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Board of Governors Meeting
Open Session Minutes

7-9 March 2016
Brussels

Board of Governors Present:

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

Board of Governors Absent:

Mark Lazberger, CFA

Presidents Council Representatives Present:

Lamees Al-Baharna, CFA	Simon Cawdery, CFA	Philip Graham, CFA ☏
James Bailey, CFA	Sharon Craggs, CFA	Christian Heuer, CFA
Leah Bennett, CFA	Daniel Fasciano, CFA	Anne-Katrin Scherer, CFA
Aaron Brown, CFA	Steven Gattuso, CFA	Ken Yee, CFA

Leadership Team Members Present:

John Bowman, CFA	Stephen Horan, CFA	Sandy Peters, CPA, CFA
Elaine Cheng	Sheri Littlefield-Moreno	Kurt Schacht, CFA
Michael Collins	Donna Marshall	Paul Smith, CFA
Darin Goodwiler	Nitin Mehta, CFA	

Others Present:

Joe Clift	Rahul Keshap	Craig Lindqvist
Nancy Dudley	Dave Larrabee ☏	Lisa Plaxco, CFA
Stephanie Ennaco	Joseph Lange (Meeting Secretary)	Guy Williams ☏
Rob Gowen ☏		

Materials Provided:

Primary Meeting Pack	Reference Meeting Pack

MONDAY, 7 MARCH
13:30 TO 17:30

INTRODUCTION AND WELCOME
Presenter: Beth Hamilton-Keen, Board of Governors Chair

Everyone was welcomed to the Board meeting in Brussels. It was announced that starting with this meeting, the governors would be asked to disclose any conflicts of interest pertaining to the agenda. There were no disclosures noted in advance of the Brussels discussions. If a conflict did arise, governors were encouraged to raise the issue with the Board Chair.

The governors were reminded that their overall goal was to debate the most important issues for the organization over the next few days.

CEO REPORT
Presenter: Paul Smith, President and CEO at CFA Institute

The CEO highlighted the major items in the report.

In terms of the organizational realignment, it was stated that Michael Collins had joined the organization as the Managing Director of Services Delivery, with responsibility for leading the Marketing and Communications, Multimedia Production, and Contact Center functions. Recently, he had executed a plan to restructure the marketing team. The services delivery function was meant to improve service for internal and external clients. A portion of the team had also been combined with the Change Management team that reported to the Chief Information Officer.

It was also stated that Tim McLaughlin had resigned as the Chief Financial Officer. On an interim basis, a portion of the CFO responsibilities had moved to the CEO and Managing Director of Human Resources. The main CFO functions were now reporting into Sandra Peters, who had an extensive background in running global financial services. It was mentioned that Ms. Peters was still assuming her role in the Standards and Advocacy division as well.

The organization would be focusing on filling the CFO position in addition to the remaining vacancies, which included Managing Directors for APAC, EMEA, and Relationship Management.

In terms of extending society partnership, it was highlighted that the society funding project in Germany had been particularly exciting. The German society was key to continental Europe, and the organization was working to add more administrative staff, improve office space, and generally increase its ability to influence the region. While additional funding had been welcomed by the societies, it was recognized that the organization needed to provide further guidance on how best to deploy these dollars.

In terms of developing brand awareness, it was stated that CFA Institute's Brand Campaign had launched on February 29^{th}. The campaign tracker had been completed prior to the launch, and a report was expected in the next couple of months. At the July meeting, the Board would hear feedback on the status of the campaign. Looking ahead, there would be a focus on increasing country coverage and enhancing society involvement.

The Brand Campaign would be a multi-year effort, and the messaging would likely change over time. At the start, it would be important to establish one thematic brand that connected the organization's portfolio of products and reduced misinterpretations in the market place. In about five years' time, the goal was to have people think of CFA Institute and all of its offerings rather than only identifying with the Charter.

In terms of modernizing the organization's technology infrastructure, it was mentioned that the Digital Core Transformation (DCT) had been making steady progress. Over the next few months, the redesign of CIPM registration and candidate experience would be the first functional epic to launch from the DCT. The second milestone would be underway soon after, and the Board would receive a progress update at the July meeting.

In other work, it was announced that Roger Urwin had formally joined the Future of Finance (FoF) initiative. Mr. Urwin had been contracted to work for CFA Institute one day a week, and would be supported by Rebecca Fender, CFA. Under the Standards and Advocacy function, Mr. Urwin would enhance thought leadership efforts to create more public awareness and energy around the FoF. The governors were asked to define the level of interaction they expected to have with Mr. Urwin and the FoF going forward.

Lastly, the Staff Engagement Survey, which would contain similar questions to those posed in 2014, would be distributed once again in April 2016. Given that 2015 had been a tremendously challenging year for staff, management was prepared to receive a downturn in responses. It was suggested that employees were experiencing change fatigue and possibly confusion about how their roles fit into the new structure and strategy. The CEO was planning to address the issues from the 2016 survey, and to better explain the organization's culture (i.e. more transparent, more curious and less risk averse). Moreover, an Employee Engagement Council would be formed to develop and implement employee-focused strategic initiatives.

Questions, Comments and Resulting Discussions from the Board:
With regards to the society partnership work, the CEO was enthused about the German society project. While it was a higher risk initiative, it also had the opportunity to raise CFA Institute's profile in the German regulator environment and throughout the European Union. Furthermore, it was hoped that the Brand Campaign would amplify the organization's voice at the local level, especially as societies were encouraged to use the enhanced funding for radio, advertising, and other media in their respective regions. CFA Institute would further reinforce societies engaging in these efforts with additional funding in 2017.

The CEO was asked to elaborate on the perception of change fatigue among staff. It was clarified that the recent CEO and Leadership Team transitions had impacted the daily life of CFA Institute's employees. There were new reporting lines and expectations for many people due to the organizational realignment around the three strategic functions. From the broadest perspective, CFA Institute was to be considered a member organization with a credential rather than a credentialing organization with members. This represented a significant move for staff, who were currently being retrained in this mindset. Furthermore, the shift to regional empowerment had created some stress, because the reason behind it was not fully understood. While the changes had not impacted CFA Institute's core offerings, it had still been difficult to address them in a positive context with staff.

It was clarified that the Employee Engagement Council would not be asked to address strategy or policy issues. The group would be able to make recommendations to the Leadership Team, who would then be responsible for taking a final position on these proposals.

The organization had moved toward a model where staff were regularly engaging with society leaders and delivering through the societies rather than through the center. Employees were meant to support members through the societies, which was expected to be quite dramatic in terms of impact. Every society president, for example, had been invited to read and provide feedback on the Three-Year Plan. The objective was for the organization and the societies to share a mission and dynamic relationship.

The Board requested that Mr. Urwin provide an update on the FoF to the Board at the July or October meeting, and on a regular basis going forward. The governors wanted the FoF to gain momentum and to better understand the effort and how it fits into the advocacy work.

FINANCIAL REPORT

Presenters: Sandra Peters, Chief Financial Officer at CFA Institute
Craig Lindqvist, Global Head of Planning and Reporting at CFA Institute

At the highest level, the organization was enjoying a very positive financial position as of 31 January 2016, with strong revenue growth from the CFA Program. YTD revenue had totaled $209.7 million, which was on budget for the current fiscal year, and YTD expenses for the same period had totaled $100.6 million, which was 5% below the current fiscal year budget. It was explained that expenses were behind mainly due to timing issues. In addition, the financial reserves were at a balance of $276.1 million, representing a decrease of about $4.7 million since the close of FY2015. Overall, management expected revenue to exceed budget estimates for the year and expenses to remain on target.

Looking at the CFA Program volumes, registrations for the December 2015 exam had finished 11% higher than last year and 3% over budget. More specifically, New Level I registrations had been 14% higher than last year and 5% over budget. As of 31 January 2016, New Level I registrations for the June 2016 exam were 24% higher and total registrations were 11% higher than last year. It was emphasized that CFA Institute was experiencing record growth for New Level I and total exam registrations.

The candidate growth had been quite broad on a country-by-country basis, but there had also been some declining figures in Korea, South Africa, and Brazil among other countries. With two out of five candidates carrying a Chinese passport, it was noted that candidate growth from China had exceeded that of the US for the very first time. There was a potential concentration and business risk associated with this change, especially if China decided to modify its regulations at some point. Furthermore, it was highlighted that the Level II and Level III figures were below budget. Overall, management would look to better understand the current registration and candidate trends, and to hone in on any areas of risk, such as the strengthening of the US dollar against most other big markets.

Looking at the CIPM Program volumes, total registrations for FY2016 had closed 8% below budget and almost 8% below last year's figures. New Principles registrations had finished 29% below budget and 20% below last year's figures.

Looking at the Claritas Investment Certificate volumes, registrations YTD were tracking 20% below budget and 7% lower than the prior year. Claritas administrations through 31 January 2016 had exceeded last year by nearly 16%, but were below the YTD budget by 6%.

Lastly, the organization's current headcount included 586 staff and 60 open positions, which was nine positions higher than the Board approved for FY2016. Management would endeavor to control these numbers and remain within the limits passed by the Board.

Questions, Comments and Resulting Discussions from the Board:
There was a detailed process by which the organization could estimate who would pass vs. not pass the exam and who would come back and take the exam vs. decide not to continue. These figures could also be broken out by country. Over time, it seemed that candidate retention had been slowly dropping, even for individuals who had passed the Level I exam. The organization was assessing this issue, especially to see whether or not this trend was applicable to the core candidate base, which would be much more of a concern. It was noted that regional impacts based on the cost of the exam and market performance were common, and that the organization had reduced its marketing efforts toward prospective candidates in FY2016.

Of the 2/5 candidates holding Chinese passports, it was clarified that 2/3 resided in China and 1/3 did not. Demographic and other information about the candidates was gathered through a survey, which was taken some time after the registration process. More detail on the Chinese candidates was requested. The survey should help the organization understand where the candidate population was coming from, why they were growing so fast, what they wanted to do after the exams, and where they wanted to do it. It was stated that these questions were key to member value and helping CFA Institute determine where to invest its resources in the future.

There was an incentive pricing structure that benefited people registering early for the exam. Since the change, the organization had experienced a 5-6% shift toward the first deadline, but it was difficult to tell if this was a result of the pricing or industry conditions.

The Board requested to see a ranking of universities and how many charterholders came from each. The purpose was to verify whether or not a university partner could generate more candidates for CFA Institute.

It was stated that there was a local equivalent to the CFA Program in China, which could pose a risk for the organization. CFA Institute had to highlight the fact that its exam was global and to increase awareness of the designation among domestic employers.

THREE-YEAR STRATEGIC PLAN
Presenter: Paul Smith, President and CEO at CFA Institute
Craig Lindqvist, Global Head of Planning and Reporting at CFA Institute

The proposed Three-Year Plan, which was included in the meeting materials, represented the culmination of work between the Planning Committee and staff. The purpose of the plan was to guide the organization in its execution of the mission by defining specific goals and objectives to achieve along with the proposed approaches or strategies of doing so. The strategy was based on an assessment of current and expected industry conditions and organizational capabilities.

The Board was reminded that the plan should be considered at a very high level as it would evolve periodically. While management sought the Board's endorsement and approval of the strategic plan, actual approval to spend resources would be incorporated in the annual budget request, which would be presented to the Board every year in July. Furthermore, there were some gaps in the plan that would be reviewed and updated on a rolling basis.

The Three-Year plan was management's interpretation of the Board's vision for the organization. If the governors wanted to see more items included, they were asked to inform the staff, who were very aware that the plan was a work in progress. The approved strategy would be posted to the society portal and made available to all societies, members, and staff.

The plan was an affirmation of CFA Institute's mission, vision, and values, and had incorporated the work of the FY2015 strategic review. The goals and objectives section had endeavored to describe what success would look like for the organization, and had included feedback from the Board per the January conference call. Management's approach to these objectives had also been provided, and the governors were asked to confirm whether or not it had been articulated correctly. Lastly, more information on the strategic risk profile had also been provided.

It was noted that the target metric for brand awareness was still open as management was still analyzing which options made the most sense for the organization.

Questions, Comments and Resulting Discussions from the Board:
The organization had identified regions with good growth potential that were significant from a business perspective. Although there was only one Brand Campaign, it could be modulated for all audiences, and it would be rolled out to a core set of countries first.

In terms of member value, the organization should focus on activation rates.

Management agreed that University Relations was more than a distribution channel, and the organization was eager to use universities more effectively in terms of advertising CFA Institute's products and attracting students to the industry. It was clarified that success would not be based on registration metrics as this did not achieve the organization's objectives. The priority was inspiring students to enter the investment profession and ensuring they received the right message.

It was problematic that the partnership program was being run by CFA Institute instead of the societies. Engagement took place through the society conduit, and currently many societies did not see the university piece as relevant to their efforts.

Management emphasized that the organization was taking a very careful approach to its future strategy in Latin America. It seemed inevitable that CFA Institute would have a physical presence in the region eventually, especially with CFA Society Brazil nearing the 1,000 member mark.

There was a clear value proposition for the Americas region, but more resources would be needed over time to build upon the work of the Brand Campaign. The organization would need to have clear talking points with its high net worth clients to ensure the message resonated well.

In terms of the public company standards work, while there would be some ongoing costs going forward, many of the changes could be completed in one step. It was believed that the project would improve the organization's level of professionalism and management practices overall. The effort had absorbed an enormous amount of internal time, but the actual implementation period would not.

It was reported that the Three-Year Plan had received direct feedback from 1/3 of all societies that represented 2/3 of all members. The immediate response had been positive, and the societies were pleased that CFA Institute had shared it with them. Approximately 90% had been in support of the document and agreed with the organization's goals, objectives, and direction. Several comments pertained to combining priorities, testing the link between the proposed goals and objectives, requesting ways to further involve the societies operationally and functionally, and changing the member dues model.

The strategic plan would inform the budget process through July 2016.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the CFA 2017-2019 Strategic Plan substantially in the form submitted.

ADVOCACY WORKING GROUP REPORT

Presenters: Aaron Low, Board of Governors Immediate Past Chair
Fred Lebel, Board of Governors Vice Chair
Kurt Schacht, Managing Director of Standards and Advocacy at CFA Institute

The Advocacy Working Group (AWG) had been created to review CFA Institute's advocacy efforts throughout its various entities. The group had organized its discussions across several chapters: first, to understand past work and successes; second, to assess the current status, resources, objectives, and priorities and achievements; and, third, to provide recommendations to increase the impact of advocacy as well as member value.

The AWG had held two video conference calls and two in person meetings, one in London and one in New York, prior to the Board meeting in Brussels. Based on their conversations, the members had come to a consensus on a set of intermediate conclusions.

With regards to the first chapter, the AWG had agreed that advocacy had been part of the organization's DNA, often amended and revamped over the past decade, and contributed to the mission and reputation of CFA Institute and its members.

With regards to the second chapter, the AWG had agreed that member awareness of advocacy content and past successes had been low, that advocacy content had been perceived to be somewhat specialized and difficult to assess, and that advocacy's objectives, priorities, and metrics could be refined and clarified.

With regards to the third chapter, the AWG had agreed that the Board and societies should be more actively engaged in advocacy to drive member value, that the organization should focus on fewer and stronger campaigns linked to ethics and the profession, and that the advocacy function should adapt its content delivery with improved editing and packaging to various audiences.

In the Member Satisfaction Survey, the AWG had honed in on two key metrics: advancing ethics and standards in the industry and shaping a more trustworthy financial industry. The AWG believed that the organization should not be afraid to take a stance, enter the trust debate, or to promote its successes. At present, the advocacy plan was unclear and difficult for members to grasp.

It would be important to have a crisp definition of advocacy to attract a wider audience. The AWG had suggested that advocacy was meant to foster the health and future success of the investment management profession by conducting research and advocating for policy that benefited members, investors, and society at large.

Advocacy was essential for advancing the mission and improving the practice of investment management, the CFA Institute brand, and member value. It was explained that the organization's advocacy efforts focused on improved investor protection, enhanced market integrity, transparency, and fairness, and best-quality ethical practices for industry practitioners.

The Board had approved the policies and procedures of the advocacy function three different times in the past. Looking at the current structure of Standards and Advocacy (S&A), there were six major areas of focus: 1) professional standards (35%), financial reporting (15%), capital markets (25%), Research Foundation (5%), Future of Finance (5%), and society advocacy engagement (15%). In terms of regional allocation, there were 18 staff in Charlottesville, 9 in New York, 4 in Brussels, 5 in London, and 6 in Hong Kong dedicated to S&A.

An overview of the S&A selection process was provided. Ideas could come from a variety of sources, such as members, staff, society leaders, volunteer committees, industry practitioners, media reports, regulatory contacts, and the Advisory Council. While there were approximately 30-40 ideas at the beginning of the process, these were eventually narrowed down to the top 4-5 ideas in a very comprehensive way. These ideas were then vetted several times over before reaching the point of approval.

With regards to execution, it was emphasized that advocacy was driven by member value through surveys, calls for ideas, volunteer committees, alliance support, society support, advocacy training, tool kits, satisfaction surveys, and Putting Investors First.

The Future of Finance had two major components, thought leadership and global campaigns. The former element was defined by globally relevant content that was created or commissioned by CFA Institute and could be localized and translated by the societies (i.e. Statement of Investor Rights). The latter element was defined by collective society efforts to have local activities on a common theme that amplified the organization's voice (i.e. Putting Investors First Month).

Going forward, the Board would receive a list of advocacy "Hot Topics" to outline CFA Institute's current areas of focus. At present, these included single fiduciary duty regulation, equity market structure regulation, the Edelman study, Putting Investors First Month campaign, Women in Investment Management initiative and research (with the Research Foundation), codes and standards (i.e. GIPS and AMC), ethics education, technology and financial reporting, and IASB and FASB standard setting consults.

S&A would have four primary success metrics: member satisfaction, awareness, recognition, and impact. It was highlighted that member satisfaction had been identified by the AWG as the most important measurement. Moreover, the AWG had identified four challenges for CFA Institute to address in order to be more successful.

The first challenge was to continue the refinement of the strategic objectives of advocacy. The group had agreed that adding governors to the Advisory Council, holding regular S&A presentations at each Board meeting, creating a "Current Topics" list, and enhancing Board input on the FoF projects would help move the organization in the right direction.

The second challenge pertained to delivering member value. The AWG believed that deploying a new digital content strategy, communicating with members at the Society Leadership Conferences, society promotion, describing the organization's advocacy work in the annual dues statement, and increasing member support and engagement would lead to substantive improvements.

The third challenge was enhancing advocacy awareness. The AWG had developed several solutions, such as implementing a dedicated product manager, creating targeted member email lists, establishing a digest of relevant and recent advocacy work and positions, and maintaining a dashboard of advocacy metrics and progress among other suggestions.

The fourth challenge was to develop a model for global policy engagement. The AWG had proposed a multi-faceted approach to society advocacy that placed an emphasis on guidance in the early stages of advocacy development and on monitoring quality control. Should the organization move toward a structure more reliant on the societies, it would need to ensure the quality of the work, the ability to conduct thought leadership, and reduce the possibility of brand confusion as well as conflicting messages and agendas. Tracking and accountability would therefore need to improve, which would likely result in an increased need for staff. In addition, the AWG had believed that advanced-level society advocacy training should be offered to members to teach them the particular skills required for policy engagement work in their local markets.

Lastly, it was noted that an in-depth advocacy briefing book would be circulated to the Board at a later date. The proposed resolution was withdrawn and the Board agreed to return to the topic at the July meeting.

Questions, Comments and Resulting Discussions from the Board:
It was stated that there were two basic strategies to think tank and policy work. The first one involved addressing the issue of the day in order to put the organization's name in the paper ("bandwagon approach"). The second one involved a focus on implementing the right policies, producing quality work, and having industry recommendations with good results. While more expensive and challenging, the second option was better for CFA Institute, and management was cautioned against using metrics

oriented towards getting the organization's name in the paper. The goal should be to have a qualitative impact that related to members' interests.

The AWG had agreed that the primary objective should be addressing the right issues. There were two key metrics that were highlighted from the Member Satisfaction Survey: advancing ethics and standards in the industry, and shaping a more trustworthy financial industry. Based on the results of the last survey, these two level were at 55%, and the AWG believed the goal of the S&A function should be to elevate those metrics. Furthermore, the AWG had discussed the need for Board engagement prior to committing resources or making public statements, specifically when it came to these two metrics.

Advocacy was the active promotion of CFA Institute's views and values for the benefit of the regulatory and public/membership audiences. The former required patience, research, solid facts, credibility, and a proactive and reactive approach. By contrast, the latter required a more visible and verbal stance. While both pieces were important, many felt that the latter was largely missing from the advocacy effort. Members wanted to relive the widely successful example of Putting Investors First, and it was questionable if 5% of dedicated advocacy resources to the FoF was sufficient. The Board wanted to see a balance between the publicly perceived vs. quieter successes in the advocacy space.

There was agreement that packaging a solution to the industry was key, and the Board would continue to be solicited for feedback on the subject of advocacy.

IT EDUCATION AND TRAINING

Presenter: Scott Proctor, Board of Governors Member

Technology was a major part of today's world, and people often overestimated the impact of technology in the short term and underestimated its effects over the long term. The Board's training session would include general information on technology trends, the current state of information security, and Board oversight of information technology, and be based heavily on PwC's The Global State of Information Security Survey from 2016.

With regards to general information on technology trends, seven major themes were presented to the group.

First, it was noted that the digital transformation was changing business models, including revenue models. In one survey, almost 80% of companies indicated that their customers were changing how they accessed goods and services, and more than 51% of these companies were changing their pricing and delivery models as a result. Second, declining PC usage and increasing mobile device adoption was driving a "mobile first" world. Webpage views from mobile phones had outnumbered views from PCs in 48 countries; and, while desktop access still accounted for 65% of webpage views worldwide, mobile phones were gaining share, from 17% in 2013 to nearly 29% in 2014. It was anticipated that consumer spending via a mobile device would increase from $204 billion in 2014 to $626 billion in 2018, and that nearly half of all e-commerce sales would be from m-commerce.

Third, the digital transformation and proliferation of data was fundamentally altering the relationship between businesses and their customers. Currently, businesses were failing to use approximately 80% of the customer data now generated to their benefit. Fourth, the digital disruption was modifying the market context and competitive landscape of most industries. By 2018, one-third of the top 20 firms in most industries would be disrupted by industry-specific data platforms.

Fifth, the growing number of cyber threats was making it harder to safeguard data, intellectual property, and personal information. Five out of the ten largest all-time data breaches had occurred in 2013 and 2014, and cyber-attacks had compromised 800+ million records in 2013 alone. On average, digital crime and Intellectual Property theft cost between $375 billion and $575 billion per year, eclipsing the annual GDP of most nations. Sixth, work styles and the means to engage talent were becoming more agile in the digital world. By 2020, more than 50% of the workforce would be Generation Y and Generation Z members, individuals who had grown up connected, collaborative, and mobile. Lastly, it was stated that digital and robotic technologies would increasingly augment or replace employees. 47% of occupations in advanced economies were at high risk of being automated in the next 20 years.

In addition to these trends, there were seven key points to describe the current state of information security, which included the following facts: the average number of detected security incidents was growing; the theft of "hard" intellectual property was increasing, employees remained the most cited source of compromise while incidents attributed to business partners was increasing; average information security budgets were increasing; average total losses due to security incidents was decreasing; the adoption of strategic security initiatives was underway; and, the implementation of key security safeguards was in progress.

An overview of the most significant cyber security challenges as they related to information security in the financial services industry was also provided. These consisted of security protocols and standards of third party vendors, rapidly evolving and complex technologies, cross-border data exchanges, increased use of mobile technologies by customers, and heightened information security threats from outside the country. It was highlighted that the employer, the customer, and "soft" intellectual property data were the top three targets of cyber-attacks, and that information security budgets had increased by 14% in 2015 from 2014.

In terms of Board oversight of information technology, it was noted that the rapid evolution of technology combined with the lack of IT backgrounds had contributed to a director's "confidence gap." The survey results had shown that 65% of directors would like to devote more time to IT risks. Overall, there were six IT subjects that could fall under the category of Board oversight.

The first item was data security or a company's ability to protect its own digital assets, operational and other trade secrets, and financial information. One study had estimated that the likely annual cost to the global economy from cybercrime was more than $445 billion. The second item was mobile strategy as it pertained to computing options for end users. It was remarked that there were nearly 6 billion mobile cellular subscriptions today penetrating 87% of the world's population. The mobile broadband subscriptions had grown 45% in each of the past four years, and there were now twice as many mobile vs. fixed broadband subscriptions. Lastly, it was reported that the number of mobile-only internet users now exceeded the number of desktop-only users in the U.S.

The third item was data privacy as it centered on how companies safeguarded information to prevent inappropriate or unauthorized collection, use, retention, and disclosure of personal information about customers and employees. It was noted that regulators had become more active in promoting data privacy as well. The fourth item was social media usage and policies. It was reported that 83% of Fortune 500 companies had corporate Twitter accounts and 80% had Facebook profiles.

The fifth item was Cloud strategies. It was explained that Cloud services allowed companies to use a network of remote servers and storage devices to connect to the Internet. Many observers were forecasting that a significant number of companies would no longer own any IT assets within the next ten years. Finally, the sixth item for Board oversight pertained to IT strategy and data analytics strategy. Companies were moving toward streamlining business processes by using big data and other digital means. IT was being purposed to enhance revenue, reduce costs, integrate supply chains and distribution channels, and improve workforce efficiency.

Questions, Comments and Resulting Discussions from the Board:
The automation of many different processes and the proliferation of data in the longer term would inevitably lead to fundamental changes in the industry.

There was an interest to learn more about how IT was changing the education realm, particularly how people were earning online degrees and credentials, and how this could impact CFA Institute's future business model.

Technology had the potential to dramatically impact the investment profession, and thereby the value of the CFA designation as well. It was stated that companies should focus on selling a solution rather than a product. It might not be in CFA Institute's best interest to alter the way it delivered the curriculum, but it might be important to demonstrate to the membership that the organization was keeping up on current trends and aware of the changing landscape.

It was noted that people in Asia seemed to rely more heavily on technology for investing advice. This could be attributed to the development of the advisory business in that region (i.e. lack of trusted advisors) or a propensity for younger people to use technology. Regardless of the reason, it was stated that people should always be part of the process of interpreting the electronic results.

There was no such thing as perfect security, and CFA Institute would have to consider raising its standard in terms of the costs and benefits. At present, the organization was moving in the right direction with the Digital Core Transformation. There was a keen interest in IT strategy, with input from the Audit and Risk Committee, and exploring opportunities with data analytics going forward.

To increase its agility, the organization could consider testing new products or systems on a smaller scale. There was a risk that CFA Institute's curriculum could become obsolete by not fully addressing the technological advancements in the investment industry.

In terms of the curriculum and helping new charterholders become more IT cognizant, the organization would need to exercise a policy of inclusion rather than exclusion. As the younger generation was growing up connected and understood the fundamentals of IT, the organization might want to consider adding asset allocation or data and algorithms, for example, to the curriculum in the future.

WEDNESDAY, 9 MARCH
09:00 TO 16:10

CFA PROGRAM PRICING PRINCIPLES AND STRATEGY
Presenters: Steven Horan, Managing Director of Credentialing at CFA Institute
Lisa Plaxco, Head of the CFA Program at CFA Institute

Ms. Lisa Plaxco, CFA, the new Head of the CFA Program, was introduced to the group.

It was necessary for the Board to review and approve the CFA Program principles and strategy, so that management could set the pricing level and structure. In the shorter term, the organization would plan to prioritize two pricing structure issues for further analysis: the scholarship strategy and the registration fee by level.

It was explained that the existing pricing structure had been in place for more than a decade, and price increases had tracked closely with global inflation over the years. In 2012, CFA Institute had conducted a pricing analysis and concluded that candidates were relatively insensitive to price and that an increase of up to 20% could potentially be tolerated by the market.

Starting with the June 2014 exam, the organization had decided to implement a 6.9% price increase, which had been applied entirely to the second and third deadlines to encourage early registration and to continue providing cost effective access to the program. At present, the enrollment fee was $450, and the registration fees were $650, $860, and $1,280 for the first, second, and third deadlines respectively.

There were four main points that defined the CFA Program pricing principles. First, there needed to be a balance between profit margin expectations at all three levels and 100% penetration of the investment management industry, with the priority given to preserving the profit margin. Second, the pricing should reflect the unique attributes of the CFA Program and its brand, and be translated into a fair premium relative to the market reference price. Third, the pricing should be accompanied by a clear communication of the benefits provided by the program as a means of justifying it as a fair premium. Lastly, there was a preference for a simple pricing structure that allowed the organization to achieve other mission-related objectives, such as targeting lagging candidate markets, facilitating program access, developing emerging markets, and encouraging successful candidate behavior.

In terms of pricing strategy, the CFA Program would have one nominal global price composed of a market reference price and a partial premium that funded the larger organization's activities, while stopping short of charging the highest price acceptable to the market. The remaining premium would represent CFA Institute's investment toward increasing penetration, and other mission-related objectives would be pursued through scholarships and structured deadline prices. Any additional subtleties in the pricing structure would need to be directly tied to achieving the pricing principles.

With regards to strategic priorities, the organization planned to use a value-added pricing model with specific decisions pertaining to level and structure per the guidance of the pricing principles. Concurrent with the value-added analysis, the organization would review and update, if necessary, a candidate price elasticity analysis that had been completed in 2012 with the assistance of Holden Advisors.

Once the pricing and strategy had been accepted, the organization would need to ensure the connection to candidates and members was clear as well as the overall benefit to society.

Questions, Comments and Resulting Discussions from the Board:
There were two mechanism used for pricing. While deadline pricing established a 2:1 ratio between pricing at the first deadline vs. the second deadline, scholarship pricing, more simply, provided a discount to the nominal global price. The latter was a way for the regional managing directors to work with societies and help develop particular markets.

It was explained that in 2003, CFA Institute had steepened the deadline curve. From an operational perspective, the organization needed its registration totals as soon as possible to determine the number and location of exam centers. The longer the exam administration team had to wait for these figures, the more the organization ultimately had to pay for these venues. From a pedagogical perspective, since the CFA Program attracted so many candidates, providing an incentive for early registration was a way to help these individuals have more time to plan ahead and prepare for the exam. In 2010, the organization had sensed that the value of the CFA Program far exceeded the price and further steepened the deadline curve. Candidates registering early received a lower price than those registering later on. It was noted that the US seemed to respond more quickly to the new model than other regions. Since 2010, the organization had maintained this structure and conducted global inflation increases to observe the impact, and now felt it had a better basis for engaging in the discussion on strategy.

The CFA Program needed a pricing framework in order to contribute to the internal disciplinary budgeting process, especially since 83% of revenue came from the program. Without a clear structure, management could appear wavering on the price of the exam for the sole purpose of the annual profit margin.

The principle of having a global nominal price with the flexibility of a scholarship was well received, particularly as it would be more motivating for candidates to receive a scholarship as opposed to a price reduction.

In terms of multi-currency capabilities, the organization expected to be able to consider this functionality in the next two years with the Digital Core Transformation. It was emphasized that the organization had no current plans to implement multi-currencies and wanted the opportunity for further analysis.

It was clarified that the regional managing directors for EMEA, APAC, and AMER would be charged with deciding which markets to focus on, whether these be lagging or undeveloped areas for the organization. To extend CFA Institute's global penetration, it would be important to utilize the scholarships in a very direct and targeted way.

It was proposed that the organization consider a three-year membership price to enhance member value. There was agreement that this was a reasonable idea, and it was noted that there was a test program currently underway in the UK that was offering reduced dues to successful candidates. Furthermore, per the findings of the Charter Pending Work Group, it was highlighted that a bundled membership plan might be a way to maintain engagement with the charter pendings. The organization was working to establish a more nurturing relationship with candidates throughout the exam process, revisiting its career development support initiatives to achieve its ultimate goal of growing the number of charterholders employed in the industry.

While the premium of the CFA Program would always vary across the markets, management was still eager to address the regional and cultural differences of the candidate base.

The organization had not specifically considered firm pricing at this point in time. The credentialing strategy was to influence the influencers and build a B2B platform for all three programs in a sensible way. CFA Institute was looking for a deeper employer relationship and growing the profession from a demand perspective. Moving the Charter towards a condition of employment, for instance, and establishing that C-suite level of interaction was a real possibility.
The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the pricing principles and strategy for the CFA Program.

CLARITAS BUSINESS PLAN REVIEW

Presenters: Steve Horan, Managing Director of Credentialing at CFA Institute
Rahul Keshap, Head of the Claritas Program at CFA Institute

In May 2011, the Board had approved a business plan for Everest, which was later renamed Claritas and officially launched in 2013. The research since then had indicated that while Claritas served a need, employers were not adopting it as originally anticipated. The registration figures had languished, and the organization was unsure whether or not it would achieve its budgeted figure of 5,000 for FY2016. Based on the very preliminary forecasts, CFA Institute had expected 36,000 registrations by this year. As a result of these low numbers, it was time to reevaluate the Claritas business plan and assess its viability. The Board was being asked to validate the future direction of Claritas and to receive a more formal business plan at the July meeting.

The Board was reminded that the Claritas Investment Certificate had aspired to be a required educational program at investment management industry firms, and was intended for all employees outside of investment decision-making roles. The program was meant to set a new standard of industry knowledge and ethical awareness, thereby improving firm-wide communication, enterprise risk management, and employee engagement. The program was a benefit to the membership and the broader industry by making investment managers more effective.

It was proposed that by the end of FY2019, CFA Institute would either confirm or refute the program's value proposition. By removing price as a consideration, aligning the program's name and brand more closely with CFA Institute, and applying design thinking methodology to focus rigorously on the top investment management firms, the organization hoped to make an impact on a critically important and influential set of firms, ones with a total of more than a million suitable employees.

In reviewing program operations to identify at least $3 million in cost savings, while investing in strategic improvements, CFA Institute would endeavor to put the Claritas Investment Certificate on a path to financial sustainability. All of these efforts and their associated targets would be reviewed by August 2019 by the Board, who would then decide whether to continue, repurpose, or shut down the program.

The strategic objectives through FY2019 included positioning the CFA Program for 100% market penetration, confirming market and viability of Claritas and CIPM, and influencing the influencers through the stakeholder value proposition. As part of that plan, management was asking for three more years to test Claritas. There were six areas of focus for the Claritas business plan.

First, the organization would establish a single, global, uniform price for the program, setting it at a flat rate of $200 and subsequently removing price as a factor altogether. It was believed that the new fee would be widely attractive to the industry and eliminate the penchant for price negotiations. Second, Claritas needed a stronger brand, perhaps even a new name and logo, and connection to CFA Institute. Management did not want the program to be incorrectly perceived as the “light” version of the CFA Program.

Third, the fixed costs associated with Claritas would be cut by $3 million by FY2018, and the variable costs would be decreased by 30%. These reductions would strive to make the program more efficient and heighten the pressure to use the organization’s resources as wisely as possible. Fourth, the messaging around Claritas would need to be simplified and clarified. The program would resonate best in the market place through employee engagement, enterprise risk management, and firm-wide communication.

Fifth, the organization would focus on the top firms in the US, UK, China, and India to demonstrate a return on investment, raise awareness, and spur widespread adoption. The expectation was that once about 10 firms embraced Claritas, others would naturally follow. Sixth, to attract more candidates, CFA Institute would make the curriculum free, likely in exchange for an email address, and develop a candidate learning ecosystem, which would eventually involve all three programs and offer a more interactive experience (i.e. gamefying).

Management wanted the Board’s feedback on the broad principles before finalizing a full three-year business plan for Claritas. If the Board ultimately decided to end the program, the organization would look to show how those costs savings could be accrued and repurposed. It was recognized that the current state was not sustainable, and that Claritas would need key employers to mandate it as a necessary component of their firms to prove it was in fact a viable endeavor.

Questions, Comments and Resulting Discussions from the Board:
Though largely anecdotal at this point, there was evidence to suggest that changing the exam fee to $200 did change the conversation with employers. The new price would make it more likely for firms to roll out Claritas on a company-wide basis rather than selecting only certain roles. Claritas was mission driven and would be used to raise standards in the industry. To help measure impact, clients would be asked to fill out a survey to gauge whether employees were performing in a different way.

The Board was reminded that mitigating the risk of revenue diversification was the primary driver for the creation of Claritas in 2011. Now, the organization needed to really think about where it should spend its investment funds to achieve its mission and goals.

It was argued that the most important factor for success was correctly positioning the Claritas program. Even with reduced pricing, the same problems and questions would exist, such as what employees were supposed to do with the certificate after the fact. Staff agreed that failing at $685 or $200 was completely irrelevant, and that positioning the exam was the first step.

There had been some signs of success. At one firm, while employees were no longer required to take Claritas anymore, there had been a snowball effect nonetheless. The experience had been very positive and helped build the CFA Institute brand.

It could be a reputational risk to the organization to launch a product that clients came to endorse only to take it away. Furthermore, CFA Institute already offered a premium suite of products, and discounting Claritas now could make it somewhat problematic if the organization decided to raise it again in the future. As the organization endeavored to attract the top firms, it needed to also consider the possibility of failure and the best way to minimize the potentially negative outcomes.

For profit companies were moving in the opposite direction and increasing pricing for their electronic platforms (i.e. MOOCs). However, it was emphasized that these firms did not understand how to operationalize their products and become profitable.

The organization could not say with confidence that it would ever break even on Claritas, even with the $3 million cost reduction. If CFA Institute believed there was an opportunity for a return on mission and raising the standard of the industry, then it needed to be very clear about its next steps.

Should the program fail in the industry, management would look at ways to use the costs savings, such as making the Claritas curriculum free to schools, for instance. In theory, the industry was big enough to adopt the program and make it profitable, and the organization would strive to make significant progress over the next three years to show its viability.

Claritas was a great product, but it was not being sold properly in the market. Employers were misinterpreting its purpose, and advising employees to take the exam if they felt Level I was too tough. The program needed to be repositioned and moved toward the online learning space, possibly with the support of sponsors. Staff agreed and was eager to see the response to the new interactive learning space. It was also noted that the Claritas curriculum was core to the industry and not subject to significant change from one year to the next. There was an effort, however, to alter the tone and make the content more readable on a global scale. Though curriculum content development had become quite economical, the organization would have to work with outside vendors and make an investment to move the written material to the online platform.

It was stated that CIPM and Claritas should be not be in the same business plan.

There had not been sufficient Board oversight of and engagement with the Claritas program. The organization had thought that the product would be accepted as a conspicuous benefit to the membership and that referrals would be significant. And, yet, the distribution mechanism had not been the reason for failure; it had been the lost connection with the members and the mission. Working in partnership with the top firms and increasing awareness, rather than revenue, was supported.

There was a real space for Claritas in the market to help non-industry professionals. It was recognized that pricing the program at $200 vs. $685 would rely more heavily on volume for financial success.

However, keeping the price at $685 would certainly result in a holding pattern of 5,000 annual registrations for years to come. Claritas had always been a volume game, and the organization needed to figure out how to build the premium and connect the program to the CFA Institute brand. The marketing and repositioning piece were ultimately more important than the pricing.

Claritas was meant to have a B2B strategy, with a focus on the company's ability to pay for the exam rather than on an individual's budget. Only the top firms would be targeted going forward, and it was also noted that the exam would not be offered in other languages. Over the next three years, staff would be able to quantify the spend on Claritas, explore new distribution mechanisms, and identify a set of achievable outcomes for the future. The Claritas program needed a fresh start, and it was hoped that the new business plan would provide explanations of lessons learned along the way. Staff confirmed that prototyping and design thinking had gone into this exercise.

With regards to the societies, many had embraced Claritas at the beginning, and there was still an opportunity to engage with them further. The strategy could eventually cascade down to the societies as a means of sharing and promoting the exam, and partnering with the larger firms in their respective regions. It was also remarked that the societies had not felt that Claritas had taken anything away from the value of the CFA Program's brand.

DIFFERENTIAL PRICING FOR MEMBERS

Presenters: Nitin Mehta, Managing Director of Member Value at CFA Institute
Nancy Dudley, Head of Member Value at CFA Institute

The current pricing strategy for member dues had been based on fairness and consistency (i.e. one price and one set of benefits for CFA Institute) coupled with local customization (i.e. varied society pricing and benefits). A new set of guiding principles had been crafted to help staff re-imagine the dues pricing structure. These included statements that dues pricing reflected the global member base, which spanned the world's economies; that value delivered by CFA Institute and the societies was a component of pricing; and, that since membership was the ultimate outcome of credentialing, member-related activities should be subsidized by the CFA Program.

In 2013, a study had concluded that CFA Institute members were relatively price inelastic when it came to member dues and that society members were relatively price inelastic to CFA Institute dues. However, the organization had been observing behaviors and gathering feedback that seemed to indicate many potential members, and some existing members, were in fact price sensitive. With increasing frequency, CFA Institute and the societies were losing members after one or two years, and it was becoming apparent that paying annual dues was a financial burden for many. Furthermore, while some cultures placed a high value on education and were willing to make financial sacrifices for professional advancement (i.e. CFA Program), membership was often seen through a different lens.

Another indicator of price elasticity involved employer support for dues. It was reported that member retention was higher in countries like the US where employer support of dues was strong. Following the market crisis, it became clear that many employers, including those in the US, were only willing to pay for one professional membership. Over time, the organization had witnessed a decline in society member activations and believed there was a connection between employer support and society uptake.

It was stated that price sensitivity had likely not been the only factor. The decline in Pass III conversions and society activations could also reflect the entry of Millennials into the market. Research indicated that this generation did not engage in the traditional association model, and by opting out of CFA Institute and/or society membership, Millennials might never experience the value inherent to both.

There were two proposed pilots for the 2016 to 2017 member year, the outcomes of which could suggest a need to continue experimenting with the dues structures again in FY2017. The organization ultimately wanted to create a dues structure that represented the value delivered by CFA Institute and the societies to facilitate engagement with members.

The first pilot would be to implement regional pricing in India and Pakistan. In addition to validating feedback received from Pass III candidates, members, and societies in these countries, the organization would test concerns about geographic arbitrage. The financial impact of the pilot would result in an estimated loss of $280 thousand in dues revenue.

The second pilot would be to implement tenure pricing. The organization would offer introductory pricing to new members in Hungary, Poland, and Ukraine, markets where members and society leaders consistently commented that dues were too high. As these societies had been experiencing negative growth and/or lower than average new member activation rates, staff expected an uptake in new member conversions as a result of the pilot. The introductory price of CFA Institute dues would be $100 per new member, and societies could choose to offer introductory pricing as well. The financial impact of the pilot was expected to be less than $25 thousand.

It was emphasized that staff was not recommending piloting bundled dues at this time. While bundling had generated much discussion over the years, the existing dues billing system could not offer the flexibility required to bundle CFA Institute and society dues in an intuitive and user-friendly manner. Pursuing bundling at this point could therefore affect member behavior and skew the outcome of a pilot. Instead, the organization would work with the societies to develop the requirements for a dues bundle and use that feedback to inform the upcoming work of the Digital Core Transformation.

In terms of implementation, the organization would be researching the requirements for approved pilots, including tax and legal considerations in each locality, and identifying challenges and opportunities before recommending the optimal path forward. An aggressive timeline had been planned to accommodate systems testing and deployment in advance of the established CFA Institute and society dues cycle. An overview of the success metrics for both pilot programs was provided to the group. By August 2016, staff would be prepared to report its results and next steps to the Leadership Team, Board, societies, and members.

In addition to the two pilot programs, staff was proposing that payment of dues for members age 70 and over be waived. Special pricing for “elders” was a way to honor members who had been with the organization for a very long time. The population was rather small (1,940) and about half were retired from the industry. Currently, 94% of elder members renewed, and staff wanted to increase that figure to 100% retention. The financial impact would be an approximate loss of $364 thousand in CFA Institute dues revenue. The organization would be asking societies to participate, and would propose making them financially whole during the first year. If all societies agreed to waive dues for elder members, the financial impact would be an additional $138 thousand.

Questions, Comments and Resulting Discussions:
The Charter Pending Work Group had found some strong evidence between member dues pricing and the number of charter pendings.

Members would be made aware of the pilot programs as their direct engagement and feedback was desired. The organization would be very transparent with its initial language and work to position the pilots appropriately. The message would go out to the members in April. ERVIC had reviewed the proposal and was enthusiastic about the pilots. The committee had suggested that testing continue for as long as possible to obtain the full impact on the membership.

It was recommended that the organization measure how the pilot programs related to the core of the investment management industry, perhaps by asking members engaging with CFA Institute what specific occupations they held. Staff would also be looking for any patterns associated with the charter pending population.

There was a comment that it would be interesting to see, particularly in India and Pakistan, how member satisfaction was tied to price.

The funding for the pilot programs would come from the operational budget. If they proved successful and the Board wanted to be more aggressive, it was suggested that the organization could use some of its reserves to expand the project.

Rather than offering discounts to certain populations, it was suggested that staff consider a different pricing point for all members.

In India, it was noted that the society was not completely operational and that it had been difficult to deliver member value in general. To a large extent, new charterholders were deciding that the price was too high for the service provided. While reducing the price addressed these concerns in the short term, it was understood that increasing member value in the longer term was the ultimate goal (i.e. member retention). If the organization was unable to spend the money wisely to deliver member value from CFA Institute or the societies, then it was reasonable idea to reduce the member fee as a way of giving back.

The Digital Core Transformation would eventually provide the organization with an opportunity to test the bundling of member dues, which would likely receive a great deal of interest. Management was eager to try different models and pricing structures, and recognized that the societies were looking for fairness, and not necessarily equality, when it came to dues. The pilots were a good starting point, and staff members were encouraged to obtain as much information as possible to contribute to the final model.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves member year 2016-17 dues pricing pilots, and new elder member pricing as described herein.

CFA INSTITUTE FELLOWS PROGRAM
Presenters: Nitin Mehta, Managing Director of Member Value at CFA Institute
Nancy Dudley, Head of Member Value at CFA Institute

Establishing a CFA Institute Fellows program would advance the mission by identifying and engaging with influential investment professionals and thought leaders who had global and/or local relevance. A limited and exclusive program would also allow the organization to recognize and affiliate with the best and brightest minds in the global investment profession.

With regards to its guiding principles, the Fellows program sought to maintain a framework for alignment with the top names in the investment profession who were not on the CFA charter path, to expand affiliation with recognized leaders and influencers of the investment profession, and to create strong links with outstanding contributors to the investment profession.

The purpose of the Fellows program would need to be clearly articulated to identify honorees as part of the nominations process. Based on recent discussions with the Board and Leadership Team, three purposes had been raised as worthy of consideration. Staff had explored these options and decided to recommend that the Fellows program seek to promote engagement with the global investment community. Nominees would have to represent CFA Institute values and have made an exemplary contribution to the advancement of the investment profession. The Fellows program would be exclusive and, as one of the highest honors bestowed by CFA Institute, open to both CFA Institute members and non-members. Nominations would have a broad global focus, although early nominations might concentrate on markets where few industry leaders had attained the Charter and CFA Institute recognition was low.

With the objective of raising awareness of the CFA Institute mission and brand, the Fellows program would serve to connect CFA Institute with the global investment community. The selection criteria would therefore focus on achievements external to CFA Institute and would not recognize substantive service to the organization.

The nature of the relationship between CFA Institute and Fellows would need to be determined along with any rights and obligations of affiliation. Staff had explored two options and agreed that CFA Institute Fellows should be a new class of membership, which had no term and was not subject to membership dues. Fellows would be voting members who attested to the organization's code and standards and were subject to the Professional Conduct Program. Like other members, Fellows would receive access to CFA Institute content and be afforded opportunities to support CFA Institute and society initiatives of their choosing. Fellows would also be eligible for lifetime complimentary registration to the CFA Institute Annual Conference, or another conference per their preference.

Fellows would be permitted to refer to their membership in CFA Institute in prose or on a curriculum vitae. Fellows would not be granted a designation and were not allowed to use an acronym, such as FCFAI, to refer to membership in CFA Institute.

The process of adding Fellows as a membership class would require a simple majority vote of CFA Institute members and could be implemented in FY2017. The steps from January 2017 through late 2017 would include a member comment period on the bylaw changes, a proxy vote, an approval by the membership at the Annual Meeting of Members in Philadelphia, and an announcement of the inaugural Fellows cohort. It was stated that the Nominating Committee of the Board of Governors would be responsible for overseeing the selection of Fellows.

Lastly, it was noted that the incremental cost of a Fellows program was negligible. The expenses associated with certificates/awards and related Board and Leadership Team travel to present them in person would be approximately $2,000 per Fellow. At full capacity (about 200 Fellows), the operating costs of the program would be $125 thousand in annual passes to the CFA Institute conferences and $4 thousand for productions in the Financial Analysts Journal and CFA Magazine.

After some discussion, the Board agreed in principle but decided that further analysis was required before voting on the proposed CFA Institute Fellows Program. The resolution would therefore be tabled for the July meeting.

Questions, Comments and Resulting Discussions from the Board:
Upon consideration of an acronym for a Fellow, it was explained that US trademark law made it difficult to use the three letters, CFA, in places not associated with the designation itself. The organization needed to be cautious about weakening the designation from a protection perspective.

If CFA Institute could offer a status to Fellows, it should be a recognizable one that enhanced the brand.

The recommendation for a Fellows program came out of the strategic review process as a way to broaden CFA Institute's reach and influence, especially in emerging markets. The focus should not be on charterholders, but on individuals not likely to take the exam who had made strong contributions to the investment profession and the organization's mission.

Fellowship had been used very discriminately in the UK, and not caused any confusion among the membership.

The External Relations and Volunteer Involvement Committee (ERVIC) had advised that the Fellows program not be used as a platform to recognize volunteers, but as a means of moving the industry forward. It was clarified that while the awards program honored individuals for their lifetime achievements, a Fellow should be someone who had shaped the investment industry and was chosen via a very selective process. ERVIC had agreed that the Nominating Committee of the Board of Governors should have the final say.

There was a concern that charterholders would be eligible for the Fellows program. This seemed to create two tiers of recognition, and perhaps it would be cleaner to remove charterholders from the nominee pool altogether. Furthermore, it could be problematic for the organization from an optics standpoint. CFA Institute would need to be absolutely transparent and clear with the membership about its selection criteria. Lastly, since charterholders were already connected to the organization, it seemed that adding another title would be of little value.

It was suggested that academics who wrote revolutionary papers should qualify for the Fellows program. Some of the early recipients in the UK had been distinguished professors who had made a real impact on how portfolios were constructed and made notable contributions to the asset management industry.

Staff agreed that the issue of selection had been the most controversial and difficult item. The Board wanted further analysis on the nominations process and the implications of charterholder eligibility before approving the proposal. The organization needed to be prepared to explain itself to the membership when important individuals were not recognized as Fellows.

CONTINUING EDUCATION DUE DILIGENCE

Presenters: Dan Fasciano, Presidents Council Chair
Nitin Mehta, Managing Director of Member Value at CFA Institute
Rob Gowen, Head of Product Solutions at CFA Institute
Dave Larrabee, Director of Corporate and Member Products at CFA Institute

The organization was interested in conducting due diligence with society leadership regarding the potential for a continuing education (CE) program and wanted the Board's consent before moving forward. The goal was to understand society leadership's sentiments toward a CE requirement for members and how to enhance the current CE program to encourage active participation.

An overview of the history of CE was provided. In 1990, FAF and ICFA had combined to form AIMR and made the decision to make CE voluntary; in 1995, a survey had shown that 36% of members were in favor of mandatory CE; in 2002, there had been a formal attempt to change CE, and the proxy vote results had been 41% in favor of mandatory CE (a two-thirds majority vote was needed); in 2007, a CE Task Force had reaffirmed voluntary CE and attestation only; and, in 2011, the organization had conducted a listening tour and found that members preferred that the market set the competency standards.

Attestation rates had steadily risen and regulatory requirements tightened over the years. While the trends did not necessarily translate into an affirmative vote, they had indicated an attitudinal change in the membership.

There were four reasons for the organization to revisit mandatory CE. First, an effective CE program should emphasize the professionalism of the organization's members, thereby distinguishing them from other practitioners and raising investors' trust in the investment management profession. Second, since the global financial crisis, regulators, especially those in Europe, had been increasing the emphasis on CE and maintaining competency. Third, advances in technology in the last decide had allowed for more personalized and low cost CE opportunities. With a modest investment, CFA Institute could make it much easier for members to consume, log, and attest to CE, whether it was mandatory or not. Fourth, given the ongoing demographic shift in the membership and unique vantage point enjoyed by societies, revisiting the topic of CE would be timely and provide direction to the organization for future program enhancements.

The proposed plan was to initially consult with the "swing vote" societies (Boston, Chicago, Montreal, New York, San Francisco, and Toronto), which represented 23% of the membership. If strong support was received, the organization would move on to connecting with the other XL societies (China, Germany, Hong Kong, Los Angeles, Philadelphia, Singapore, Switzerland, UK, and Washington), which represented 22% of the membership. Based on the feedback collected, the last step would be to evaluate whether or not sufficient support was in place to pursue mandatory CE.

Questions, Comments and Resulting Discussions from the Board:
A Board vote was not required for the organization to move forward on its due diligence for CE. Management simply wanted to make the Board aware of its plans to restart the conversation with the membership.

It was stated that members were mainly interested in the mechanics of a CE program, which should be easy to use, incorporate all other continuing professional development activities, and be implemented at no additional cost to them. If they perceived that the organization was trying to turn CE into a business venture, they would not vote in favor of the initiative.

It was clarified that the listening tour in 2011 was neither a survey nor was it used as an opportunity to convince societies that mandatory CE was the right thing to do. The conversations were strategic in nature with the purpose of gathering feedback on the approaches that would resonate best with the membership.

Staff members would be asking for reactions from the societies now before formulating a program. There was no Strawman to present to them at this point in time as this was considered a leading approach, but there would be one by July.

The organization was not ready to poll the entire membership on the subject of CE, mandatory or otherwise. The main purpose of this effort was to solicit input to help frame the conversation going forward. Staff wanted an updated sense of how the membership might vote on the subject.

It was suggested that instead of polling the entire membership, the organization might consider posing this question to attendees at the upcoming Annual Conference, especially if it represented a good sample of the member population.

The Board was comfortable with staff's proposal to engage in discussions with select societies on the topic of CE.

GOVERNANCE WORKING GROUP REPORT
Presenters: Beth Hamilton-Keen, Board of Governors Chair
Sheri Littlefield-Moreno, Chief Legal Officer at CFA Institute

The recommendations of the Governance Working Group (GWG) were presented to the Board for approval. The group was reminded that the GWG had been established at the October meeting in Hong Kong to address certain outstanding governance questions with respect to the committee structure, Board Chair and member terms, and Board service compensation. Throughout the process, the GWG had discussed a variety of topics, kept an open mind, and been very thorough in its analysis and modeling. The group found that while the organization's governance was not broken, it could be more effective going forward. Public Company Standards (PCS) had played an important role in the GWG's considerations, but the members had not felt constrained by them as they wanted to make recommendations that fit well with the organization.

The proposed committee structure included a Compensation Committee, Executive Committee, Audit and Risk Committee, Nominations, Governance, and Awards Committee, and Investment Committee. The External Relations and Volunteer Involvement Committee and Planning Committee would not be part of the future state. In addition, it was felt that finance should be remain at the Board level, and there was no need to introduce a separate committee. The GWG also recommended creating a governor liaison role for each of the strategic functions as well as a Society Partnership Council.

An overview of each committee's roles and responsibilities was provided. It was highlighted that the Audit and Risk Committee and Executive Committee would largely remain the same, and the Compensation Committee would no longer incorporate the subject of governance. The Nomination, Governance, and Awards Committee would spend six months focused on nominations and awards with the full group, and the other six months addressing governance with only the serving Board members. It was acknowledged that this was a unique structure that did not completely follow PCS, because the GWG believed that PCR and other non-Board member involvement was important to CFA Institute's nominations process.

The proposed Society Partnership Council (SPC) would oversee and advise the Board on matters related to the execution of society strategy; provide feedback and guidance on matters that directly related to the societies; monitor, advise, and communicate on society resource allocation; create and focus on society member value and input on society member trends; and, recommend any changes or outlier to society creation guidelines. The membership would consist of the Presidents Council Chair and Vice Chair, one PCR, one XL society executive director, two Board members, the Managing Director of Relationship Management, the Head of Member Value, and one regional managing director (bi-annual rotating appointment among the three regions).

The GWG had also considered ways to structurally maintain regular PCR and Board interaction. The proposed state was meant to broaden communication between the leadership of the Board and the leadership of the PCRs; increase governors' involvement within their region with societies, PCRs, and staff; and, ensure PCR connectivity and engagement with the Leadership Team and staff at the Board meetings. Some informal opportunities could include an Executive Committee Board member participating in PCR training, a governor joining the monthly PCR calls, or a social event to introduce new PCRs and governors at the July Board meeting.

With regards to term limits, the GWG had recommended that the Board Chair Term remain at one year, and that the Board formalize the use of an "Arch" of the Vice Chair, Chair, and Past Chair to improve continuity. As a result of this change, these three functions would become less individualized, and the workload would be handled by three people as opposed to one. The collective three-year term was meant to reduce the burden on the Chair and provide a more seamless transition of process and knowledge.

Furthermore, the GWG had recommended that governors be eligible to serve three three-year terms. However, it was stated that the third term option should not be implemented until after the Board reduced its size to 15 in accordance with the resolution passed in October 2015. The Board expected to reach that goal in 2018.

In reviewing the subject of a compensated vs. volunteer board, the GWG had not recommended compensation for governors of CFA Institute at this time. There had been a number of issues and concerns raised during these discussions, such as conflicts of interest, tax implications, and whether the organization would be perceived as leading by moving in this direction.

The vision for the full Board by 2018 was presented. In a 15-person Board scenario, there would be three Arch concept members (vice chair, chair, and past chair), three Audit and Risk Committee members, six strategic member liaisons (two per strategic function), two SPC members, one member each for the Executive Committee and Compensation Committee, two Nomination and Governance members, and two Investment Committee members. The Board would continue to hold three in person meetings a year, each consisting of 2.5 days in length, and a total of 3 half days of video conference calls to execute the governance and oversight responsibilities of the Board. Lastly, while there was much delegation to the committees from the prior state, there could be an increased use of working groups for task specific objectives.

Questions, Comments, and Resulting Discussions from the Board:
The Board wanted to learn more about the specific role of the governor liaisons, which had been established to formally engage with the Leadership Team and the strategic functions. It would be important to ensure that information was still reaching the Board level.

There was agreement that institutional memory would be enhanced by the extended Board member terms.

The GWG was currently looking for the Board's approval of the formation of the SPC, with the understanding that the details of the nominations process and the member composition would need to be vetted by ERVIC in July.

Following the meeting in Brussels, work would begin on the terms of reference for each committee with the goal of reducing duplication and having a new structure in place by August 31st. The roles and responsibilities would be clarified to the Board in this manner.

It was noted that separating audit from risk had been discussed with outside counsel. While it was common for financial services companies to do so, CFA Institute did not fall into this same category, and the GWG felt that it made sense to keep the two together in the future state.

The following resolutions were approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the following recommendations to take effect at the beginning of FY2017 to:

1) **sunset the Planning Committee**
2) **sunset the External Relations and Volunteer Involvement Committee**
3) **sunset the Awards Committee**
4) **add Governance and Awards remits to the Nominations Committee**
5) **sunset the Compensation and Governance Committee and form the Compensation Committee**
6) **form the Society Partnership Council. Membership and remit of committees and Council are to be substantially consistent with the discussion by the Board of Governors.**

FURTHER RESOLVED, that the Board of Governors accepts and approves the establishment of Governor Liaisons to the Strategic Functions as defined by the Operating Framework.

FURTHER RESOLVED, that the Board of Governors accepts and approves the option of a third three-year term for Governors beginning the later of FY2018 nominations cycle or achievement of the October 2015 Board Resolution reducing the size of the Board to 10-15 Governors.

STRATEGIC RISK INDICATORS DASHBOARD

Presenters: Colin McLean, Audit and Risk Committee Chair
Darin Goodwiler, Chief Compliance, Ethics, and Risk Officer at CFA Institute
Craig Lindqvist, Global Head of Planning and Reporting at CFA Institute

The Audit and Risk Committee (ARC) had started work on defining the key strategic risk indicators (SRIs) with the Board in July 2015. Since that time, the Risk Dashboard Working Group (RDWG) had endeavored to create a dashboard of the top (SRIs) for the organization. These indicators were not necessarily risks in and of themselves, but would ideally be correlated with significant risk factors for CFA Institute. The dashboard was intended to be updated quarterly, and would be posted to Boardvantage and internally for the organization, and reviewed regularly by ARC.

Potential SRIs had been reviewed during the July 2015 Board meeting, with polling used to identify leading candidates for the SRI dashboard. It was also noted that the terms of reference for the RDWG had been approved by ARC in October 2015 to develop this dashboard with the goal of adoption by the Board in March 2016. The initial meeting of the RDWG had been held in November 2015, during which a list of 12 candidate SRIs had been identified for the dashboard. The initial prototype dashboard had been reviewed by the RDWG in January 2016 with another follow-up in February 2016. Finally, ARC had reviewed the proposed dashboard in Brussels.

The dashboard was meant to be a tool that helped engage the Board with risk. While the Risk Appetite Statement was also useful, the dashboard could update the Board at every meeting going forward.

Questions, Comments and Resulting Discussions from the Board:

A great deal of thought had gone into the SRI dashboard, and it provided the Board with a comprehensive and evolving stance. A better quality of discussion on risk could now take place.

With regards to increased society funding, it was suggested that the organization establish best practices on a regional basis.

The strategic implications of one or two SRIs should be considered at every Board meeting. This could be an opportunity for the governors to address specific topics on a more granular level. Alternatively, if it did not make sense to include the SRIs as agenda topics, informational updates could be provided in the materials.

It was clarified that limits for risk intervention had not been set.

The Risk Appetite Statement had been approved a couple years ago and should come back to the Board for regular review.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the proposed Strategic Risk Indicator dashboard as a tool to monitor key strategic risks facing the organization.

PRESIDENTS COUNCIL REPRESENTATIVES REPORT

Presenter: Dan Fasciano, Presidents Council Chair

There were four main topics highlighted from the Presidents Council Representatives (PCR) Report.

Six months into the increased funding model, the societies had continued to adapt and consider how best to invest and utilize the additional dollars over time. There was a desire to share best practices and streamline the process via partnership between the PCRs and Society Relations group. A number of societies were excited to dovetail increased activities with the Brand Campaign, and the upcoming regional meetings were expected to offer advice and opportunities in that regard.

The Presidents Council Governance Committee, chaired by Leah Bennett, CFA, had recently completed its review of the PC Election Chair process. The objective had been to examine the criteria by which one could become a candidate as well as to find ways to strengthen the election process within a globally expanding society constituency. The proposal was currently being voted on by the society leaders, and a firmer nominations process with increased input from the Board of Governors was forthcoming. It was noted that these changes were intended to take effect at the 2018 Presidents Council Chair election. Lastly, as part of the focus on governance, the PCRs would be performing self-evaluations as a means of enhancing accountability going forward.

It was reported that the PCR and Presidents Council Chair elections were both underway. The former would take place during the respective regional meetings. The Board was reminded that Sharon Craggs, CFA (APAC Southwest Region); Aaron Brown, CFA (Canadian Region); and, Leah Bennett, CFA (South Central U.S. Region), would have terms concluding at the end of FY2016 while Lamees Al-Baharna, CFA (EMEA East Region), would be eligible for reelection. Furthermore, Dan Fasciano, CFA, would be eligible for reelection as the Presidents Council Chair.

Since the last Board meeting, there had been increased attention on society activations and renewals. Staff had provided useful data and commentary about the gap between society and CFA Institute activations to the PCRs, and both groups were working to provide more tailored society data at the regional meetings. There were a number of solutions and tactics that would be socialized among the society leaders. It was also noted that staff would be delivering a society-by-society report on the membership language issue.

In terms of other key topics, the Brand Campaign and technology, especially the Member Nation project, had continued to attract interest from the societies.

The PCR reports from the regions had been included in the materials, and the governors were encouraged to read each one for specific details at the local level.

Questions, Comments and Resulting Discussions from the Board:
The PCRs would be taking a deeper look at the outcomes of the GWG from now until the July meeting. It was stated that they fully supported the direction of the Board.

BOARD COMMITTEE REPORTS

Presenters: Colin McLean, Audit and Risk Committee Chair
Heather Brilliant, External Relations and Volunteer Involvement Committee Chair
Robert Jenkins, Planning Committee Chair
Aaron Low, Compensation and Governance Committee Chair
Michael Trotsky, Investment Committee Chair
Beth Hamilton-Keen, Executive Committee Chair

Audit and Risk Committee (ARC)
ARC had been working on information security governance as it related to the Digital Core Transformation, completed the risk dashboard, and approved an internal audit services charter revision, which would require further review at the conclusion of the PCS work. In addition, the committee was striving to formalize the organization's escalation policy, particularly identifying the types of issues that should be directed to the Board Chair or elsewhere. It was noted that the Board might be engaged in this discussion at some point in the future. Lastly, ARC had reviewed CFA Institute's different entities established abroad and considered whether or not additional Board approvals should be incorporated.

External Relations and Volunteer Involvement Committee (ERVIC)
It was stated that ERVIC had covered many of the topics discussed during the open session. The committee had supported staff's efforts to guide societies on how best to deploy the additional funds, talked about the possibility of creating more collaborative society structures in certain regions, and approved the additional $8 million in brand funding.

Planning Committee (PC)
There were no updates from the PC.

Compensation and Governance Committee (CGC)
The CGC had heard a presentation on changing or modifying the long term compensation plan as there was a concern that it did not really have a long term focus. The committee had discussed three alternative structures and would ultimately inform the Board of its decision.

Investment Committee (IC)
A detailed IC report had been provided in the meeting materials. At a high level, it was stated that the organization had $283 million in reserves as of 31 December 2015. These were comprised of 65% risk and 35% non-risk assets. The IC would be reviewing the reserves once more in the coming months and would report to the Board in July.

The Board was reminded that the IC members were Michael Trotsky, CFA (Board); James Jones, CFA (Board); Simon Cawdery, CFA (PCR); Tony Tan, CFA (staff); and, Bob Dannhauser, CFA (staff). The CFO and Treasurer also served as ex-officio participants.

The IC had met several times, mainly to interview and select a consultant to help the committee make recommendations for the Investment Policy Statement, provide guidance on setting investment objectives for the reserve funds among other critical topics (i.e. active vs. passive management), and conduct ad-hoc research and Board training as needed. After speaking with four finalists at the end of January, the IC had chosen Mercer due to the firm's global reach, pricing options, and commitment to CFA Institute. It was mentioned that Mercer had sent its top management to meet with the IC, and that all the team members assigned to assist the committee were charterholders.

While the IC was responsible for monitoring the reserves, it was emphasized that the Board still determined the overall direction. There were several ways to use the reserves and mitigate risk, and the IC would like more discussion with the Board on those subjects in July.

Executive Committee (EC)
The EC had been involved in much of the PCS work. It was mentioned that with the expansion of the Board and Corporate Services team, there was now a new set of service standards for the Board. Several improvements, such as circulating materials and minutes sooner, would be incorporated going forward.

The results of the Survey, Identifying Future Board Agenda Topics, would be compiled and built into the future meeting schedule through July 2018.

BRAND CAMPAIGN FUNDING – CONSENT ITEM
Presenter: Beth Hamilton-Keen, Board of Governors Chair

The campaign, "A Difference That Matters," had launched in the Wave 1 countries (US, Canada, UK, China, and India) on February 29th and would run for approximately seven weeks. Management was now seeking approval for the release of $8 million in incremental funds to extend and expand the campaign in to June/July. It was explained that these funds would largely be used to continue advertising in the Wave 1 countries and to move into the Wave 2 countries (Germany, Brazil, Mexico, Hong Kong, Singapore and Australia). $1 million would be distributed directly to all societies globally, and a small proportion would provide tactical advertising support for Putting Investors First Month in key markets during May.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors approves the release of $8m incremental funding from the CFA Institute FY16 operating budget to extend and expand the global brand advertising campaign.

UNDERWRITING SOCIETY RISK – CONSENT ITEM
Presenter: Beth Hamilton-Keen, Board of Governors Chair

The Board was being asked to informally designate $1 million of the reserves to support a proposal to underwrite high impact, high cost, and revenue-generating activities undertaken by the societies. The committed notional at-risk value would not exceed $1 million, and the actual amount paid out was expected to be significantly less. This pilot proposal would pertain only to activities planned for FY2016 and would be promoted to societies as an additional component of Project Funding (CFA Institute's grant-based funding program). All projects would be vetted through a formal submission process and subject to an agreement approved by the organization's tax and legal teams.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves an FY2016 pilot to informally designate $1 million of the reserves to underwrite approved society projects.

CLOSING UPDATES AND FUTURE MEETINGS

Presenters: Joe Lange, Director of Board and Corporate Services at CFA Institute
Abigail Maynard, Project Manager of Events at CFA Institute

The future meeting dates and locations were displayed for the group. It was highlighted that in person attendance was not required for the upcoming oversight committee meetings in Montreal. Individuals would be able to participate by video conference call if that was their preference.

The September 2016 Board Retreat would either take place in London on the 10^{th} or Boston on the 17^{th}. A poll would be circulated to the governors to gauge attendance levels for each.

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

Meeting adjourned.