mr. Arthur Thompson, Presidents Council Representative

It was reported that there were several PCR elections in progress. The PCRs who did not have a conflict with the elections had formed the nominations committee, which was responsible for approving the final list of candidates.

There were three nominees for the position of Presidents Council chair:

Mr. Jason Bell, CFA

Mr. Daniel Fasciano, CFA

Mr. Arthur Thompson, CFA

It was recognized that all three individuals were looking to promote partnerships and society efforts on behalf of the organization.

There were also elections underway for the following PCR regions:

Asia Pacific

Canada

EMEA-East

New York

South Central U.S. & Latin & South America

Currently, the PCR's were very focused on three upcoming society regional meetings, which would all emphasize the importance of deepening partnerships. It was also clarified that there would be an hour reserved for a Presidents Council meeting and a separate period for elections in each region. Moreover, the agendas would not be uniform but rather shaped by topics of regional significance.

The PCRs were also continuing their work on governance and transparency matters and now had a repository for their documents on the CFA Institute website to fulfill their need for an institutional memory.

CONSENT / REFERENCE ITEMS

Presenter: Mr. Charles Yang, 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:

Research Foundation/Vice Chair – Appointment

Background: Jeffery V. Bailey, CFA, is current chair of the Research Foundation, and his term ends at the end of FY2014. The Research Foundation typically transitions the vice chair into the chair position following the two-year term of the current chair. However, the current vice chair of the Research Foundation (William Fung) is unable to commit to becoming chair due to numerous outside activities. John T. Grier, CFA, currently chair of the Research Foundation Planning and Marketing Committee and employed as director of Internal Equity at Virginia Retirement System, is willing and able to commit to a future role as chair in FY2015 and FY2016. His ascension to vice chair for the remainder of FY2014 and potentially chair for FY2015 and FY2016 has been recommended by the Research Foundation Nominating Committee and endorsed by the Board of Trustees.

RESOLVED, that Charles J. Yang, CFA, is authorized to vote on the behalf of CFA Institute as the sole Voting Member of the Research Foundation at a special meeting of members;

FURTHER RESOLVED, that Charles J. Yang, CFA, is authorized to vote for the approval of John T. Grier, CFA, to serve in the capacity as Vice Chair for the remainder of fiscal year 2014 ending on 31 August 2014; and

FURTHER RESOLVED, that Charles J. Yang, 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.

Awards Committee/Recipient Slate – Approval

Background: *Alfred C. "Pete" Morley Distinguished Service Award*

Recipient: Ms. Margaret E. Franklin, CFA

C. Stewart Sheppard Award

Recipient: Dr. Gregory M. Noronha, CFA

Daniel J. Forrestal III Leadership Award for Professional Ethics and Standards of Investment Practice

Recipient: Mr. David B. Stevens, CFA

RESOLVED, that Board of Governors accept and approve the award recipient recommendations submitted by the Awards Committee for fiscal year 2014.

Bank Accounts and Line of Credit Authorizations – Approval

New Incoming Cash Receipts and Outgoing Disbursement Bank Accounts at an Alternate Bank

RESOLVED that any one officer listed below is hereby authorized to (i) open the two Accounts and request for any Service(s) which they consider necessary or desirable for the Company for the purpose of its business, and execute documentation related thereto on behalf of the Company, (ii) to authorize the operation of such Accounts by manual and electronic means including the use of the Services and (iii) to delegate authority to such persons as they consider appropriate to operate and act in relation to the Accounts/Services jointly or severally;

FURTHER RESOLVED that any one of the officers listed below is hereby authorized on behalf of the Company to sign and deliver any document necessary or desirable to be executed in connection with such Accounts and Services.

John D. Rogers, President and CEO
Timothy G. McLaughlin, Chief Financial Officer
Guy P. Williams, Head, Finance and Risk Management
Kimball E. Maynard, Treasurer

GIPS Governance Restructure and Revised Executive Committee Constitution – Approval

RESOLVED, that Board of Governors accept and approve the GIPS Governance Restructure and Revised Executive Committee Constitution substantially in the form submitted.

New Private Company in India – Approval

RESOLVED THAT CFA Institute does hereby invest initially, by way of subscription or otherwise, in 10,000 equity shares valued at INR 3,087.50 per share, for a total of INR 30,875,000.00 in the company proposed to be incorporated in India by the name of ‘CFA India Private Limited’ or such other name as may be permitted/allowed by the Registrar of Companies in India.”

RESOLVED FURTHER THAT, no objection is hereby granted for use of the name ‘CFA India Private Limited’, and any trademark/logo associated with ‘CFA India Private Limited’ for incorporation of the proposed company in India by the name of ‘CFA India Private Limited’ or such other name as may be permitted/allowed by the Registrar of Companies in India.

RESOLVED FURTHER THAT John D. Rogers, Timothy G. McLaughlin, and Paul H. Smith, be and are hereby severally authorized to do the following on behalf of CFA Institute in connection with the incorporation of the proposed company in India by the name of ‘CFA India Private Limited’ or such other name as may be permitted/allowed by the Registrar of Companies in India:

- 1. To make application in prescribed form for confirming the name availability of ‘CFA India Private Limited’ or such other name as may be approved by the Registrar of Companies, Ministry of Corporate Affairs, Government of India;**
- 2. To subscribe to 9,999 equity shares of INR 3,087.50 each on behalf of CFA Institute;**
- 3. To sign the Memorandum of Association and the Articles of Association of the proposed Indian company;**

4. To sign various forms both electronically and/or physically to be submitted to the Registrar of Companies in India;
5. To sign and execute the power of attorney/letter of authority if any required for the purpose of authorizing any other person to make necessary corrections, alternations, additions, deletions etc. as may be necessary in the Memorandum of Association, Articles of Association and all other documents ancillary to the incorporation of the aforesaid Indian company and to receive the Indian company's certificate of incorporation;
6. To issue no objection letters on behalf of CFA Institute for authorizing the use of the name 'CFA India Private Limited' or any trademark/logo associated with 'CFA India Private Limited'; and
7. To do all such acts and deeds as may be necessary to give effect to this resolution."

RESOLVED FURTHER THAT a copy of this resolution certified by any one of the three individuals named above and authorised by CFA Institute be produced before such statutory authorities, as may be required, including the Registrar of Companies in India.

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