

Board of Governors Meeting Open Session Minutes

11 November 2015
Conference Call

Board of Governors Present:

Giuseppe Ballocchi, CFA	Frederic Lebel, CFA	Lynn Stout
Heather Brilliant, CFA	Aaron Low, CFA	Zouheir Tamim El Jarkass, CFA
Daniel Gamba, CFA	Colin McLean, FSIP	Michael Trotsky, CFA
Beth Hamilton-Keen, CFA (Meeting Chair)	Sunil Singhania, CFA	Hua Yu, CFA
James Jones, CFA	Paul Smith, CFA	
Attila Koksai, CFA	George Spentzos, CFA, FSIP	

Board of Governors Absent:

Robert Jenkins, FSIP	Mark Lazberger, CFA	Scott Proctor, CFA
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Leadership Team Members Present:

Sheri Littlefield-Moreno	Timothy McLaughlin, CPA, CFA	Paul Smith, CFA
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Others Present:

Stephanie Ennaco	Joseph Lange (Meeting Secretary)	Kim Maynard
Brad Jacobs	Craig Lindqvist	

Materials Provided

Primary Meeting Pack

AUDITED FINANCIAL STATEMENTS

Presenters: Colin McLean, Audit and Risk Committee Chair

Tim McLaughlin, Chief Administrative Officer and Chief Financial Officer

There were two sets of audited financial statements from PwC in the Board meeting materials, one being the full consolidation of the entire organization and all of its entities and one being specifically for the Research Foundation due to their fundraising activities.

In July and October, the Board was presented with the actual year end reports from an operational standpoint whereas today the group was seeing all of CFA Institute's activities for FY2015. These financial statements would be listed publicly in the annual report, and it was also management's intention to make the organization's 990s available online going forward.

It was stated that this year's audit was very rigorous due to several factors. For instance, the organization had become more complex, the Audit and Risk Committee had fully embraced its oversight function, and PwC had appeared to elevate its standards per the industry and its own internal processes. PwC's extensive review had revealed no major issues, internal control points, or disagreements with the auditors. There was one item that PwC found at the same time the organization was going through its own processes – a misstatement of unrealized loss placed on the realized line in the financial statements. It was remarked that this had not affected anything in the organization's overall change to net assets and was really more of a classification issue resulting from staff submitting the draft financial statements well ahead of its review process in order to facilitate the audit. PwC noted this in its report to the Audit and Risk Committee, which had been satisfied with management's explanation. Furthermore, PwC had also agreed with management's reasoning and therefore did not cite it as an issue.

It was noted that there would be future annual reviews on fraud.

PwC had informed the organization that it would conclude its business no later than tomorrow. Mr. Tim McLaughlin, CPA, CFA, and his team were thanked for their production of a timely and accurate financial statement.

The following was approved unanimously:

RESOLVED, that the Board of Governors accept and approve the audited financial statements for fiscal year ending 31 August 2015.

Questions, Comments and Resulting Discussions from the Board

The written recommendation from the Audit and Risk Committee was commended.

It was clarified that the organization's nonprofit status needed to be monitored in relation to other societies, specifically ones that were for profit and tied to CFA Institute through joint ventures. It would be important to track the extent with which the organization moved closer to societies and supported them vs. ensuring they had a certain level of independence (i.e. remain standalone entities).

RULES OF PROCEDURE OF PROFESSIONAL CONDUCT

Presenter: Sheri Littlefield-Moreno, Managing Director and Chief Legal Officer at CFA Institute

Following the Board meeting in Hong Kong, the proposed changes to the rules of procedure were circulated to the membership for comment. There were 34 responses received, with approximately half being neutral or supportive and the remainder expressing some concerns around the change to the definition of covered persons and lapsed members, and to in-person hearing panel availability to non-members or non-charterholders.

For the most part, the comments received had already been considered and evaluated as part of the analysis conducted internally and by outside counsel as well. There was one response, however, that had influenced staff's decision to slightly alter the definition of covered person and lapsed members, specifically to clarify which ones would be pursued by CFA Institute's disciplinary process. It was explained that the rules would pertain only to those who continued to identify as members as opposed to individuals who had completely discontinued any association with CFA Institute. The primary

objective was to protect the organization's reputation and the value of the designation by pursuing lapsed members or charter pendings who were engaging in wrongful conduct under the CFA brand.

With regards to the other comments addressing changes to the in-person hearing panel availability to non-members, no new concerns had been raised, and the Disciplinary Review Committee ultimately voted to approve the rules changes.

Ms. Sheri Littlefield-Moreno, Mr. Andrew Rome, and Ms. Leilani Hall, CFA, were thanked for their efforts.

The following was approved unanimously:

RESOLVED, that the Board of Governors accept and approve the revised Rules of Procedure for Professional Conduct effective as of 1 December 2015 in the form submitted, to be applied retroactively; and

FURTHER RESOLVED, that the amendment to Article 2.9 (Definition of "Covered Person") of the CFA Institute Bylaws effective as of 1 December 2015 is accepted and approved in the form submitted, to be applied retroactively.

Questions, Comments and Resulting Discussions from the Board

It was confirmed that all exam graders were charterholders.

There had been relatively few objections from the Disciplinary Review Committee. The group had held a very thorough discussion, and 28 out of the 30 members had voted in favor of these changes.

The amendments to the rules of procedure would be posted to the public website with a description of the entire process. The Board would be updated on the procedures for notifying candidates of these changes, particularly the ones sitting for the December exam.

It was clarified that candidates had been and would continue to be covered under these rules going forward, the major change being that some candidates might not be able to request an in-person hearing.

INVESTMENT COMMITTEE APPOINTMENTS

Presenter: Beth Hamilton-Keen, Board of Governors Chair

The Board had approved the creation of the Investment Committee at the Hong Kong meeting in October, and was now being asked to vote upon the committee assignments.

The following was approved with Michael Trotsky abstaining:

RESOLVED, that the Board of Governors accept and endorse the appointments of Michael Trotsky (Committee Chair), Jim Jones (Committee Member), and Simon Cawdery (Committee Member) to serve on the Investment Committee (IC) pursuant to the terms outlined in the IC Terms of Reference until their successors are chosen and qualified.

OTHER BUSINESS

Presenter: Beth Hamilton-Keen, Board of Governors Chair

The Board was provided with an update on the organization's recent and upcoming activities. There was a great deal of work being done with regards to public company standards, especially as it related to the annual proxy statement. In addition, the Governance Working Group discussed in Hong Kong had essentially been formed and would be collaborating with the Chief Legal Officer in January 2016 on the committee structures. The goal was to present a recommendation to the Board at the Brussel meeting in March.

An Advocacy Working Group had also been established to draft a history of CFA Institute's various advocacy efforts; to define the organization's mission, purpose, activities, and scope with regards to advocacy; and, to address and present solutions to any organizational issues that might arise with the working group by the March meeting.

It was mentioned that the Executive Committee had been examining the three- vs. four-meeting Board schedule, and would bring the discussion to the full Board for consideration after it completed its initial evaluation.

In the coming weeks, the Board would receive a survey via Boardvantage requesting feedback on a variety of agenda topics. The purpose was to gain input on the governor's prioritization preferences and to potentially solicit additional topics not listed in the survey that should be reviewed by the Board. This information was intended to help the Board plot out the next two years' of meeting agendas.

The Board could also expect to receive a list of action items from the Hong Kong meeting, including any outstanding items or otherwise, in the coming weeks.

Lastly, it was noted that the Brussels meeting would be focused information technology, advocacy, and other topics continued from the Hong Kong discussions. The schedule was quite full, and a more final version would be shared with the Board by mid-December.

During the concluding remarks, the Board was reminded that the January 19th Board call to set the Level I December Minimum Passing Score would be elongated to approximately two hours to cover other pressing matters. The agenda was currently being worked on and would be circulated to the governors as soon as possible.

The Board then went into executive session with and without the CEO.

Meeting adjourned.