

Board of Governors Meeting Minutes

23-25 October 2017
Charlottesville

Board of Governors Present:

Leah Bennett, CFA	Frederic Lebel, CFA	Paul Smith, CFA
Heather Brilliant, CFA	Colin McLean, FSIP	George Spentzos, CFA, FSIP
Daniel Gamba, CFA	Diane Nordin, CFA	Lynn Stout 
Robert Jenkins, FSIP (Meeting Chair)	Sunil Singhania, CFA	Zouheir Tamim El Jarkass, CFA

Board of Governors Absent:

Elizabeth Corley, CBE	Mark Lazberger, CFA	Yu Hua, CFA
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Presidents Council Representatives Present:

Lamees Al-Baharna, CFA	Kati Eriksson, CFA	Steven Gattuso, CFA
James Bailey, CFA	Daniel Fasciano, CFA	Phil Graham, CFA
Simon Cawdery, CFA	Clayton Gall, CFA	Richard Munding, CFA
BD Deora, CFA	Jennifer Garbowicz, CFA	Susan Williams, CFA 

Leadership Team Members Present:

Chris Ainsworth	Michael Collins	Sheri Littlefield
Gary Baker, CFA	Bjorn Forfang	Nick Pollard, CFA
Diane Basile, CFA	Darin Goodwiler	Kurt Schacht, CFA
Elaine Cheng	Stephen Horan, CFA	Paul Smith, CFA

Leadership Team Members Absent:

John Bowman, CFA	Nitin Mehta, CFA
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Others Present:

Stephanie Ennaco	Leilani Hall, CFA, CAIA	Joseph Lange (Meeting Secretary)
Rebecca Fender, CFA	Carl Bacon, CIPM	Roger Urwin, FSIP
Nicole Lee		

Materials Provided:

Board Meeting Pack

Green – Approved Resolutions

Blue – Action Items

MONDAY, 23 OCTOBER

EMPLOYEE ENGAGEMENT COUNCIL REPORT

*Presenters: Sheri Littlefield, Managing Director, Chief Legal Officer and General Counsel at CFA Institute
Nicole Lee, Manager of Content Engagement and Chair of the EEC at CFA Institute*

Ms. Stout and Ms. Williams attended the discussion via conference call.

The Employee Engagement Council (EEC) had completed its first year in operation and had been chaired by Ms. Lee with Ms. Littlefield serving as the executive sponsor. The Board had a role in overseeing the culture of the organization, and the governors would have an opportunity to engage directly with employees after the session.

The 2016 Gallup Survey results were briefly reviewed. Concerns over staff engagement were highlighted as well as the areas of improvement and opportunity. The EEC had been established as a response mechanism to the Gallup Survey, and the group had learned a great deal during its first year in operation. The EEC believed that it needed a strong collaboration with the human resources function to ensure there was a clear separation between employee engagement and human resources policy. In addition, the EEC would be working with the divisions to set one-to-three action plans that were focused and achievable, and would be working with internal communications to share more information on the EEC and its purpose to all staff.

Promoting engagement and open communication at the highest levels of the organization would be key as well as helping employees understand where they fit in with regards to the mission and organizational changes.

The governors were encouraged to talk and listen to staff members during the reception, and the Board Chair added that the staff should be congratulated for their efforts.

TUESDAY, 24 OCTOBER

WELCOME, MEETING OVERVIEW, CONFLICTS OF INTEREST DECLARATIONS, AND RECORDING

Presenter: Bob Jenkins, Board of Governors Chair

The Board meeting was called to order, quorum obtained, notice of the recording communicated, and brief welcoming remarks with an overview of the meeting agenda provided. The Board Chair asked if there were any conflicts of interest as they pertained to the meeting agenda, and none were reported.

CONSENT MATTERS

Presenter: Bob Jenkins, Board of Governors Chair

The following resolutions were approved unanimously:

Establishment of CFA Society Chengdu

RESOLVED, that the Board of Governors accepts and approves CFA Society Chengdu for membership as an independent, constituent Member Society of CFA Institute.

Disciplinary Review Committee Benchmarking Proposals

RESOLVED, that the Board of Governors accepts and approves changes to the CFA Institute Rules of Procedures: Exam-Related Conduct and the CFA Institute Rules of Procedures: Matters Related to Professional Conduct as amended and restated effective 1 December 2017.

RESOLVED, that the Board of Governors accepts and approves changes to Article 2.9 and Article 2.17 of the CFA Institute Bylaws amended as follows effective 1 December 2017:

- 2.9 - “Covered Person” is any individual who is: a CFA Institute Charterholder, a Regular or Affiliate Member, a Candidate, a Postponed Candidate, an individual that has passed the Level III CFA exam but not been awarded the CFA charter (and who appears to be misusing the CFA designation), or an individual that has allowed membership to lapse or has had membership suspended through the disciplinary process (and who appears to be misusing the CFA designation); or an individual that seeks to reactivate a membership that has been lapsed.
- 2.17 - “Rules of Procedure” are the Rules of Procedure for Professional Conduct as amended, which govern the procedures to which both CFA Institute and Covered Persons must adhere.

Authorized Signatory / Jeffrey D. Knighton, Controller and Head of Accounting Operations

RESOLVED, that the Board of Governors accepts and approves the removal of Guy P. Williams as an authorized signatory on all CFA Institute accounts and investment accounts.

FURTHER RESOLVED, that the Board of Governors accepts and approves the addition of Jeffrey D. Knighton as an authorized signatory on the following CFA Institute accounts and be granted the same authority as the current authorized signatories on each account listed below:

JPMorgan Chase Bank	Main Operating Account
JPMorgan Chase Bank	Check Disbursement Account
JPMorgan Chase Bank	Payroll Account
JPMorgan Chase Bank	Receipts Account
JPMorgan Chase Bank	FedWire/ACH Account
JPMorgan Chase Bank	Rejected Enrollment Account
JPMorgan Chase Bank	Letters of Credit
JPMorgan Chase Bank	Main Operating Account-Hong Kong
HSBC Bank Plc	Main Operating Account-London
JPMorgan Asset Management	Overnight Investment Sweep
JPMorgan Worldwide Securities Services	US Treasury Bills
JPMorgan Chase Bank	US Treasury Bills
The Vanguard Group	Mutual Funds - Reserves
The Vanguard Group	Mutual Funds – Deferred Comp
BlackRock	Collective Trusts - Reserves
Wells Fargo	Operating Account
Wells Fargo	Disbursement Account

Nominating Committee Charter Revisions

RESOLVED, that the Board of Governors accepts and approves the revisions to the Nominating Committee Charter substantially in the form submitted.

Investment Committee Charter Revisions

RESOLVED, that the Board of Governors accepts and approves the revisions to the Investment Committee Charter substantially in the form submitted.

CHIEF EXECUTIVE OFFICER REPORT

Presenter: Paul Smith, President and CEO at CFA Institute

While the organization had done well in FY2017, it had not made as much progress as projected in certain areas. However, CFA Institute's three-year trajectory had remained strong. In FY2018, the organization would plan to spend a great deal of focus and time on the credentialing function, specifically the delivery and visioning of a modern credentialing program, which would likely be a challenging prospect for both the organization and the membership. There would also be an emphasis on Society 2.0, an initiative to better align the goals between CFA Institute and the societies, and ultimately move societies to become the single point of delivery for all engagement in their local communities. In addition, the work on the digital core transformation and Finance 2.0 would be coming to a close in FY2018 while the work on the brand campaign would continue. Lastly, it was noted that the financials were in good shape, and that the CEO looked forward to tackling the year ahead.

It was clarified that the digital core transformation project scope and spend would conclude in 2018, but that the organization would continue to develop its IT infrastructure.

In terms of B2B impact, the organization had experienced increased access to the C-suite at major asset management groups. However, there did seem to be a challenge with these companies mandating training programs for their employees. There was a concern that declining numbers in America could lead to a similar decline in the developing world. To globalize the credential, the key task would be to first ensure that the credential was required by US asset management companies and then to focus on making the curriculum content relevant worldwide. It was added that the organization had been working to create benchmarks on how the asset management industry was using the charter.

With regards to B2B and societies, it would be important to have a local connection between the societies and asset management companies, but the overall relationship would need to be managed by CFA Institute staff.

It was explained that the brand campaign targets had been too ambitious in FY2017, and that they would be recalibrated to reflect more realistic progress in FY2018. The work had moved the organization in the right direction.

The organization was endeavoring to be a professional body focused on advocacy and continuing professional development, which could support an individual's career path indirectly rather providing them with a job.

The engagement work had centered on ensuring employees understood what was expected of them and had the opportunity to do their best, and explaining how their efforts furthered the mission. The opportunities for improvement identified had included open communication at all levels, increased accountability, and the approachability of senior staff.

The CEO agreed that given its candidate numbers in China, the organization needed an enhanced staff presence there and had been working with the managing director of APAC on the logistics. It was highlighted that growth in China had largely been driven by the fact that the country had a very poor standard of financial education in general. Many candidates had used the program for financial literacy purposes, stopping after Level III and thereby contributing to the 24,000-charter pending figure in China.

The CEO agreed that the organization had been moving slowly with regards to changes to the CFA Program, but felt that this had been a reasonable approach. The program had experienced enormous growth in the last five years, and the visioning project around credentialing was underway and would offer changes to ensure the

organization continued to grow for the next generation. The current spend on the CFA Program was 45% of the budget, and it was expected that increased operational efficiencies (i.e. updated exam delivery) would eventually bring that figure down to 40%.

CHIEF FINANCIAL OFFICER REPORT

Presenter: Diane Basile, Managing Director and Chief Financial Officer at CFA Institute

Revenue in FY2017 had come in around \$313 million and operating expenses at \$303 million, leaving an operating margin of \$10 million. In terms of year over year, revenue had grown about 10% and expenses by about 12% from FY2016 to FY2017. In terms of the budget, the organization had come in 3% favorable in revenue and 5% favorable in operating expenses. It was noted that the early candidate numbers for FY2018 had looked strong, and the February deadline would help the organization more accurately calibrate revenue potential for the year.

The year-end audit with PwC was underway, and the final opinion was expected before the 30 November deadline. The finance function had been focused on its accrual process. With Finance 2.0, a purchase order system would be implemented and would provide an extra level of control and comfort around the organization's accruals.

The Finance 2.0 initiative had focused on process flow with particular attention to order to cash, procure to pay, and record to report, and there had been training provided and feedback received from different areas of the organization. In FY2018, the goal would be to implement the NetSuite system, provide reports to the regional managers and provide cost center reports regularly by the May or June time frame. In FY2019, the goal would be to leverage the NetSuite system and obtain a deeper understanding of the numbers and the reporting mechanisms. In FY2020, the goal would be to formalize finance as an indispensable business partner.

The CFO had been working closely with the managing director of human resources to ensure the finance function was staffed appropriately. It was highlighted that the first finance manager in the Hong Kong office had been hired as well as the position of controller in the Charlottesville office.

[The finance function would be engaging in stress test analysis to gauge the potential outcomes for negative scenarios. This data would be prepared for the February Board meeting in conjunction with a review of the reserves to help define what excess really looked like for the organization.](#) It was stated that this process would become easier and faster with the implementation of NetSuite.

[It was suggested that the expenses for Investment Foundations and CIPM not be broken out in the report going forward.](#)

[There was a request to see how the organization was doing with regards to revenue diversification over time, over the past ten years, for instance, and not just year over year.](#) The focus should be on increasing revenue from the member side. Management agreed and stated that the organization had started to think more creatively about revenue diversification on the ancillary revenues.

DIGITAL CORE TRANSFORMATION REPORT

Presenter: Elaine Cheng, Managing Director and Chief Information Officer at CFA Institute

The digital core transformation (DCT) project was in good shape and would be completed by the end of FY2018. It was noted that the IT and finance functions had been collaborating closely to integrate a new finance system into the DCT. The group was reminded of the project's scope as well as its anticipated results.

There had been 16 major elements involved, all of which sought to redefine the organization's underlying technology and change the way CFA Institute engaged with its members, candidates, and societies. Lastly, staff would be requesting Board approval to access the Chairman's Fund, which amounted to \$3 million in total and had been previously approved by the Board, to make important IT investments for the future, which included enhancing the experience from both the volunteer and institutional side of the business.

IT had been working closely with the legal function to ensure that the organization remained in compliance with any privacy related regulations across the globe. It was stated that due to the legal differences between CFA Institute and societies, there would always be some limitations around the data societies were and were not permitted to see.

Currently, 60-75% of the DCT work was being done in collaboration with external partners, but this was expected to shift as the project neared completion and internal staff took on more of a leading role with the new technology. The Board could see tangible results of the DCT now and in the coming months, including the website relaunch, the new membership renewal platform, and the member app among others.

In terms of project scope and expenses, the IT function understood the costs associated with the remaining pieces of the DCT.

It was clarified that using the Chairman's Fund would not adjust the budget.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the use of the \$3.0 million Chairman's reserve fund established for unexpected expenses for the Digital Core Transformation project to cover:

- **Increases in Volunteer and B2B scope; and**
- **Increases to transactional epics, including Finance 2.0 impacts.**

WASHINGTON, DC OFFICE

Presenter: Kurt Schacht, Managing Director of Advocacy at CFA Institute

As requested at the July Board meeting, management had provided a thorough risk assessment of opening an office in Washington, DC, which included areas of tax, compliance, reputation, and structure. There would be costs associated with mitigating these risk factors, and they had been addressed thoughtfully by staff. It was noted that there was a low probability for reputational damage provided that all of CFA Institute's activities would be predicated on its codes and standards. It would therefore be difficult to accuse the organization of being partisan as it would be promoting investor protection, market transparency and fairness, and professionalism in the industry.

Structurally, the Washington, DC office would be set up as a branch office, and CFA Society Washington, DC had already reached out to see if the two could cohabit the same space.

The goal would be to become a policy player in Washington, DC as CFA Institute had in Brussels; and, from management's perspective, the risks were low overall.

It was explained that the organization's fixed costs, including office locations, comprised 10-15% of the budget. Reporting on fixed costs, semi-fixed costs and variable costs would be made available at the February meeting.

[The Board would be discussing what the organization meant by "bolder voice," likely at the May meeting in Hong Kong to come to an agreement on how aggressive CFA Institute should be in terms of advocacy.](#)

Legal had reviewed the proposed office structure and been comfortable with the approach.

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the establishment of a CFA Institute office in Washington, DC USA.

MARKET STRATEGY OPTIONS IN CONTINENTAL EUROPE

Presenter: Gary Baker, Managing Director of EMEA at CFA Institute

Recent developments in Holland had raised the likelihood of a merger with VBA, a competitor local society. The organization had gained valuable insights from the Dutch negotiations and considered options for a wider European merger strategy.

CFA Institute's mission was to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. The organization aspired to achieve 100% penetration of the core investment market, but this aim could not be achieved with the ongoing presence of separate, well-established local competitors in many European markets. The imminent merger of CFA Society Netherlands with VBA, a venerable, member association in Holland and member of EFFAS had raised the possibility of changing the momentum and narrative in other key European markets with the opportunity to develop a mergers and acquisitions strategy and thereby move significantly closer to the organization's 100% target.

While the actual details of the merger had been agreed to at the local level, the negotiation had been a three-party conversation between CFA Society Holland, CFA Institute, and VBA. It was highlighted that a strong local presence and ability to execute was key for success. Management believed that the organization should be aggressively pursuing these types of opportunities in Europe. The Board was being asked to adopt a resolution recognizing the validity of the VBA exam to enable the VBA holders to become full CFA Institute members. The next step and wider issue would be figuring out how to recognize local designations in Europe that stand up to the CFA Program in terms of quality and content (i.e. Level I/II waivers, complete equivalence, etc.) to incentivize these associations to join with CFA Institute.

It was clarified that the merger would recognize VBA holders as voting members of CFA Institute and would not make them charterholders.

It was possible that the organization's bylaws could be amended in the future to make a bigger membership offer in the European markets. There was also a recommendation that the organization raise the status of regular membership to make it a more attractive offering.

Management had considered piloting new initiatives, such as dual language and continuing professional development, with these newer affiliations and markets. The model for continuing professional development would be to have one competency framework globally that could be populated locally as well. This meant that there would be educational materials offered in both English and the local language.

The proposal was attractive in that it could create a new revenue diversification tool, increase membership in Japan, and allow the organization to negotiate on a local basis to acquire global members.

While there seemed to be a clear opportunity to accelerate strategy and fulfill the mission, management was also cautioned against overextending its credentialing resources in terms of tracking and benchmarking local

designations on a continued basis. [It was noted that the Board would discuss the market strategy for continental Europe more at the February meeting.](#)

The following resolution was approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the RBA exam as an “appropriate examination” as outlined in Section 3.2(b)(i) of the CFA Institute Bylaws, joining the Level I exam of the CFA Program.

“LET’S MEASURE UP” BRAND CAMPAIGN

Presenter: Michael Collins, Managing Director of Services Delivery at CFA Institute

The evolution of the global brand strategy, and the launch of the new campaign scheduled for January 2018 were presented to the group. The promotional video of the “Let’s Measure Up” campaign was shown to the Board, and it was explained that the target audience would be B2B and a different version would be made for the China and India markets.

The organization had partnered with a new advertising agency and a new tracking agency, and would be focused on developing a methodology for setting targets and interpreting implications from the study for future campaigns. The brand funnel KPIs would still be important to understanding people’s engagement with the CFA Institute brand.

There was a question about the potential for audiences to confuse CFA with CFP. It was explained that in the US, high net worth and B2B audiences were being tested in terms of advertising recall and recognition, which would analyze that very point.

The advertising agency was working with CFA Institute to pick the right headlines and advertising on a country-by-country basis depending on the level of brand awareness in the region.

Approximately 45% of the total brand campaign budget was spent in the US (\$8.5 million), and more would be spent over the next five years. CFA Institute was more capable of sustaining its campaign in the future as opposed to the CFP, who depended on additional member dues to support its advertising effort.

There was a recommendation to have institutions vouching for CFA Institute in a future campaign video.

The annual satisfaction survey had revealed that the gap between branding and society expectations had closed dramatically. The organization had endeavored to make it as easy as possible for societies to engage and participate. In FY2018, CFA Institute would be offering to help societies share what they were doing around brand building and awareness in their local markets with their members. Furthermore, there would be a measurement component required this year for any society accepting brand campaign funds.

[The governors requested general background information on the CFP, such as its membership numbers as well as brand spend and activity. These details could help drive the brand strategy discussion forward.](#)

FUTURE OF FINANCE / BOARD BELIEFS AND VALUES

*Presenters: Roger Urwin, Future of Finance Consultant at CFA Institute
Rebecca Fender, Head of Future of Finance at CFA Institute*

Ms. Stout attended the discussion via conference call.

The Board had provided its support for nine beliefs and values statements at the last meeting and provided feedback. Based on that discussion, the statements had been modified slightly and one had been added. The following ten statements were presented for continued conversation and approval:

1. Investment professionals contribute to the ultimate benefit of society through the sustainable value generated by efficient financial markets and effective investment institutions in society-wide engagement.
2. Investment services will thrive if end investors have trust in the system and obtain fair and sustainable results from the services and actions of agents. Financial markets should afford every investor the opportunity to earn a fair return.
3. High professional standards are essential for trust and positive outcomes to be secured; rules and regulations, while necessary, are not sufficient by themselves.
4. Particular value can be created when savings are committed over longer time horizons into wealth creating ideas; supported by patience, knowledge and trust. Added
5. There are some big shifts in the direction of travel of our industry favoring these areas: private wealth, passive and factor investing, private markets, process automation, sustainability. These trends can be exploited.
6. Transformational changes in technology, demography, the economy and other mega-trends present significant challenges and opportunities to the investment industry.
7. Economic and political power is broadening out across a wider range of countries and regions, requiring significant strategic rebalancing. The Asian financial centers will play a much more significant part of the investment industry in the future.
8. Investment organizations to be successful in future will have some of these attributes: professionally-focused client-centered firms; strong-cultured firms; firms with technocratic or technology excellence that are adaptable and diverse.
9. Investment organizations - by employing purpose-led culture and pursuing more societally beneficial actions - will produce more sustainable and beneficial outcomes for themselves over time.
10. Investment professionals to be successful in future will have some of these attributes: ethical and professional orientation; technical skills; strong on soft skills including communications; persistency to learn develop and adapt.

The group worked through the statements and emphasized client focus, technology, price points, short- and long-term investment approaches, and the organization's mission.

An overview of the Statement of Principles for Use was also provided, which contained six major points. It was emphasized that these statements were abductive, in that they fit the facts of how CFA Institute currently operated in the industry, but were not meant to act as evidentiary proof.

A note would be added indicating that a member's or candidate's personal interests as well as the interests of his or her employer were secondary to protecting the integrity of capital markets and the interests of the clients as stated in the organization's code and standards.

As a constructive exercise, the governors considered the decisions that they had made thus far at the Charlottesville meeting and ensured that none conflicted with any of the beliefs and values presented.

There was a comment that management had done a great job of navigating what the role of CFA Institute and its members should be in a world where the provision of financial services was rife with potential conflicts between the interests of the advisor, the client, and society.

The following resolutions were approved unanimously:

RESOLVED, that the Board of Governors accepts and approves the Statement of Beliefs and Values substantially in the form submitted.

RESOLVED, that the Board of Governors accepts and approves the Principles for Use substantially in the form submitted.

UNIVERSITY AFFILIATION AND RESEARCH CHALLENGE STRATEGY

Presenters: Bjorn Forfang, Deputy CEO at CFA Institute

Steve Gattuso, Presidents Council Representative for the Eastern US

Ms. Stout attended the discussion via conference call.

The organization would endeavor to increase engagement around the Research Challenge, which was an impressive initiative that touched all three of the strategic functions. It was mainly a society driven event that developed future professionals and introduced many of them to the CFA Program for the first time. There were several ideas for improvement, including enhancing the social media experience and increasing media exposure, updating the format, involving global sponsors, and incorporating more career-oriented activities at the regional global final. There was also an emphasis on finding a way to promote diversity at the Research Challenge.

University Affiliation had historically been a passive program as it was challenging for the organization to engage with all 420 universities on a regular basis. The organization was planning to significantly increase engagement with fewer universities, mostly ones in main investment centers around the world. The organization would work with societies to identify these universities and bring them into this financial ecosystem, which was composed of asset owners, asset managers, regulators, universities and societies with CFA Institute acting as the core element connecting them to one another. Closer relationships with universities would yield more candidates, identify more internship connections between employers and students, and generate more continuing professional development opportunities.

The Research Challenge program seemed to be more inclusive and egalitarian, which better served the organization's purposes. It was also suggested that an ethical component be added to the competition.

The CFA Program was relevant to all majors, and management was encouraged to expand its focus and not only target business or finance students. In general, it was suggested that the organization broaden awareness of its many programs to the student population

The Research Challenge cost approximately \$2.7 million in expenses, and the organization collected about \$160,000 in sponsorship funds. It was also reported that on average, around 30% of the participants had gone on to enroll in the CFA Program. Staff would be looking to increase that figure going forward.

Out of the 180,000 Level I candidates every year, roughly 30,000 had come from the University Affiliation Program. Management felt that due to resource constraints, the organization would be better served getting more out of fewer universities and redirecting existing resources towards the Research Challenge. There were currently 407 affiliates who benefited from the CFA Institute brand and scholarships.

The organization was advised to permit different asset management firms from around the world to bid on the Research Challenge sponsorship every couple of years to increase the profile of the initiative and CFA Institute brand, and ensure that it was not overshadowed by the name of one firm. Management agreed with this

approach and stated that the Research Challenge name would be protected and that any sponsorship contracts would have a term limit.

Mr. Gamba disclosed that BlackRock had held preliminary discussions with CFA Institute on possibly becoming a Research Challenge sponsor.

The governors were encouraged to attend or judge a Research Challenge at some point in the future.

COMPENSATION PHILOSOPHY

Presenter: Chris Ainsworth, Managing Director of Human Resources at CFA Institute

Ms. Stout attended the discussion via conference call.

The Board received an overview of the organization's current compensation philosophy, which was part of the larger human resources strategy. [It was clarified that the purpose of this first session would be to provide background information and raise questions, and that the second session would take place at the February meeting and host a deeper conversation about the state of the compensation philosophy.](#)

Management had been working on a holistic human resources strategy (i.e. people strategy) to underpin the organization's business strategy. There were five key elements involved: culture, work environment, talent management, total rewards, and recognition/performance. Compensation philosophy had been noted first under total rewards. It was explained that compensation philosophy was a framework that combined math and judgement, and provided a model for consistent yet flexible decision making. The managing director of human resources had looked at the philosophy closely and found it appropriate for the organization in terms of attracting and retaining the right level of talent to achieve its business imperatives, but also saw opportunities for improvements.

It was clarified that compensation philosophy was just one item under the larger people strategy. There were other, non-monetary motivators to attract and retain talent. It was also noted that the academic literature on nonprofit organizations seemed to suggest that people were often motivated by a deep commitment to the mission as opposed to compensation. Overall, the focus should be on recruiting the best people who believed in CFA Institute's mission and viewed financial services as a kind of public service. There was another comment that pay should be effective to have the desired behaviors. It should be reasonable in terms of value and cost and, most importantly, be defensible to all members.

The FY2017 Compensation Committee had voted to eliminate the long-term incentives for executives, because it had been difficult to judge long-term return on mission effectively provided CFA Institute's status as a nonprofit. The plan had become more of an entitlement over the years rather than a form of incentive. [The questions around long-term incentives for nonprofit organizations would be discussed at the February meeting.](#)

An overview of CFA Institute's comparator groups was provided. These included organizations of similar structure, size, complexity and role accountability, and there was both a local and global approach. It was explained that the organization used the market ranges from the comparator groups and endeavored to be around the 50th percentile for all employees and between the 50th and 75th percentile for all executives. This range allowed for judgement and flexibility to ensure that the right compensation package was offered to hold the right talent with the right capabilities and corporate skill sets for the organization and in line with market competitiveness. The three comparator groups used consisted of the nonprofit sector, for-profit sector, and

investment industry sector, and overall consisted of a blended basis of 75% nonprofits and 25% for-profits. It was highlighted that the organization used different blends to benchmark different positions.

The group discussed other components to the philosophy, such as risk, brand equity, and the importance of being seen as an employer of choice. [There was a request to see which corporations CFA Institute had been losing its employees to over the years.](#) It was stated that CFA Institute had lost more employees to general industry and the for-profit sector over the years.

McLagan had been the consultant used to identify the comparator groups. It was recognized that CFA Institute's comparative group was imperfect, because the organization had so many unique functions. There was a wide dispersion of data, but this was purposeful. It was necessary to pull from different data points based on the role the organization was trying to fill. For any given role, five to ten organizations could be used to set the appropriate range. It was clarified that the human resources team used the comparator data to price all employee roles internally while McLagan was charged with pricing all executive roles externally.

There was a healthy tension when determining final pay positioning against the market data. Scope of the role, incumbent experience, potential and capabilities, and internal equity were the three major considerations when making a professional judgement and evaluation. In addition, management would be asking another consultant to review and price 250 of the organization's roles, including some executive ones. These results would be compared to McLagan's data. The consultant would also be asked to review CFA Institute's titling conventions. The project was expected to take six to eight months.

It was suggested that CFA Institute should consider narrowing its list of comparators.

The Board appreciated the background information on compensation philosophy and look forward to a deeper conversation on what the model should be and more on CFA Institute's employee value proposition to understand what motivated employees.

The Board would review the list of comparator groups used for the current CEO position during the next day's executive session.

WEDNESDAY, 25 OCTOBER

INVESTMENT FOUNDATIONS REPORT

*Presenters: Bjorn Forfang, Deputy CEO at CFA Institute
Steve Horan, Managing Director of Credentialing at CFA Institute*

Ms. Stout and Ms. Bennett attended the discussion via conference call.

The Board received an update on the status of Investment Foundations. The group was reminded that the program was initiated to raise the level of industry knowledge among non-investment management professionals and a conscious attempt to diversify CFA Institute's product portfolio. The original business plan had envisioned at least 83,000 candidates annually by this point in the life cycle. In hindsight, these targets had been far too ambitious. The current status showed 6,000 annual registrations, which had been a 45% increase from last year, but still fallen short of expectations. In addition, the program had been costing the organization approximately \$2 million in direct expenses every year.

Since last year, the organization had dropped the program price by two-thirds, changed its name to more closely align with the master brand, and introduced the learning ecosystem. However, the program still had

not been adopted in mass by the core investment management industry, and there had been little evidence to suggest that it would be. Management had assessed that in its current form and cost structure, Investment Foundations could not be justified exclusively as a C-suite engagement tool. The organization had therefore stopped investing in the curriculum, which had remained unchanged since 2016, and cut back on discretionary IT costs.

Management had considered the future of the program and come up with three possible options. The first would be to repurpose the content and position it as a pipeline into the CFA Program; the second would be to make the program available as a free benefit to the industry with societies acting as the distribution center; and, the third would be to discontinue the program altogether, which would require an assessment of the fallout in terms of reputational damage. [It was noted that the Board would be presented with a final recommendation on Investment Foundations at the July meeting.](#)

The second option had the potential to benefit society in line with the organization's mission statement. The financial literacy discussion had changed over the years, and CFA Institute would need to find some way to contribute to the general improvement in education. There could be a better way of streamlining the execution process and delivery while keeping the content relevant and for the public good.

There was a concern raised regarding resource constraints. It was stated that the first and second options would both require some sort of ongoing resource dedication. The Board would need to consider its tolerance level when it came to the annual amount to be invested in the program.

Investment Foundations had intentionally been designed to exist separately from the CFA Program. It would take some reengineering to establish it as a gateway opportunity into the CFA Program. In its current form, about 6% of those who took Investment Foundation had gone on to take the Level I exam.

It was explained that the program would consistently fall short of regulators' expectations, because it lacked the local perspective needed to become part of their respective packages.

The original mission of Investment Foundations had been to serve the members by creating more financially confident colleagues. While registrations had been low from the start, the content had been good and could still be used to promote financial literacy in the industry. Going forward, registration and cost targets would need to be more realistic, but the organization should not seek to change its risk appetite for these sort of initiatives.

PRESIDENTS COUNCIL REPRESENTATIVES REPORT

Presenter: Dan Fasciano, Presidents Council Chair

Ms. Stout and Ms. Bennett attended the discussion via conference call.

The local activities of the Presidents Council Representatives (PCR) were highlighted. It was reported that the regional meetings were underway, and society boards were in the process of making their plans for the year. Management had been socializing the concepts of Society 2.0 and continuing professional development at these sessions and had received positive feedback thus far. It was also mentioned that the Americas meeting would host some live polling and ask several key questions, such as whether societies felt their mission and strategy currently aligned well with CFA Institute.

With regards to governance changes, it had been decided that an individual could not serve as a PCR and on a society board at the same time. Furthermore, like the Board, societies had been encouraged to review their own governance structures.

There would be a PCR working group, led by Ms. Williams, created to review the status of PCR representation across the globe through the lens of shared economic history, language, time zones, geography, and number of members.

BOARD COMMITTEE REPORTS

Presenters: Bob Jenkins, Executive Committee Chair

Fred Lebel, Compensation Committee Chair

Fred Lebel, Nominating Committee Chair

Diane Nordin, Audit and Risk Committee Chair

Sunil Singhanian, Investment Committee Chair

Daniel Gamba and Dan Fasciano, Society Partnership Advisory Council Co-Chairs

Ms. Stout and Ms. Bennett attended the discussion via conference call.

Executive Committee

In its past two meetings, the Executive Committee (EC) had approved the retention of Ernst & Young as the internal auditor for FY2018, approved the Investment Committee (IC) and Nominating Committee (NC) Charter revisions, approved Mr. Singhanian's appointment to the NC, discussed the creation of the Board Alumni Network, approved an additional item for the establishment of the Abu Dhabi office, approved the CEO tax equalization package, approved Ms. Bennett as a back-up NC member in place of Ms. Corley, reviewed and approved the October Board meeting agenda, reviewed the chairman's summary of the Board retreat, discussed a draft proposal for guidance for governors attending CFA Institute activities in an ambassadorial capacity, and heard an update from the Chief Legal Officer.

Compensation Committee

In its past two meetings, the Compensation Committee (CC) had reviewed the 401(k) plan 2016 audit report, approved revisions to the US 401(k) Plan Governance Charter moving responsibility for plan design to the managing director of human resources, approved a change regarding employer contributions, reviewed the global employee pension and retirement report, approved a 7% annual discretionary contribution to the US and Hong Kong retirement plans for calendar year 2017, discussed the year-end performance distribution and projected incentive and salary for the organization as well as year-end leadership team compensation recommendations, and approved compensation and performance for the CEO.

Nominating Committee

In its past two meetings, the NC had discussed the process and timeline for the year, and reviewed the new database technology and rating structure. There would be eight meetings for the NC this cycle, which would culminate in a recommended candidate slate to the full Board by January.

Audit and Risk Committee

The Audit and Risk Committee (ARC) had approved its 2018 goals and objectives, giving the highest priority to the internal audit function, future of exam delivery, and Finance 2.0 project risks. The ARC would also work on the organization's risk appetite statement, any Board policies relating to the reporting and handling of concerns, the external auditor selection process, and the review of the historical tax credit structure for the Charlottesville office location. Lastly, it was noted that the ARC had approved Mr. Spentzos as the Disciplinary Review Committee's Board liaison for the year.

Investment Committee

The IC had held its first meeting and reported that as of 31 August, the reserves totaled \$387 million. The balance had increased by \$52 million in the past year. In terms of target levels, the current baseline was maintaining itself and continued to place the organization's reserves at 100% plus or minus 20% of annual operating expenses. [With the CFO's input, the IC would conduct a scenario analysis on how many of these expenses were fixed vs. variable, and then seek strategic guidance at the Board meeting in February.](#) The IC would also be looking to replace one of its funds, to consider the maximum amount allotted to one fund, and to start its active vs. passive management review.

Society Partnership Advisory Council

The Society Partnership Advisory Council (SPAC) had focused on the framework of member value, the results of the satisfaction survey, career management, and branding.

GLOBAL INVESTMENT PERFORMANCE STANDARDS EXECUTIVE COMMITTEE REPORT

*Presenters: Carl Bacon, Global Investment Performance Standards Executive Committee Chair
Leilani Hall, Head of Professional Conduct at CFA Institute*

Ms. Stout and Ms. Bennett attended the discussion via conference call.

The Board received an informational update on the success and continued work of the Global Investment Performance Standards (GIPS) Executive Committee (EC). The group was reminded that the GIPS EC reported into the Board and currently resided under the Head of Professional Conduct at CFA Institute. It was stated that the organization was actively searching for a new Head of GIPS.

It was explained that the GIPS had been initiated 30 years ago and were voluntary standards governing the calculation and presentation of investment performance, and also included ethical principles of fair representation and full disclosure. The mission of the GIPS EC was to achieve universal adoption by asset managers and compliance by asset owners, and to obtain support from regulators worldwide for the ultimate benefit of the global investment community.

The GIPS objectives were to ensure accurate and consistent data on which asset owners could rely, to promote fair global competition among investment firms, to promote industry self-regulation on a global basis, to promote investor interest and confidence, and to obtain worldwide acceptance of a single standard for calculating presenting performance – a goal that the GIPS EC believed had already been achieved. Over 1,600 firms worldwide had registered their GIPS compliance with CFA Institute, including 85 of the top 100 global asset management firms. These firms represented 61% of the world's assets of \$18 trillion. It was also mentioned that 41 countries had endorsed the GIPS standard, and there were more than 150 volunteers worldwide supporting the GIPS process.

There were nine members on the GIPS EC, which operated to promote the standards and review its internal governance structure. The committee and subcommittee structure was displayed for the group. The parties who benefited from the GIPS standards were also discussed. The GIPS EC had been working on its strategic plans and priorities, which included increasing adoption by asset managers, increasing demand by asset owners, obtaining support from regulators, raising awareness generally, resource allocation, and expanding the GIPS' global footprint, especially in emerging markets. As part of this process, the GIPS would undergo a major upgrade (i.e. GIPS 2020), with a target launch date of 1 January 2020. The standards had evolved over the last ten years, and it was time to make them as simple as possible and relevant to all asset classes while retaining their integrity. Lastly, a list of the primary challenges facing GIPS was presented.

A brief historical background on the generation of GIPS and its corporate governance issues was provided.

There had been instances where regulators had introduced something other than the GIPS in their respective regions. The standards did make it clear that local regulation trumped the GIPS, but it was possible to be GIPS compliant and present consistent with local regulation. CFA Institute staff had been collaborating internally with different divisions to identify the most frequent means of keeping in touch with regulators for both developed and emerging markets. The implementation plan and distribution strategy for the GIPS was a cross-functional discussion to ensure the biggest impact.

The GIPS standard could seek to aggressively grow in the wealth and high net worth markets in the US.

The first step to updating the GIPS would be to include all types of asset managers and asset products. The second step would be to review the reporting process and look for ways to speed it up and make it more interactive through technological advancements.

There would be conversations on how to increase the adoption of the GIPS by smaller investment managers. Information was being collected on this subject to better understand the existing barriers.

It seemed unlikely that the market for GIPS compliance would be disrupted by a competitor.

It was clarified that there was no fee associated with claiming GIPS compliance.

There was an effort underway to strengthen the connection between the GIPS and the CFA Institute brand.

Board went into *executive session*.