TO: Members of the Finance Theory Group (FTG)
FROM: Board of the FTG
RE: Involvement of Senior Theorists in the FTG (“Fellows Proposal”)
DATE: May 8, 2012

Board Recommendation

The board of the FTG believes that it would be overall beneficial to include senior theorists (i.e., theorists who do not meet the current threshold that allows inclusion) in the FTG. The board unanimously supports the fellows model below and proposes that the by-laws of the FTG be changed accordingly. This note describes the proposal and summarizes the benefits and costs of the involvement of senior theorists as well as alternative proposals.

Fellows Proposal

1. **Members:** Theorists who are less than 15 years past their Ph.D. are eligible to become new members of the FTG. [The current fixed 1995 cutoff will be replaced by this rolling eligibility criterion throughout the by-laws.]

2. **Fellows:**

   (a) **Eligibility:** There are two ways to become a fellow of the FTG. Theorists who are more than 15 years past their Ph.D. are eligible to become new fellows of the FTG. In addition, members of the FTG in good standing who have been members for more than 5 years and are more than 15 years past their Ph.D. become fellows automatically and give up their membership status.

   (b) **New fellows:** New fellows are elected by the vote of the Board of Directors. No more than 6 new fellows can be elected each year, except in the first year where up to 12 new fellows can be elected (to accommodate potentially large initial demand). Elected fellows will be researchers who work primarily on theories of corporate finance, financial institutions, and financial markets, and have demonstrated support to theoretical research. Members who become fellows after reaching the above thresholds do not count towards these totals.

   (c) **Rights and duties of fellows:** Fellows have the right to attend the FTG meetings (and present papers) as long as space is available. At each meeting, priority on attendance will be given to members. Fellows do not have an attendance requirement, do not have voting rights, and cannot serve on the board.

   (d) **Details:** The first year of membership that counts for the computation of the 5 year threshold is 2009/2010 or whenever a member was invited to join the FTG or attend the FTG meetings.
Benefits of Senior Theorist Involvement

There are a number of benefits for the FTG and its members from having senior theorists, that is, theorists who are ineligible for membership under the current by-laws, involved in the group.

1. The quality of the interactions at the FTG meetings will improve further. Members can learn from knowing how senior theorists think about various questions, both during the paper presentations and in conversations during the break and throughout the day.

2. The FTG has served as a valuable networking forum for members, and this role will be enhanced by enriching the network.

3. Especially for members relatively new to the field, it is helpful to meet and interact with senior theorists in the profession in an informal setting. For example, senior theorists may some day be asked to write promotion and tenure letters for junior members.

4. The FTG is still evolving as an organization and its goals will evolve similarly. To the extent that the FTG seeks to be influential in the profession, it will have more influence with the backing of senior theorists. As an example of a possible long-term goal, the FTG may want to start a journal at some point in the future. For that, it will be essential to have most of the senior theorists in the profession on board. For other goals such as lobbying with the journals for greater representation of theory, it is also useful to have senior theorists behind the organization. Finally, having senior theorists involved will make it easier to raise funds in the future.

5. Some senior theorists have privately expressed their interest in the FTG to some current members. There is the expectation that there are gains to trade here.

Costs of Senior Theorist Involvement

No change is costless. Some of the costs of including senior theorists in the FTG include:

1. The number of people attending meetings may grow large more quickly. This may affect the informal culture of the meetings.

2. Some of the current members may be more reluctant to be active participants if they are being “judged” by senior colleagues.

Alternative Models for Senior Theorist Involvement

There are two main alternative models for senior theorist involvement:

1. No change/Passage of time: Do not change the by-laws; do not add any new senior theorists, but wait for current members to age.

   • Pros: Current members already know the culture of the organization, so little will change at the meetings. Also, the by-laws as of now do not have a provision for removing members for seniority, so this is effectively the status quo.
• **Cons:** Excludes anyone who obtained their Ph.D. before 1995 and limits the network in a way that may seem arbitrary.

2. **Add senior theorists as regular members:** Add senior theorists as members.

   • **Pros:** Simplicity: The only change to the by-laws that is required is eliminating the “PhD in 1995 or later” requirement.
   • **Cons:** Potentially, the focus of the organization may change to serve the interests of senior members. Also, there will be some discomfort in removing senior theorists if they fail to meet the attendance rule.

**The pros and cons of the fellows model are as follows:**

• **Pros:** The FTG continues to focus on serving the interests of members rather than fellows, since only members have voting rights and can serve on the board. Fellows are exempt from the attendance requirement but are still able to contribute to the success of the FTG. The fellows model allows a natural transition for current members to fellows status.

• **Cons:** A two-tiered system is more difficult to manage and requires a modification of the by-laws.

**Overall,** the board believes that the fellows model, while a bit more complicated, provides a good balance by leaving control rights in the hands of the more junior members while allowing more senior theorists to participate and contribute to the FTG mission.