**Proxy Statement FAQs**

**June 15, 2022**

## Introduction

This year we undertook a comprehensive review of our bylaws and articles as we do periodically, with the last comprehensive review conducted approximately 10 years ago. We evaluated our existing bylaws and articles against current best practices, and with other organizations who are like CFA Institute (mission or purpose based, not-for-profit, membership organizations) and the ability to deliver on our objectives effectively. Our evaluation concluded that we should amend certain of the articles, as proposed in the Proxy.

We have received questions from a small number of Societies about the proposals and what the rationale is for the changes. We have addressed these in virtual meetings and phone calls with Society leaders and directors.

Here are our written responses to the specific questions raised at these meetings.

**Q: Why is CFA Institute proposing a change to its Purpose Statement?**

**A:** Over the years incremental changes have made our articles and bylaws more detailed and specific than necessary. Best practices for a purpose statement are to be clear in purpose, while general enough to adapt to conditions in the future that might not have been foreseen at the time of writing. In fact, many organizations' purpose statements say no more than the purpose of the organization is to "undertake all legally permissible activities." This proposed change, recommended by the Board of Governors, reduces the level of specificity in the Articles of Incorporation to render the organization more flexible to address policies and initiate programs in the future. For many nonprofit organizations, the Articles of Incorporation are an outline of basic provisions required by state statute, with details left to the more-visible Bylaws of the organizations. It is not our intent to diminish the importance or roles of Members and Member Societies, who will continue to be featured in detail by the provisions of the CFA Institute Bylaws in Article 3.

CFA Institute is incorporated under the Virginia Nonstock Corporation Act and granted determination of federal income tax exemption under Section 501(c)(6) of the Internal Revenue Code. The tax provision specifically requires organizations to demonstrate that they are organized and operate to advance an entire "line of commerce," which the IRS has interpreted as requiring that an organization's purposes be broader than just assisting their members.

**Q: Why do the stated purposes of CFA Institute make no reference to such activities as the CFA Charter and Member Societies?**

**A:** Following good governance practice, the Board of Governors concluded that a more general and flexible purpose statement will best serve CFA Institute and its constituents in the future; moreover, the CFA Charter and Member Societies are addressed in detail in the Bylaws such as in Article 3.

**Q: Why provide the option to create additional non-voting classes of membership?**

**A:** In the view of the Board of Governors, it is in the best interests of CFA Institute for there to be flexibility to add other **non-voting** classes of membership, without diluting or diminishing the existing classes. There may be future opportunities to improve and advance the organization and its mission through the addition of new classes of members who support our mission and the work we do to advance ethics, education, and professional excellence. We believe that collectively, we have a shared interest in expanding our member base, to include, for example, the charter pending cohort. These individuals have already successfully passed all three Levels of the exam but do not have the requisite work experience to receive their charter. We would like this group, and possibly others in the future, to become active non-voting members of the CFA Institute and Society community so that they can benefit from all that we have jointly to offer.

**Q: What is the role of the Board of Governors with respect to new member categories?**

**A:** The Board of Governors does not have authority to change any existing member class defined in the Bylaws nor to add voting classes that might dilute or diminish the authority and prerogatives of the existing voting membership.

**Q: Why does the Affiliate Member class as provided in the Bylaws not satisfy the needs of CFA Institute for a non-voting membership class?**

**A:** Affiliate membership is a bundled, dual membership of CFA Institute and some CFA Societies. The individual must become an affiliate member at a local society to be an affiliate member of CFA Institute. Affiliate membership does not suffice for three main reasons:
1) Limited coverage: Affiliate membership is not offered by all Societies. In the case of a Charter Pending person, they might have to choose a society which is not in their region and which may not offer the networking benefits they are seeking.
2) Varied requirements: Requirements to become an Affiliate member vary by society. There may be some societies which require a level of work experience to join. The requirements are defined by each society and are not uniform.
3) Customer choice: CFA Institute has committed to developing products and services that our customers want and value. Some customers, who currently do not have the work experience requirements for regular membership, may want a global-only membership alternative.

**Q: Why is there a change to voting rights?**

**A:** A typographical error has been identified and corrected. The language "…and each shall be entitled to one (1) vote on each matter . . ." will be retained in the Bylaws, as is apparent in the proposed revised Bylaws in the Appendix (Page 98). No voting rights are being changed and any future new classes of individual Members would be non-voting Members.

The error has been corrected on the CFA Institute website and we are alerting members of the misprint, including those who have already voted, and are able to accept a revised vote should they wish to submit one.

**Q: Why do the changes to the purpose statement in the Articles of Incorporation require a ¾ majority vote and similar changes in the bylaws requires a 50% majority vote? What would happen if one was approved and the other wasn't?**

**A:** The Code of Virginia sets the requirement of 2/3 majority approval to amend the Articles of Incorporation. Article 12.2(b) in the Bylaws establishes the requirement of majority approval to amend unless a greater majority is required/stated in the Articles of Incorporation.

In accordance to the Code of Virginia, should a provision of the articles of incorporation be inconsistent with a bylaw, the provision of the articles of incorporation shall be controlling. The bylaws of a corporation may contain any provision that is not inconsistent with law or the articles of incorporation.

So, if proposal 3 for the Bylaws passes but proposal 1 in the Articles of Incorporation does not, then the revised language still cannot be included in the Bylaws as it does not match the purpose statement as provided in the Articles of Incorporation. We cannot have two different versions of the purpose statement.

**Q: Good governance would have provided that a change to the bylaws be distributed to members prior to the request to vote. Were these changes discussed with the Board of Governors?**

**A:** CFA Institute notified the membership of the proposed amendments through its proxy statement 58 days in advance of the Annual Meeting of Members in accordance with the Code of Virginia which allows 60 days as the maximum voting period by proxy. This is the correct governance platform for presenting and requesting the membership to approve such matters. Good governance was observed.

These changes were discussed by the Governance Committee of the Board of Governors and approved for submission to the membership by the Board.

**Q: Why was this not shared with Societies before it was circulated to members?**

**A:** We value our relationships with all our stakeholders and welcome your questions and input and have noted that any proposed future changes would benefit from being aired first with this important group. The changes were proposed as general governance revisions. Since the proposed revisions are not Society-specific and have no effect on the day-to-day operations or governance of societies, the Board did not consider this a matter for prior discussion with Societies.

**Q: The CEO runs the company for the benefit of shareholders with advice from the Board of Governors. Society members consider themselves shareholders.**

**A:** The Articles of Incorporation and Bylaws establish that all corporate powers shall be exercised by or under the authority of, and the business of CFA Institute managed under the direction of, its board of directors, subject to any limitation contained herein.

The organization does not have shareholders, regardless of how members might perceive their status. We recognize members as our most important stakeholders, together with candidates, who are our prospective members. We take your views and your input seriously.

As a point of clarification, members do not hold any ownership interest in the assets of CFA Institute. Rather, as indicated in Article 6 of the Articles of Incorporation, in the event of dissolution of the organization, the assets of CFA Institute would not revert to the members. Instead, after paying its debts and returning assets per any applicable agreement, the remaining assets would be distributed to a charitable organization of like mission, per Court Order.

The President (CEO) is appointed by the Board of Governors and has management, supervision and control of, and responsibility for, the business of CFA Institute, subject to the direction of and oversight by the Board.

As such, the Board of Governors is the ultimate authority for CFA Institute, with the CEO operating the organization in accordance with Board-approved strategy and budget in furtherance of the mission of the organization. Regular members of the organization have the right to vote on the composition of the Board and Board leadership, and any proposed changes to the Articles of Incorporation, and certain provisions of the Bylaws as specified in Article 12 of the Bylaws.