Annual Meeting of Members – Q&A

Q1: *Please discuss the changes in format for the Compensation and Discussion Analysis in this year's proxy https://www.cfainstitute.org/-/media/documents/corporate-record/fy21-proxy-statement.ashx compared to last year's https://www.cfainstitute.org/-/media/documents/corporate-record/fy20-proxy-statement.ashx. For instance, the compensation table is different. There is no disclosure of which peers were benchmarked.*

Related questions submitted by email:

- *The Summary Compensation table in last year's proxy and for public companies includes the last three years of compensation and a breakdown of the components of compensation. This year's proxy has only a single year and no breakdown. The SEC rules on compensation disclosure in Item 402 of Regulation S-K generally require information for each of the last three completed fiscal years. They also require a breakdown. The reason we are not disclosing the same are?*
- *This year's Form 990 was signed 8 July 2021 and was not available for much time before the annual meeting.*
- *The names on page 7 of the Form 990 are different from the names on page 84 of this year's proxy. For example, Paul Smith, Kurt N. Schacht, Nick Pollard, Gary Baker, Stephen M. Horan, Michael Collins are ranked 1-6 on the Form 990 but are not in this year's proxy.*
- *The numbers are also different. For instance, Margaret Franklin is at $510,115 in the Form 990, column (D) and at $845,200 in the proxy. Allison Holmes has $22,066 on the Form 990 and $504,708 in the proxy.*

A1: CFA Institute is a 501(c)6 not-for-profit organization incorporated in the Commonwealth of Virginia in the US. All not-for-profit organizations in the US are required to file a Form 990 with the Internal Revenue Service (IRS) to maintain their tax-exempt status; this form provides the public with financial information and is often the only source of such information.

For-profit public companies in the US are required by the Securities and Exchange Commission, the New York Stock Exchange, and other regulators and influencers to abide by a different set of governance practices and standards primarily to protect investors.

While a "one-size-fits-all equation" seems to streamline matters in a for-profit environment, the same cannot be said in the not-for-profit world. Since CFA Institute is a not-for-profit with no investors, we have voluntarily adopted higher standards of transparency based on other factors, such as our core identity and values.

In 2020, the organization conducted an in-depth analysis of its public disclosure documents and transparency practices, and some changes were made, one being the information displayed in our proxy's executive compensation table. In terms of the overall modifications made to all our public disclosure documents, we ultimately increased our alignment with US Public Company Standards, and the Board reaffirmed its commitment to aspire to align with US Public Company Standards where practical and reasonable and in consideration of the best interests of our membership and the organization. We take pride in our position on this subject; and, based on our analysis, are a leader in this regard compared to our not-for-profit peers.

As a not-for-profit, we are required to provide our Form 990s for the last three years and make these easily accessible on our website for the public. The Form 990s contain the compensation information for our "key employees," which are defined by the Internal Revenue Service as someone who meets all three tests below in the current year in order:

- Exceeds $150,000 compensation test;
- Meets responsibility tests (10% tests or influence);
- Is one of the 20 employees with the highest reportable compensation who meets the above two tests (excluding officers and board members)

This means that in addition to members of our Leadership Team, there are other "key employees" who needed to be reported annually. This is mandatory and not discretionary in the US.

As stated in our 2021 Proxy Statement, the table provided compensation information for fiscal year 2020 for the top five named executive officers who were currently serving on the CFA Institute Leadership Team at the time of publication, which is why Paul Smith, Nick Pollard, Gary Baker, and Stephen Horan were not listed.

The timing of the Form 990 tax filing is why you see a discrepancy with the amounts and with Michael Collins. The annual Form 990 tax filing deadline does not align with our fiscal year (1 September to 31 August). The most recently filed Form 990 is for the tax year beginning 1 September 2019 and ending 31 August 2020. Compensation reported in the Form 990 reflects calendar year compensation, which is roughly tied to W-2 reporting, whereas proxy reporting is based upon fiscal year reporting. Compensation components included in the proxy may be based partly on contract and not amounts actually paid during the fiscal year. Included in the proxy may be: base pay, incentive compensation, sign-on bonus and retirement plan contribution (employer portion).

CFA Institute strives to work through these misalignments and to still provide accurate and transparent information to the public as required by US law and beyond despite these timing challenges. We thank you for your inquiry and are happy to respond to any follow-up questions.

Q2: *What was the increase in regular membership over the last fiscal year?*

A2: There was a nearly 5 percent increase in regular membership over the last fiscal year. (Please refer to slide 22 in the Annual Meeting of Members presentation).

Q3: *Is there a move to withdraw CFA Publications and learning materials to behind the member paywall? If so, this seems a reversal of prior direction of travel? Comment please?*

A3: We decide to place specific content of value behind a paywall to preserve the exclusive benefits of membership. Membership of CFA Institute comprises use of the CFA designation, in addition to the access it offers to our research, advocacy and standards content. We are expanding and diversifying our offerings and products for investment management professionals globally and for people working in other areas of financial services, reflecting the needs, preferences and behaviors of learners today. We will continue to develop new professional learning offerings based on industry needs and member feedback.

Q4: *CFAI's Revenue has decreased, credential programs cost has decreased, member value program cost has decreased, but "management and general cost" has increased 7.7% ? "Salaries, wages and benefits" in the "Management and general" function has increased to $40.3mn from $33.6m (20%). What are the main drivers of this cost increase and what is the rational for such a high cost increase during this pandemic period?*

A4: In late 2019, the CFA Institute leadership team and Board of Governors recognized the need for strategic change to meet the needs of the rapidly-evolving investment management industry. Following a strategy review, we restructured our organization, recognizing that we would need new skills and competencies to achieve our strategy. And, while we are in the midst of a pandemic, the competition for talent has not decreased, and in fact, for some key skills and capabilities, is more competitive than ever. CFA Institute must be in a position to attract the right talent and offer competitive pay and benefits in the global markets in which we operate.

Although we made necessary staff changes in FY2020, we extended our notice period from 60 days to 10 months. This means that each impacted employee receives full pay and benefits until 2 August 2021, at which point our severance packages commence, reflecting the extraordinary context of the pandemic and our desire to provide a cushion to those impacted employees. This means that any financial impact of this restructuring will not be reflected until FY2022.

Credential program costs have not decreased; any year over year decrease is a function of volume. In fact, we are making significant investments in our CFA Program: a multi-year upgrade in our testing and exam administration with the introduction of Computer Based Testing; continual improvements and upgrades to our curriculum via our Practice Analysis work; the development of a competency framework to ensure that the curriculum matches the skills required in the investment industry of today; and ongoing investments in our technology to support the candidate experience and journey to becoming a charterholder.

Q5: *Has there been any draw on reserves for FY21 and if so, how much? What is the projection for net profit or loss for FY21?*

A5: Like all organizations, we maintain a reserve to provide continuity in the event of a severe business disruption and to provide strategic capital should we need it. We did leverage our reserves in FY20, in part, to manage ongoing exam postponements without ceasing critical infrastructure updates to serve our global candidates and members as they build their professional skills. As reported to you at our last meeting, we fully expected the pandemic to have a multi-year impact. Our prediction is holding true, and our current financial forecasts indicate we may need to draw down further reserves in FY22 to continue to cover cash deficits driven by pandemic deferrals. We also expect to fund a series of strategic initiatives designed to extend our mission and make us operationally resilient. All reserves draw requests are managed using governance protocols that require Investment Committee, Audit and Finance Committee and Board approval.

Q6: *What is the plan for introducing exam centres in countries which have a number of students but no centre? This would help reduce the number of cancellations due to restrictions in movement caused by the pandemic*

A6: The change to using testing centers provided us with more flexibility in terms of testing dates, locations, and candidate booking. In 2021, we will use nearly three times as many test centers for candidates worldwide, serving more than twice the number of metro areas as before and will increase the number of testing days from 28 to 86. As we continue to work with our testing partners, Prometric and British Council, we will evaluate additional viable testing centers on a need-based basis and continue to expand our capacity.

Q7: *You say that you have a principle of diversity. But in the governors and all leadership, I do not see a representative from Africa as a continent. Is Africa not inclusive?*

A7: Each year prior to the candidate solicitation process, the Nominating Committee, with full Board of Governors input, conducts an annual assessment of its overall skill sets and experience factors to determine the priority skills and backgrounds needed on the Board to lead the organization. This includes prioritization of diverse board candidates. On our board, we have achieved gender parity, and include representation from jurisdictions around the world to support our global organization including Australia, Germany, India, China, and Malaysia.

Q8: *Do we have data on number of candidates that have cancelled testing and chosen refunds as opposed to deferrals, so that we can compare these numbers against previous years?*

A8: Per the terms of the Candidate Agreement, refunds are not normally offered once registration has been accepted. Due to the extraordinary global circumstances surrounding COVID-19, we made the decision to offer candidates who were twice impacted by COVID-19 circumstances the option to defer again or to request a refund. A large portion of impacted candidates chose to defer to a later exam administration.

As reported in the Annual Meeting of Members, May 2021 marked the first time for computer-based testing (CBT) across all three levels (February was the first CBT administration but only for Level I). Because of the ongoing pandemic conditions, there is a large candidate backlog. Fortunately, 69,000 candidates who were previously deferred took their exams in May. However, in India, one of our largest markets, the exams could not proceed yet again.

It is important to note our revenue recognition policy. CFA Institute complies with ASC 606 when it comes to revenue recognition and is in line with the contract we hold with our candidates when they enroll and register to take examinations. This means that even though a candidate has registered and paid the fees, we only recognize the revenue once the candidate has sat for the exams and received their results -- or in other words, when their contract with us is fulfilled. There are a total of 319,000 deferrals since June 2020, with 145,000 of that number still waiting to take or schedule their examinations as of today.

While we hope to seat all of the remaining deferred candidates by the end of the calendar year, it does mean that some candidate contracts will be fulfilled in FY22 rather than FY21 and thus a further loss is therefore expected for FY21 due to our inability to recognize that revenue within the financial period. We anticipated this effect when we reported last year -- that the impact of the pandemic would likely have an impact on two to three fiscal years as we manage the impact of multiple cancellations and deferrals at each sitting. However, the impact of refunds to candidates who requested them is not financially material.

Q9: *Could you please spend some time discussing how you are going to deliver substantial and meaningful Member Value going forward?*

A9: CFA Institute continues to deliver the highest standards of excellence, ethics, and education.

We are in a unique position to address the rapidly evolving investment landscape by enabling and empowering investment professionals to be the best they can be through our learning offerings, and influencing the industry through our research, advocacy and standards leadership. For example, we are developing voluntary, global industry standards to establish disclosure requirements for investment products with ESG-related features, which will be launched in November 2021. This year we also launched the global Certificate in ESG Investing. We are developing a new Diversity, Equity and Inclusion Code for the US and Canada, and its exposure draft is now available for comment. These initiatives, in addition to the GIPS ®Standards and Asset Manager Code of Conduct, represent our ongoing investment in our members' professional advancement, whether it is in the provision of tools and frameworks for their current roles, or in new learning offerings to help them skill, reskill or upskill. We have many more learning offerings in our pipeline, in addition to our research, events, surveys, blogs, and Financial Analysts Journal.