Minutes of a meeting of the Board of the CFA Society of the UK (CFA UK) held at 5.30pm on Tuesday 26th May 2020 by video conference

Present: D Murray (chairman)
G Cook
H Eastman
G Elcock
W Hung
A Livsey
M Lonergan
F Lundie
L Matthews
T Nuding
K Kosmopoulou
S Wackerle
H Thomas
D Zahn (items 1286 ii. to 1290 only)

Attending: B Young (company secretary)
C Curtin (director of education)
V French (director of finance & operations)
W Goodhart (chief executive)
A Ramsay (director of member services)
L Gracie (Chadwick Corporate Consulting)

1281 Apologies for absence
No apologies for absence were noted.

1282 Declarations of interest
The register of director's interests was noted, there were no changes to note.

1283 Minutes of previous meetings
The minutes of the board meetings held on 28th January 2020, 17th March 2020 and the strategy meeting on 8th April 2020 were reviewed and approved as accurate records for signature. The minutes of the management committee meeting held on 28th April 2020 were also reviewed.

1284 Matters arising
The matters arising report was reviewed and noted.

1285 FY21 Forecast
The FY21 forecast and accompanying notes were reviewed and noted. It was confirmed that the finance committee had also reviewed the FY21 forecast and had requested that a range of scenarios be modelled, to cover a worse case and worst-case views and to include potential mitigating actions.

The forecast operating loss for the current year was £475k, with the forecast operating loss for FY21 being £175k although there was a great deal of uncertainty associated with these forecasts given current circumstances. The main new revenue driver was registrations and sittings for the ESG certificate and these were very uncertain in the COVID-19 environment. Calculations were based on the assumption that test centre sittings would resume in the autumn and online testing would begin in June. It was confirmed that examination registration revenue was not recognised until the examination was sat or the registration period had lapsed. In the current circumstances it had been agreed that the registration timeframe to sit examinations would be extended to 14 months.

Caution was advised in relation to ESG certificate forecasting based on the reliance on an online examination process that had not yet been proven. It was noted that feedback from others who already used the remote proctoring facilities was reassuring and that a strong campaign was planned to communicate with candidates and potential candidates. It was requested that frequent updates be provided to the board on the numbers of registrations and sittings and revenue associated with those.

The impact of a reduction in IMC sittings for example due to lower entry-level recruitment, might be felt more significantly next year, as seen in the last economic crisis.

No change to CFA Institute operating funding was expected in FY21 although project funding was expected to be nil.

It was queried whether a pandemic had been identified on the risk register. It was confirmed that no pandemic risk, involving the closure of all test centres had been included on the register. The register would be updated and would be presented for review at the next board meeting.

Membership revenue was considered a smaller risk than examination revenue due to the extent of employer funded dues. Membership figures would be refined in the forecast as membership data was received from CFA Institute following the renewals process commencing in the next few weeks. It was confirmed that a comprehensive marketing campaign to promote member benefits had been developed by the society using the persona data identified last year. Nonetheless it was noted that there was a risk that employers would be less willing to fund CFA UK membership in future.

It was discussed that, contrary to the downside expectations, it might be a good opportunity to promote the ESG certificate to workers in the finance sector as a way to upskill during a challenging economic time and in view of the increasing profile of ESG investing generated by the crisis. In addition, the IMC could be seen by some firms as part of their strategy to demonstrate compliance with the Senior Managers & Certificate Regime (SM&CR) and university students whose internships had been cancelled might be interested in pursuing the ESG certificate or the IMC over the summer.

It was agreed that the FY21 forecast and the forecast for the current financial year would continue to be reviewed and updated. The board's responsibility to manage the society's financial position is a core part of the directors' responsibilities and therefore any significant changes to the financial circumstances of the society should be notified to the board as soon as possible.

1286 Chief executive's report

i. Remote proctoring with Pearson Vue

It was confirmed that communications would be sent to registered candidates in the next week to let them know that they would be able to start scheduling remotely proctored sittings for the ESG certificate from 8th June 2020 and for the IMC from 1st July 2020. The staffed office would also be running instructional webinars for candidates to assist them with the remote examination process to ensure a smooth experience. Other associations' recent experiences of using OnVue in the UK had been encouraging. Where users had experienced problems, this was typically due to issues with internet reliability which did not seem to be a problem for UK candidates.

A press release was also being drafted to promote the introduction of the online examination process.

ii. Climate certificate scoping update

The scoping activity for the proposed climate certificate was summarised. It was anticipated that a proposal for the development of the certificate and the formation of a working group would be presented to the next board meeting in June.

Positive feedback had been received from the firms that had been approached in the scoping process. The team were keen to widen the reach of the research being carried out to other professions and industries and some firms had been identified in the audit, insurance, actuarial and banking sectors. The team were also eager to canvass the opinions of professionals not specialising in the ESG field to provide a balanced non-biased view in the results.

Concerns had been raised within the research process relating to potential brand dilution and the validity of the climate certificate as a standalone product rather than an extension to the relevant section in the ESG certificate. It was agreed that these questions should be specifically addressed in the remaining market research.

The board discussed the relevance of the proposed certificate and raised a number of queries. The GARP certificate in sustainability and climate risk was identified as a potential competitor to the proposed certificate but it was noted that the GARP certificate consisted of a generalist syllabus aimed at risk managers in many sectors whereas the proposed climate certificate would be specific to the investment sector.

The scoping process would continue and findings would be presented at the next board meeting.

iii. Draft structure for an agreement with CFA Institute for the ESG certificate

The draft structure to form the basis of the negotiations with CFA Institute to partner together for the ESG certificate was noted. It was confirmed that the process would be proposed in stages. Stage one would be an information sharing stage where CFA Institute could gain an understanding of the ESG certificate and how it was currently managed. Stage two would be a 'white label' stage under which the ESG certificate would become a CFA Institute branded product and where CFA UK and CFA Institute would start to share responsibility for different areas of operational management. The third stage would be to migrate the operational and management responsibilities to CFA Institute via a licencing arrangement. The Board supported the proposed approach on the basis that there would only be a progression to stage three if there was clear evidence that CFA Institute would maintain the characteristics of the ESG certificate and if CFA UK and CFA Institute could reach an appropriate financial agreement.

It was noted that the society intends to retain the intellectual property and ownership of the certificate throughout all stages of the agreement. It was anticipated that the society would be able to maintain operations with the assistance of CFA Institute under stage two with a modest global demand. However, if the demand was higher than expected, the Institute would be better placed to manage the certificate worldwide. It was also noted that, if the certificate was successful on a global scale, the Institute might also be best placed to engage with firms worldwide and to develop content based on global requirements.

The proposed approach and ways to manage the involvement of CFA Institute were discussed. It was suggested that check points be included within the process to review next steps and protect the product. It was discussed that the ESG certificate might be more successful in the European market rather than globally and that adapting content to meet global demand could dilute its relevance due to the variation of legislation and regulation. It was suggested that CFA UK might encourage CFA Institute to locate the management of their involvement with the certificate in their London EMEA office.

The commercial recommendations would be based on a revenue share basis only. It was noted that the society would not be amenable to a profit share arrangement.

It was noted that CFA Institute were keen to partner with the society for the ESG certificate project. There were no timescales yet for coming to an agreement. It was also confirmed that the draft structure was a basis for negotiation and many details were yet to be discussed.

The board were supportive of the draft structure although caution was expressed for progressing to a third stage without check points or a way to reverse the agreement. It was requested that board members submit any other comments by email to the chair or chief executive by 5th June 2020. Thereafter the proposal would be finalised and shared with CFA Institute.

iv. Returning to work plans

It was confirmed that return to work in the office, in a limited way, was expected to commence in mid-June. There was more work to complete before practical plans could be finalised and policies would need to be drafted.

v. IT system security

The penetration testing plan was reviewed and noted. The IT committee had reviewed the schedule and had been satisfied with the proposed approach. The IT committee would also review the results of each penetration test as they were completed.

vi. IT Project

An updated quote and functional specification for the Trillium MS-Dynamics component for the IT project had been received following the completion of the discovery phase. The specification and the quote had been reviewed by the staffed office and the IT committee.

The board had originally approved £494k of one-off costs of the IT project, made up of £260k of Trillium project cost plus £234k of other IT project costs, including PA Consulting work, CFA UK's project manager cost, the Shop.cfauk.org site rewrite and Sitecore forms setup. Following the discovery phase and the revised Trillium quote, the expected Trillium one-off costs had increased from £260k to £367k, and the other IT project costs were expected to be slightly lower at £231k.

Within the Trillium project cost of £367k, the Phase one cost for the Trillium build was expected to be £173k, for the setup of the core MS-Dynamics CRM and basic membership and events functionality linking to the website, versus the pre-discovery price estimate of £105k.The price increase, which was mainly due to increased complexity for the website user journeys and integrations, was discussed. It was noted that while a pre-discovery £57k contingency estimate had been quoted by Trillium, as the price was uncertain, the contingency may be needed later in the project and therefore it was not included in the first phase price comparison increases.

It was confirmed that £92k of annual recurring fees for licensing, support, hosting and third-party licences were also included within the quote. Contract terms were yet to be agreed. Currently the contract proposed an uplift of annual fees of 5%, which would be negotiated. It was agreed that negotiating and agreeing the Trillium contract would be essential before progressing with phase one of the project.

The £625k total cost of the IT project originally approved by the board (for both phases one and two and recurring costs) was estimated to have increased to £711k. During the discovery phase additional functionality (costing up to £55k) had been identified which was not included in the original quote, including administration of Statements of Professional Standing (SPS), which would need to be addressed after the first phase. SPS functionality was needed to fulfil CFA UK's responsibilities as an Accredited Body but the staffed office would do further work to determine whether some of the remaining additional functionality could be descoped. Also, it was noted that a discovery phase had not yet been conducted for phase two (for administration of qualifications) and the cost estimate provided by Trillium was a range of up to £109k, but was not certain.

It was requested that the board approve a drawdown of £173.3k for the payment of the first phase of the project build to deliver the core CRM and basic membership and events elements of the system, as a minimum viable product.

The board approved the drawdown of £173.3k for payment of the first phase of the IT project and approved the spend of £92k of annual recurring costs, conditional upon the agreement beforehand of contractual obligations. Matters to be addressed before agreement included checking the contract for a force majeure or COVID-19 clause to ensure that the IT project would be delivered in line with expectations despite the current pandemic and agreement of the recurring costs at an acceptable inflation rate. A more precise estimate of the likely costs for phase two and additional functionality (including that to enable automation of Statements of Professional Standing) would require additional discovery work at a later date, after the first phase.

The relative roles of the IT Committee and the IT Project Working Group were discussed, with a suggestion that it might be appropriate to disband the IT Project Working Group. It was agreed that discussion about this would be continued outside of the meeting.

1287 **Governance review working groups updates**

The governance review working group updates were noted.

It was intended that the momentum of the governance review progress should continue despite the distractions of the COVID-19 crisis.

Suggestions were made about the proposed frequency of the management committee meetings and the commitment required of committee chairs in attending meetings. It was noted that the intended function of the management committee meeting was as an information sharing body and the required attendance would be more flexible. The status of the management committee as a committee of the board was also queried.

It was confirmed that all working groups would produce proposal documents to be reviewed at the next board meeting in June when there would be opportunity for fuller discussion.

1288 **Officer succession**

The company secretary had consulted with Board members by email on two possible officer succession plans. As a large majority of Board members favoured the plan that all current officers continue in office for an additional year, the Chair considered this to be a clear consensus of the Board, thanked the Board for their continued confidence in the current officers and noted the intention to proceed on this basis.

It was noted that the approval was contingent to producing a robust succession plan for the following year and running an officer shadowing scheme for the intended successors.

Some concerns about the proposal were raised. The view was expressed that the board should be prepared to receive criticism from members and volunteers for the lack of succession planning. It was also suggested that replacing all three officers in the 2021 could be considered poor governance practice.

It was requested that any further objections to the proposal be communicated by email to the chair or chief executive. The proposal would be taken as approved subject to any objection being raised.

1289 **Finance report, management accounts and KPIs**

The finance report, management accounts and KPIs were taken as read and noted.

It was reported that the irrecoverable VAT write off was likely to be lower than forecast. The operating cash reserves were noted as c.£2m as at 30th April 2020. The cashflow forecast would be updated as part of the wider financial forecasting work.

1290 **Any other business**

<u>Ethics steering committee terms of reference</u>

The redrafted terms of reference for the ethics steering committee were reviewed and approved.

It was suggested that a clause be added to the terms of reference to address committee membership termination procedures. A precedent for this had been developed by the volunteer steering committee chair.

<u>Content steering committee</u>

It was reported that a branded podcast had been made which would be added to the Discover website. Recommendations for other high profile participants would be welcomed.

<u>Ethical leadership working group</u>

It was noted that a proposal would be made by the working group at the June board.

1291 **Date of next meeting**

It was noted that the next board meeting would be held at 5.30pm on Tuesday 23rd June 2020 and would be held via zoom video conference.

It was noted that the next management committee meeting would be held at 5.30pm on Tuesday 21st July 2020 either at CFA UK or by video conferencing to be confirmed near the time.

There being no further business the meeting closed at 7.50pm.

4th Floor, Minster House
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Signed: _________________________

Dated: __________________________