

## ADVISORY COUNCIL CHAIR COVER NOTE – PROPOSED PRI GOVERNANCE STRUCTURE, DRAFT ARTICLES AND VOTING PROCESS

Let me first of all take this opportunity to thank all signatories who have actively participated in the reform of PRI governance. Your input has been very valuable in shaping the outcome of this process.

Following the signatory communication on 2 October outlining the proposed PRI governance structure, the PRI has worked with its UK lawyers Bristows LLP to draft the revised Articles of Association for PRI Association (the Company). These draft Articles reflect the 10 recommendations presented at the PRI's Signatory General Meeting (SGM) in September 2014 and subsequently communicated to all signatories.

The Advisory Council recommends that all signatories approve the draft Articles when voting commences on 8 January 2015 and I encourage all signatories to review them.

**Link: [PRI Draft Articles of Association](#)**

This cover note outlines:

- the aim of the PRI governance review;
- the PRI governance review process;
- a 'key' to the transcription of the 10 recommendations within the Articles;
- a review of the provisions for signatory involvement in PRI governance;
- the role of Statutory Members and rights to revise the Articles;
- the Board eligibility requirements, including the diversity, skills and experience of Directors;
- how the PRI intends to strengthen the accountability and rigour of the election process;
- the transition plan for implementing the proposed PRI governance structure; and
- the voting process.

### **Aim of the PRI governance review**

The aim of the governance review was to assess what governance structure the PRI should adopt to best facilitate the fulfilment of its Mission. In doing so, the PRI sought to balance the interests of different signatories and ensure decision-making processes about its Mission, direction, strategy, finances and operations are transparent, accountable to signatories, efficient and fit-for-purpose.

### **PRI governance review process**

The PRI announced it would undertake a review of its governance at its SGM in September 2013. The main elements of the review process to date have included:

- Circulation of the **PRI Governance Review - Draft Scope**<sup>1</sup> for signatory consultation.
- The appointment of an independent consultant, Carnstone Partners LLP, to undertake the review.
- Publication of the **PRI Governance Review - Signatory Consultation Paper**<sup>2</sup> that included 10 initial recommendations, and an **Advisory Council Chair Cover Note**<sup>3</sup>, outlining the reflections of the Advisory Council on these recommendations.
- A consultation which attracted a high level of signatory interest and engagement.
- The publication of the independent consultant's **Recommendations Following Consultation Feedback**<sup>4</sup>, plus the feedback that signatories chose to make public.
- Presentation of the **Proposed PRI Governance Structure**<sup>5</sup> and final 10 recommendations from the Advisory Council at the SGM in September 2014, with further communication to all signatories on 2 October.

At each stage of the review, the PRI has sought to engage extensively with signatories, to be transparent about the feedback it has received, and to incorporate this feedback into the final governance structure or explain why an alternative solution has been proposed.

#### **A 'key' to the transcription of the 10 recommendations**

To provide a reference point for signatories, the table below maps each recommendation to its corresponding enabling Article/s.

<b>Ten Recommendations as presented at the SGM</b>		<b>Article</b>
1.	Single Governing Body: The dual Advisory Council / Board structure is merged into a single governing body, the PRI Board.	9
2.	Advisory role of the UN: The UNGC and UNEP FI will continue to serve on the PRI Board as advisors on a permanent basis.	9
3.	Independent Chair: The Chair will not represent any of the signatory groups and will be an independent position.	10
4.	Fewer committees: PRI Board committees should be formed to facilitate governance and fiduciary responsibilities. Their number should be kept to a minimum and the seats will be restricted to Board Directors and UN advisors.	14
5.	Unambiguous control: All Board Directors, the elected Directors and the Chair, will be the sole 'Members' of the Company.	20
6.	Clear responsibilities: Clear expectations, terms of reference, lines of accountability, and delegated authorities should be defined and published for the Chair, Board Directors, committees and the Managing Director.	13, 14, 15, 19

<sup>1</sup> [PRI Governance Review Draft Scope](#)

<sup>2</sup> [PRI Governance Review Signatory Consultation Paper](#)

<sup>3</sup> [Advisory Council Chair Cover Note](#)

<sup>4</sup> [Recommendations Following Consultation Feedback](#)

<sup>5</sup> [Proposed PRI Governance Structure](#)

7.	Signatory involvement in governance: Signatories will have certain matters reserved for their endorsement.	17, 18
8.	Board member continuity: Board Directors should provide continuity in governing the PRI and be accountable to signatories. The role of alternates / designates will be removed.	13
9.	Skill levels of the Board: The current eligibility requirement for the PRI Board, i.e. those holding current CEO / CIO / Board Director / trustee positions, will be extended to include retired or ex- CEOs / CIOs / Directors / trustees.	10
10.	Formal Board reviews: The Board will carry out a formal review process on an annual basis, evaluating both Board function, committee function and individual Director performance.	16

### **Provisions for signatory involvement in PRI governance**

Signatory rights and the delegation of authority from signatories to the Board attracted significant feedback during the consultation. The proposed PRI governance model introduces several new mechanisms to encourage structured dialogue between signatories and the Board at regular intervals to ensure the Board remains accountable to signatories and decision-making remains transparent. At the same time, the Articles provide for the necessary delegation of authority from signatories to the Board to ensure the effective and efficient operation of the PRI.

Signatory rights as set out in the Articles include rights to:

- approve amendments to the Articles and Principles;
- elect the Directors and confirm the appointment of the Chair;
- receive the financial report and annual accounts;
- confirm the appointment of the auditor;
- approve minutes of an SGM;
- Formal Consultation prior to the adoption of a Strategic Plan;
- Formal Consultation prior to making any material changes to the Principles;
- Formal Consultation prior to making any material changes to the governance structure of the Company, including material changes to the rules or policies that the Company is required to publish;
- Formal Consultation prior to making any material changes to the Objects and/or the PRI's Mission;
- Formal Consultation prior to making any material changes to the fee structure for Signatories;
- call for an extraordinary election of Directors; and
- propose and vote on non-binding resolutions.

The SGM, as set out in the Articles, will serve as an important forum for dialogue between signatories and the Board. As well as receiving the annual accounts and other formal matters, the PRI will use the SGM to communicate decisions taken by the Board during the year and update signatories on progress towards implementing the PRI's strategic plan. The PRI is aware that not every signatory can attend the SGM and therefore voting on matters reserved for signatories will take place via an electronic vote before or after the meeting.

### **Role of Statutory Members and rights to revise the Articles**

The draft Articles are designed to preserve and strengthen signatory rights, enhance simplicity and transparency and create a pragmatic and fit-for-purpose governance structure, while satisfying UK law.

To promote simplicity and clear accountability, recommendation 5 proposes that all Board Directors - the elected Directors and the Chair - are sole 'Members' of the Company. The current governance structure made up of an asset owner-majority Advisory Council directly elected by signatories, an Association composed of the asset owner representatives of the Advisory Council ('Members' of the Company), and an Association-appointed fiduciary Board of Directors, was difficult to understand and complicated decision-making.

The recommendation is codified in Article 20.3: 'Statutory Membership is only open to the Directors'. PRI Association is a company incorporated in England under the Companies Act 2006. Any such company must have "Members" as well as Directors. In these Articles, these "Members" are called the Statutory Members and they must be the same individuals as the Directors. The Companies Act 2006 requires various matters to be approved by resolutions of these individuals in their capacity as "Members". It is for this reason that the Articles provide rules for meetings of Statutory Members in Schedule 2.

The PRI has explored the possibility of all Signatories becoming Statutory Members. The PRI is a company limited by guarantee, meaning that the company does not have share capital and its Statutory Members are guarantors rather than shareholders. Signatories as Statutory Members would therefore have a liability limited to a certain amount to contribute to the company's assets if it is wound up. Plus the PRI would have to keep an up to date register of every Signatory that agreed to be a guarantor. The PRI is a growing international organisation, with 1300 Signatories at present. Requiring all Signatories to be Statutory Members would be prohibitive for some Signatories within different jurisdictions and entail an unnecessary logistical burden for the PRI to maintain an up to date registry of the guarantors and non-guarantors at any one time.

The powers of Signatories are enshrined in the Articles and the powers of the Statutory Members are limited. For example any amendment to the Articles, including the Objects and Principles, requires: (i) under the Companies Act 2006, a Special Resolution of the Statutory Members; **and** (ii) the approvals of the requisite majority of Signatories set out in Article 18.1.2. An amendment to the Articles which also amends the Principles would additionally require the approval of the UN Global Compact and UNEP Finance Initiative, as set out in Article 18.1.3. The proposed structure, in which the elected Directors and the Chair are the sole 'Members' of the PRI, is thus a practical solution to promote simplicity and transparency which in practice does not affect the rights and powers of signatories.

### **Board eligibility requirements and the diversity, skills and experience of Directors**

Voting for Board Directors and the Chair is a fundamental signatory right and responsibility. Board eligibility requirements and the process to nominate Directors for election have been subject to considerable signatory debate throughout the governance review. Some signatories have raised concerns about the legitimacy of PRI elections due to the limited competition for places in some categories, the lack of background information about the skills, qualifications and experience of the candidates, and in some cases, the automatic qualification of unopposed candidates. The PRI

is proposing to address these concerns by revising the eligibility requirements and strengthening the rigour and accountability of the election process.

The PRI maintains that the current requirement for Board Directors to be at CEO / CIO / Board Director / trustee level is desirable in order to ensure the Board has relevant high-level experience to properly guide and oversee the Executive, plus that it is still important to have high level C-suite engagement and champions to mainstream responsible investment. However, the PRI does realise that this requirement can be restrictive for some organisations, especially large investment managers. To encourage a wider pool of candidates and more competitive elections, the draft Articles allow, in addition to the current eligibility requirements, for former CEOs and CIOs, and Executives whose immediate line managers are either a CEO or CIO, to be nominated as candidates for Board elections, subject to any eligibility requirements prescribed by the Board.

The PRI is encouraging a broader pool of candidates, but is also mindful of the need to have measures to promote a Board with relevant skills, diversity, including geographical spread and experience. The draft Articles allow the Board to prescribe additional eligibility requirements to those listed in the Articles, with a view to setting high leadership standards and enhancing the collective skills and/or experience and/or diversity of the Board, in accordance with guidelines set out in the Election Rules. If the Board is lacking geographical diversity, for example, it can prescribe within the Rules of an election that only candidates from a specific region/s can apply for the position/s. This is a more flexible means to promote geographic diversity than the current fixed regional geographic positions that can be too restrictive and stifle healthy competition for positions. The Election Rules, on which the PRI is required by the Articles to consult signatories, will provide more detail on the eligibility requirements and the processes around prescribing any additional eligibility requirements.

The Directors will promote Board diversity by engaging with signatories, the UN Global Compact and UNEP Finance Initiative and the Company's executives throughout the election process, and by adopting a Diversity Policy. Measures to promote diversity will include: identifying diversity gaps on the Board and highlighting these to signatories at the outset of the election process; asking signatories to consider diversity when voting for candidates; maintaining a registry of potential candidates that have declared an interest to serve on the PRI Board; proactive outreach to potential candidates via local and regional networks to familiarise them with Board roles and requirements; and, if required, contributing towards the expenses of Directors attending Board meetings and PRI events. However, with the exception of the Chair, it is not the intention to remunerate Directors.

### **Strengthen the accountability and rigour of the election process**

The Advisory Council, on balance, still views the creation of an external Nominations committee, constructed of non-PRI Board Directors, as adding unnecessary complexity. The creation of another governance body with significant influence over the composition of the Board has the potential to create additional challenges relating to its own selection, composition and accountability. While dominant institutional shareholders form the core of Nominations committees for corporate boards in some jurisdictions, the PRI has members of equal standing and equal rights within each signatory category. In this situation, the Advisory Council considers that the risk of creating a body with little legitimacy in the broader membership of the PRI will outweigh any potential benefits.

However the PRI can provide more guidance and information during the election process as well as strengthen the accountability of candidates to the signatory vote. The PRI will request that election candidates provide more information about themselves, for example on how they have demonstrated leadership within the industry or on previous board experience, within a standardised form to enable the electorate to more easily compare candidates. With more transparency about the eligibility requirements and the diversity, skills and experience sought for each election, potential candidates will have more information at their disposal to determine whether to nominate and signatories will have more information to help determine which candidate to vote for.

The draft Articles strive as far as possible for simplicity. In a change to the current process, the draft Articles prescribe that each signatory category votes for candidates that are nominated by the same signatory category: asset owners vote to fill asset owner vacancies on the Board; investment managers vote to fill investment manager vacancies on the Board; and service providers vote to fill the service provider vacancy.

The draft Articles include a new provision to improve the accountability of candidates, including existing Directors standing for re-election. In future, all candidates, including those standing unopposed, will face a signatory vote. In order to be elected, the candidate must receive a simple majority of votes by signatories in the relevant category.

The Chair is nominated by the Directors and must, before taking office, have his or her appointment and term of office confirmed by the signatories in an electronic poll. To increase the legitimacy of the independent Chair from the outset, the draft Articles require that the Chair is confirmed only with the approval of the majority of all signatories voting *and* a majority of asset owner signatories voting.

### **Transition plan**

On the date of adoption of the Articles, current Advisory Council representatives will become Directors on the new Board and will serve the remainder of their original elected term. Under this scenario, the new Board will achieve its targeted composition (i.e. seven Directors elected by asset owners, two Directors elected by investment managers, one Director elected by professional service partners, and one Chair) in January 2017. This is illustrated in the table below.

Current	Category	2015 (transition)	2016 (transition)	New	2017
1 Chair	Chair	Martin Skancke	Martin Skancke	1 Chair	Martin Skancke
9 Asset Owners	Asset owner	David Atkin	Marcel Barros	7 Asset Owners	Marcel Barros
	Asset owner	Marcel Barros	Mark Chaloner		Mark Chaloner
	Asset owner	Mark Chaloner	Priya Mathur		Priya Mathur
	Asset owner	Priya Mathur	Renosi Mokate		Renosi Mokate
	Asset owner	Renosi Mokate	Niels Erik Petersen		Niels Erik Petersen
	Asset owner	Niels Erik Petersen	<i>New Candidate</i>		<i>New Candidate</i>
	Asset owner	Daniel Simard	<i>New Candidate</i>		<i>New Candidate</i>
	Asset owner	Eric Wetlaufer	<i>New Candidate</i>		<i>New Candidate</i>
	Asset owner	<i>Vacant</i>			
4 Non-Asset Owners	Investment Manager	Geeta Aiyer	Geeta Aiyer	3 Non-Asset Owners: (2 investment managers and 1 service provider)	Geeta Aiyer
	Investment Manager (EM)	Luciane Ribeiro	Luciane Ribeiro		Luciane Ribeiro
	Open position	Colin Melvin	Colin Melvin		<i>New Candidate</i>
	Service Provider	Peter Webster	Peter Webster		

The Articles instruct the Directors to develop and publish certain Rules and Policies on the PRI website, including:

- Signatory Rules (including rules regulating the admission of signatories and signatory criteria);
- Election Rules;
- Procurement Policy;
- Code of Ethics;
- Diversity Policy;
- SGM Rules;
- Terms of Reference for Directors; and
- Terms of Reference for Committees.



These Rules and Policies will enshrine in more detail the procedures and practicalities required to give effect to each Article. The Election Rules, for example, will specify details of the eligibility requirements, election timetable, appeals process and information that candidates must submit when nominating. These Policies and Rules, in addition to clearly-defined roles, oversight and delegation of authorities between the Board and Executive, will be developed for adoption at the first in-person meeting of the Board in June 2015 and communicated to signatories prior to the 2015 SGM.

### **Voting process**

The PRI will make every effort to address any queries on the draft Articles and will encourage signatories, through multiple communication channels, to cast their vote. Questions should be directed to [governance@unpri.org](mailto:governance@unpri.org). Alternatively signatories can participate in one of two webinars that will outline the most important elements of the Articles and provide an opportunity for signatories to ask questions. Sign up to a webinar [here](#).

The PRI will promote the draft Articles and details of the voting process via the PRI website, the monthly PRI newsletter and direct emails to *main and secondary* contacts. On 8 January 2015, the *main* contact within each signatory organisation will be invited to vote to approve the draft Articles on behalf of their organisation via an independent voting platform. Three further emails reminding this contact to vote will be sent. If you are unsure who your *main* contact is please email [info@unpri.org](mailto:info@unpri.org).

Under the Company's current Rules, changes to the Articles and / or Administrative Rules require the support of asset owner representatives of the Advisory Council<sup>i</sup> and a simple majority of the asset owner signatories voting in an electronic poll. However, the PRI will also consider the votes of non-asset owners. If a majority of non-asset owners express significant discontent with the draft Articles, the PRI will seek to address, within reason, any concerns.

Voting will close on 30 January 2015 and the PRI will communicate the voting results in mid-February. With signatory approval, the new governance structure will commence on 1 April 2015.

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<sup>i</sup> PRI Association's Articles of Association may only be amended by a special resolution of PRI Association's members (being the asset owner members of the Advisory Council and the Chair of the Advisory Council), as required by the UK Companies Act 2006, and subject to fulfilment of the additional conditions imposed by Article 42.1 of the Articles, if applicable, as mentioned in the next sub-paragraph.

By virtue of Article 42.1, changes to the Articles affecting the composition of the Advisory Council (Article 23.3) and the Principles (as set out in the Schedule to the Articles) may only be made (i) with the consent of a simple majority of signatories who are asset owners voting on the amendment in question, such consent to be given by way of an electronic poll held in accordance with the rules and byelaws made pursuant to Article 41, and (ii) in accordance with any other requirements specified in those rules and byelaws.

The Administrative Rules Relating to the Advisory Council and signatories may only be amended (i) by a special resolution of the PRI Association members, or (ii) by a resolution of the Advisory Council passed by a majority of the asset owner elected members, the Chair of the Advisory



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Council and the UN members of the Advisory Council, taken together as one group. (Article 41.2 of the Articles and Rule 9 of the Administrative Rules.)