CFA Institute

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Board of Governors Meeting
Open Session Minutes

19 January 2016
Video Conference Call

Board of Governors Present:

Giuseppe Ballocchi, CFA
Daniel Gamba, CFA
Beth Hamilton-Keen, CFA (Meeting Chair)
Robert Jenkins, FSIP
James Jones, CFA
Attila Koksal, CFA
Mark Lazberger, CFA
Frederic Lebel, CFA
Aaron Low, CFA
Colin McLean, FSIP
Scott Proctor, CFA
Sunil Singhania, CFA
Paul Smith, CFA
George Spentzos, CFA, FSIP
Lynn Stout
Zouheir Tamim El Jarkass, CFA
Hua Yu, CFA

Board of Governors Absent:

Heather Brilliant, CFA
Michael Trotsky, CFA

PCRs Present:

Lamees Al-Baharna, CFA
James Bailey, CFA
Simon Cawdery, CFA
Dan Fasciano, CFA
Christian Heuer, CFA
Anne-Katrin Scherer, CFA

PCRs Absent

Leah Bennett, CFA
Aaron Brown, CFA
Sharon Craggs, CFA
Steven Gattuso, CFA
Phil Graham, CFA
Ken Yee, CFA

Leadership Team Members Present:

Elaine Cheng
Darin Goodwiler
Stephen Horan, CFA
Tim McLaughlin, CPA, CFA
Sheri Littlefield-Moreno, JD
Paul Smith, CFA

Leadership Team Members Absent:

John Bowman, CFA
Michael Collins
Donna Marshall
Nitin Mehta, CFA
Kurt Schacht, JD, CFA

Others Present:

Stephanie Ennaco
Joseph Lange (Meeting Secretary)
Craig Lindqvist
Christopher Wiese, CFA

Materials Provided:

Board OS Meeting Pack

TUESDAY, 19 JANUARY
9:30 A.M. TO 11:00 A.M.

ANNUAL GENERAL MEETING (AGM) PREPARATIONS

Presenters: Beth Hamilton-Keen, Board of Governors Chair
Sheri Littlefield-Moreno, Managing Director and Chief Legal Officer at CFA Institute
Joe Lange, Director of Board and Corporate Services at CFA Institute

The officer and governor slate for FY2017 was presented to the group. It was disclosed that the Nominating Committee (NC) had endorsed a second three-year term for Robert Jenkins, FSIP; Sunil Singhania, CFA; and, Heather Brilliant, CFA. Furthermore, the NC had added two new members to the slate: Elizabeth Corley and Diane Nordin, CFA. It was noted that their bios would be circulated to the meeting participants after the call. Finally, the NC had recommended Colin McLean, FSIP, as the incoming Vice Chair and Frederic Lebel, CFA, as the incoming Chair. The complete slate of recommendations would be submitted to the membership for election at CFA Institute's Annual Meeting of Members being held in Montreal on 8 May.

The NC had been mindful of the guidance to reduce the size of Board down to 15 members by 2018 and to increase gender diversity to at least 30% women of that 15.

In following the Board's resolution to adhere as much as possible to public company standards going forward, the organization had been working to improve the annual proxy statement to be in line with those standards. A consultant, Argyle Company, had been retained to assist with that process and a great deal of work had already been completed to enhance the content. The proxy statement now contained, for instance, more information on the governors, compliance, risk, ESG, and overall compensation with respect to the entire leadership team vs. just the top five. It was stated that this initiative had been going very well, and many of the gaps identified by outside consultants had been addressed at this time. A draft proxy statement had been included in the meeting pack for the Board's reference, and it was stated that further improvements would be made in FY2017.

More information on the governors would include attendance (both in person and by phone), skill sets, and other elements that would be presented in a more visually appealing format.

An overview of the timing and process for the proxy statement was then provided. The Annual Meeting of Members was proposed to take place on Sunday, 8 May 2016 at CFA Institute's Annual Conference in Montreal, Canada. The close of business on 1 March 2016 was proposed as the "Record Date" for determining members eligible to receive the 2016 proxy materials, including the notice of meeting, proxy statement, and proxy for the purpose of voting at the Annual Meeting of Members. In addition, 10 March 2016 was proposed as the "Mail Date" for sending proxy materials to the regular members, and 12:00 p.m. EDT on 6 May 2016 as the "Deadline Date" for tabulating proxies received by Internet, facsimile, or mail.

Rather than relying on hard copies this year, it was highlighted that the proxy statement would primarily be sent out electronically. If an email address bounced back, the proxy materials would then be mailed to that individual. There was some concern over the vote rate as the approval percentage had hovered around 19% to 20% in the last several years. A minimum of 10% was required. The organization planned to address this issue by increasing messaging on all platforms (i.e. social media and member communications) and building out the proxy page on the public website, which would include a video of the Board Chair. Feedback from the governors was welcomed.

It was stated that the Executive Committee would ultimately review and approve the final proxy statement.

The following resolutions were unanimously approved:

Nomination Slate

RESOLVED, that the Board of Governors accepts and approves for submission to the membership for election the officer and governor slate for fiscal year 2017.

Annual General Meeting

RESOLVED, that the CFA Institute Annual Meeting of Members shall be held on Sunday, 8 May 2016 at the CFA Institute Annual Conference in Montreal, Canada;

FURTHER RESOLVED, that the close of business on 1 March 2016 shall be the "Record Date" for determining members eligible to receive the 2016 proxy materials, including the Notice of Meeting, Proxy Statement, and Proxy for the purpose of voting at the Annual Meeting of Members;

FURTHER RESOLVED, that 12:00 p.m. (EDT - 16:00:00 UTC/GMT), 6 May 2016 shall be the "Deadline Date" for tabulating proxies received by Internet, Facsimile, or mail; and

FURTHER RESOLVED, that the CFA Institute Secretary is directed and authorized to send the proxy materials to the Regular Members of CFA Institute on or about the "Mail Date" of 10 March 2016 and to take such action as necessary to implement the resolve of the Board.

Questions, Comments, and Resulting Discussions from the Board:

It was observed that the AGM was ill-defined within the Annual Conference agenda, making its purpose unclear and leaving attendees unsure if they were invited to participate or not. Staff clarified that the proxy statement would have better verbiage going forward in order to achieve a better turnout both in person and electronically. It was noted that AGM attendance had been fairly static over the years, and the organization would be working to push out more information to capture more interest in the event.

CEO REPORT

Presenter: Paul Smith, President and CEO at CFA Institute

The organization was pleased to report that it had recently filled one of the four open Managing Director positions. Michael Collins had joined CFA Institute last week as the Managing Director of Services Delivery. Furthermore, the organization was very close to making an offer on the Managing Director roles for Relationship Management and APAC. The objective was to fill these positions by the next Board meeting in Brussels.

With regards to society partnership, the technology rollout centered on Member Nation had been progressing fairly well. It had been somewhat challenging and time-consuming executing the initiative with the XL societies, and the organization had continued to address their one-off requests as efficiently as possible. At present, no society had fully implemented Member Nation, but staff expected the functionality to be in use within the next month or so. A more in-depth update would be provided in Brussels.

The response from the societies on the increased funding had been great. The organization was now working to improve the quality of the ask CFA Institute would be making of societies, particularly around outreach activities and member value. With the Society Leadership Conference approaching, the organization was eager to engage with the societies and provide recommendations on how to use the additional funds that had been provided.

The core digital transformation had also been going very well and everything was on track. An update on the Mandiant work on cyber security would be presented later on in the discussion.

The financials had continued to show strong results, with revenue coming in at roughly $1M over budget and expenses coming in at roughly $5M under budget. At the moment, the organization had a positive operating margin of $6M over budgeted expectations.

It was reported that New Level I candidates numbers were currently 11% over budget, and that returning candidates for Level II and III were slightly under budget. Staff believed that the later deadlines offered in February and March would recapture this 2% loss. Moreover, Claritas numbers had been a little bit ahead in terms of exam administrations, but behind in terms of new registrations, causing some concerns for the organization.

Lastly, the first $8M spend on the Brand Campaign had been postponed due to various copyright issues and other factors, and the new campaign would be released around the last week of February or the first week of March. Though the organization had been disappointed with the delay, it recognized the importance of implementing a powerful approach and was now very pleased with the creatives promoting CFA Institute. Management had signed off on the initial spend the week prior, and everything was moving forward once again. The campaign would run for approximately six weeks. Initially, the organization had planned to pause after this six-week period to assess the impact of the campaign before asking ERVIC to approve the second $8M. However, due to the delay, the leadership team was revisiting this timeline with the ERVIC Chair to see if there were any options to accelerate the spend of the second $8M in FY2016. By continuing with the current schedule, the second $8M would be implemented in July or late September, neither of which was advisable.

Questions, Comments, and Resulting Discussions from the Board:
At the upcoming Board meeting in Brussels, the governors would be asked whether or not they wanted to assess the first $8M spend for the Brand Campaign. If an assessment was preferred, then the second half of the campaign would not take place until the fall. Alternatively, if assessment was not required, then the second half of the campaign would move forward without any impact data.

Admittedly, the organization had not been inspired by the original creatives produced for the Brand Campaign in collaboration with the outside firm. While the CEO was not planning to replace the agency, he would be speaking with its managing director next week in New York to provide feedback and express some areas of dissatisfaction on the effort thus far.

<u>INFORMATION SECURITY PROGRAM SPEND REQUEST</u>
Presenters: Colin McLean, Audit and Risk Committee Chair
Elaine Cheng, Managing Director and Chief Information Officer at CFA Institute

The Audit and Risk Committee (ARC) had been looking at the organization's information security position with expertise and input from Scott Proctor, CFA; Elaine Cheng, and an outside independent consultant, Mandiant.

After reviewing CFA Institute's program, Mandiant had made several suggestions for increasing information security measures that were more in line with those of a financial services company. The organization was endeavoring to provide a higher level of security for members and candidates, and to create a program that was defendable in terms of best practices. While these changes would enhance CFA Institute's capabilities, it was recognized that no amount of protection was 100% guaranteed.

The information security program would take approximately two years to implement. Both the one-time costs would be higher as well as the run once the initiative was complete. The organization believed it could absorb some of these expenses, such as the full time equivalence and staffing costs, through some of the changes being introduced through the digital core transformation. However, other costs would require incremental and unplanned funding. As a result, staff was requesting an additional $750,000 to spend in FY2016 for the information security program. It was stated that future expenses for FY2017 and beyond would go through the standard budgeting process.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accept and approve incremental funding in fiscal year 2016 for the Information Security program in the amount of $750,000.

<u>Questions, Comments, and Resulting Discussions from the Board:</u>
Staff was commended for enhancing the organization's information security measures. At the same time, the Board emphasized the importance of finding the right balance between security and organizational agility. Having too stringent an approach could lead to significant constraints on staff creativity and development. The Board was assured that management had been very mindful in this regard. Mandiant, for instance, had made two recommendations that seemed very constraining, and staff had asked ARC for more time to review these ideas and revert back with alternative suggestions.

It was felt that the Mandiant report and management's thoughtful, forward-looking approach were keeping the balance between security and agility top of mind. Furthermore, the organizations' proactive efforts were commendable and also helpful to ensuring that key balance.

The spend per employee in the IT department at CFA Institute was higher than that of many other organizations. This could be explained by the fact that CFA Institute had a smaller professional workforce, which was being compared against the financial and educational sectors. However, the costs were not out of range when looking at the benchmarks as they related to these two industries.

The group was reminded that the additional funding could be covered by the surplus generated in FY2016 thus far. The organization would not be operating at a loss as a result of this request.

Staff had been working closely with Darin Goodwiler to properly assess the risks associated with Mandiant's recommendations.

STRATEGIC PLAN UPDATE

Presenters: Paul Smith, President and CEO at CFA Institute
Craig Lindqvist, Head of Business Planning and Reporting at CFA Institute

The Planning Committee (PC) had a very brief opportunity to review the strategic plan and had not been able to discuss it in great detail thus far. The PC offered some initial feedback for staff to synthesize and build into the next version of the document. At this stage, the organization wanted to introduce the three-year plan to the governors and familiarize them with how management had been proceeding and filling in some of the gaps.

In the coming weeks, the Board was asked to provide input on the following questions:

1. Had management defined the core of the investment management profession appropriately?
2. Did management have the right objectives defined?
3. Were the proposed strategies aligned with CFA Institute's goals and objectives?

Furthermore, staff would be holding a session with the presidents of the XL societies in London on February 1st to obtain their feedback on the plan as well.

The Board was reminded to think of the three-year plan as a guideline of what the organization wanted to accomplish rather than a firm commitment. The strategy would be updated and improved on a rolling basis, revisited and recalibrated as needed every year without losing sight of the overarching goals and objectives.

Looking ahead, management would seek a formal endorsement of the strategic plan in Brussels. It was highlighted that the proposal would still contain several gaps to be addressed at a future date. Explanations for these missing items would be provided to the Board for reference.

After the meeting in Brussels, the PC would convene in May to reexamine the strategy. The three-year plan would then go through the budgeting process and be completed in July, and ultimately be presented to the Board at the last meeting of the fiscal year.

Questions, Comments, and Resulting Discussions from the Board:

The PC members had regarded the three-year plan as an excellent framework and thoughtful document, particularly the two summary pages. Furthermore, there had been nothing in the proposal that was inconsistent with the strategic review conducted by the Board in FY2015. The committee had relayed several initial reactions and suggestions for further elaboration, and recognized that several gaps were attributable to the fact that a few key positions in the organization had yet to be filled. It was also mentioned that the subject of advocacy, another gap, was currently being discussed by the Advocacy Working Group.

The financial figures that eventually flowed from the three-year plan would be a separate exercise, part of the annual budgeting process.

There was agreement that the three-year plan had reflected the strategic review process and everything that had been discussed with the Board and leadership team. However, management recognized that it was not a particularly exciting three-year plan with regards to new initiatives and was open to refreshing the document every year as needed per the Board's guidance. It was also suggested that there be a more iterative process in terms of the Board encouraging management to be more imaginative, if that was indeed the preferred approach going forward.

The governors acknowledged that the theme over the past year or so had been one of focus rather than taking on new initiatives. As compared to the strategic plan provided four or five years ago, this version had more structure as well as more definable goals and objectives. There was a comment that the plan was moving in the right direction and that brand new projects should not be the emphasized at this time. It was recommended that the organization establish a more focused and efficient baseline before pursuing other opportunities.

It was clarified that the subject of university relations was missing from the strategic plan. The topic would be placed on hold for future discussion until the organization had hired for that specific position so as not to constrain the incoming individual's scope of work before joining CFA Institute.

The Board was asked to absorb the information provided and to submit input for inclusion in the materials for Brussels.

CFA PROGRAM PRICING PRINCIPLES

Presenters: Steve Horan, Managing Director of Credentialing at CFA Institute
Chris Wiese, Interim Head of the CFA Program at CFA Institute

Given the significance of the CFA Program to organizational revenue, staff members were requesting input from the Board on their approach to developing a pricing strategy. The purpose was to solicit some initial thoughts on the subject before entering deeper discussions at the Brussels meeting. Management was especially interested in knowing what the Board would like to vote on, if anything, at the March meeting (i.e. principles, strategy, structure, or specific price).

The principles sought to balance a strategy of making money with making a difference. Though relatively straightforward, the implications were extensive and would inform decisions related to enrollment fees, pricing by level, regional price, retake pricing, bulk pricing, and so forth. A high level summary was included in the materials for the Board's review.

As part of the introductory remarks, it was also announced that Lisa Plaxco, CFA, would join CFA Institute as the new Head of the CFA Program next Friday, and would continue the work on the pricing principles going forward.

Questions, Comments, and Resulting Discussions from the Board:

The Board wanted to ensure that the pricing principles were fair and consistent across the globe. The governors were interested in setting the pricing principles, but not inclined to review the subject in great detail on a regular basis. Management would be expected to provide recurring updates to the governors and to ask them to revisit the principles should changes be required.

The Board wanted the organization to be clear on its objectives for pricing the CFA Program. Management was subsequently asked to present the principles, explain how they related to the three-year strategic plan, and prioritize them in terms of importance with the CFA Institute mission and strategy in mind at the Board meeting in Brussels. Provided this information, the governors would then be able to react to and comment on the most critical pieces with respect to pricing, and reprioritize management's list if necessary.

It was clarified that management was trying to move away from price increases based on inflation alone. The ultimate goal was to establish a CFA Program pricing philosophy that supported the mission and the objectives outlined in the three-year plan. From the broader perspective, the organization was concerned with maximizing its contribution to society.

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

There had been a fair amount of activity on the corporate governance initiatives since the Hong Kong meeting in October. The improvements to the Annual Report and the FY2015 proxy statement were just a couple examples of the work being conducted in FY2016 to move the organization closer to public company standards.

It was reported that the Governance Working Group (GWG) had recently met in San Francisco to further the discussions that had taken place at the Board Retreat in New York and the PCR debriefing in Hong Kong. The meeting had been productive, and the GWG was now in the process of preparing a proposal, which would include recommendations on the committee restructuring among other remaining governance topics (i.e. Board Chair terms, Board member terms, and compensated vs. volunteer Board) to present to the governors in Brussels. It was remarked that the two most significant topics to be discussed would be Say on Pay and Standard Operating Procedure (SOP) Management.

With regards to the overarching review of U.S. public company standards vs. U.S. not for profits, the organization had enlisted the support of Ernst and Young (E&Y). The work had been progressing well, and E&Y's initial findings had suggested that CFA Institute was doing quite well in terms of its maturity as compared to leading U.S. not for profits as well as other U.S. public companies of like size.

Based on the E&Y reports, staff had been working on its recommendation list to the Board, specifically which items to move forward on. It was remarked that there had been general agreement from the leadership team on these developing governance recommendations.

The Board was notified that staff had been asked to track the expenses associated with the conversion to public company standards to ensure that the organization could provide a detailed explanation of the effort as needed.

BOARD CHAIR
Presenter: Beth Hamilton-Keen, Board of Governors Chair

It was stated that the Governance Working Group and Advocacy Working Group were continuing their work through the month of February in preparation for the March Board meeting.

It was highlighted that the Board calendar, which projected dates through July 2018, had been included in the materials. The main priority would be to confirm the meeting dates with the Board as soon as possible. The future format would incorporate three meetings a year in addition to one Board retreat.

The Brussels agenda was mostly firmed up and very full of activities for the meeting participants. The group was reminded that a content survey had been circulated to the governors in order to identify future Board agenda topics. The feedback would be integrated into the Board calendar going forward to show when various topics would be addressed throughout the two-year period.

Lastly, the governors were asked to inform Stephanie Ennaco of their plans to attend any of the society regional meetings in FY2016.

Questions, Comments, and Resulting Discussions from the Board:
The PCRs had held a call last week and were joined by several staff members. It was reported that Joe Clift was keeping the PCRs well-informed of the Brand Campaign and also participating on many regional calls, which was much appreciated. The PCRs had also been focused on membership trends and the regional meeting agendas. As always, Board attendance was welcome and encouraged at these events.

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

Meeting adjourned.