



Principles for Responsible Investment

Governance Review

Final Recommendations following
Consultation Feedback

Contents

	Page
1. Introduction	3
2. Brief	3
3. Approach	4
4. Governance Best Practice	4
5. Signatory Consultation	7
6. Summary of Feedback and Final Recommendations	8
7. Next Steps	33
Appendices	34
Glossary	44

1. Introduction

We are very pleased to present our final recommendations for a new governance structure for the PRI. We believe that the structure that is now recommended to all signatory members is clear, simple and fit-for-purpose and will allow the organisation to fully focus on its mission - to advance the development of a more sustainable global financial system for the benefit of society.

Carnstone submitted initial recommendations to the Advisory Council in July. These recommendations were subsequently circulated to all signatory members for their input and comments from the 16 July until the 5 September 2014. We now present the final recommendations, taking into account the signatory feedback that we received.

This report starts with the brief for the governance review, our research approach and our views on governance best practice as a comparative framework for the PRI recommendations. We then provide details of the consultation response and share the number of responses we have received through the various channels. Finally, we present the consolidated consultation feedback before articulating our final recommendations for a new PRI governance structure.

The PRI has committed itself to implementing a new governance structure by 1 April 2015, following a vote by signatories. Based on thorough research and engagement with signatories, we believe our recommendations will provide a solid framework to help the PRI fulfil its mission in the future. We are delighted to put these recommendations to the signatories for their vote.

2. Brief

In 2010, the PRI made changes to its legal structure and incorporated the PRI Association ('the Company') as a not-for-profit company limited by guarantee under English law. The organisation's financial and legal affairs were previously run as a division of the Foundation for the Global Compact.

The new legal structure required changes to be made to the PRI's governing body and the establishment of a new governance framework. The ultimate result was a governance structure made up of an Asset Owner-majority Advisory Council ('the Council') directly elected by the signatories, Members of the Company comprising the Asset Owners on the Council, and a Member-appointed fiduciary Board of directors ('the current Board').

The changes were driven by the rapid growth of the PRI's signatory base, the need to strengthen oversight of the Executive, a desire to deepen and expand the PRI's work programmes and a resulting decision to move from voluntary to mandatory fees. Some signatories raised concerns about the new governance structure. After listening to these concerns, the Council agreed to carry out a formal review of the PRI's governance.

The aim of this review has been to assess what governance structure the PRI should adopt. The governance structure and processes impact how effectively and efficiently the organisation operates, and how it is perceived by signatories and stakeholders. A new structure needs to ensure that future decisions about the PRI's mission, direction,

strategy, finances and operations are transparent to signatories, and the Board needs to be accountable for these decisions. This review has included an evaluation of the roles and responsibilities of the governing bodies and their committees.

The governance review has also incorporated an evaluation of the rights of each category of signatory. It did not consider whether asset owners should remain predominant in the PRI's governance structure, nor whether asset managers and professional service providers should be excluded from being involved in the PRI's governance. However, it did review the extent to which asset owners should pre-dominate and how this pre-dominance is best exercised to ensure broad representation for the other signatory groups.

The PRI Governance Review – Draft Scope for Consultation, as circulated to all signatories in February 2014, is attached as Appendix 1. Further information on the Governance review can be found on the PRI website: <http://www.unpri.org/about-pri/pri-governance/governance-review/>.

3. Approach

Phase 1 of our review consisted of an extensive fact-finding exercise. Namely, we undertook wide-ranging desk-research, performed a peer review, conducted a series of interviews with members of the Board and the Advisory Council as well as selected signatories, and carried out a legal review of our governance ideas and options.

As the PRI is established in the UK, we checked our recommendations against English legal practice and current English company law. It should be emphasised that at this stage, this was at a broad level only¹.

We reviewed the legal implications of UN participation, in particular the inability of UN Representatives to participate in a fiduciary oversight body. The UN Global Compact (UNGC) – on behalf of both UNGC and the UN Environment Programme Finance Initiative (UNEP-FI) - took legal opinion from their in-house counsel as well as their external legal advisors, Latham & Watkins LLP, to support our review.

On several occasions, we have taken legal advice from Bristows LLP, the current legal advisors to the PRI Executive, to ensure that our recommendations complied with English law governing the PRI Association.

4. Governance best practice

As part of the assignment, we undertook a benchmarking analysis to compare the governance structures of other organisations, including membership organisations, international NGOs and corporations/trade associations. These were headquartered in many different countries, not just the UK and US. We also reviewed the different governance structures utilised across the globe, e.g. unitary boards, dual

¹ This was a high-level review to ensure that there were no obvious legal constraints to the proposed solution. Further legal advice will need to be taken when the final decision on the PRI governance structure has been made.

supervisory/management board structures, etc. Subsequently, we reviewed international Governance guidelines, including the *UK Corporate Governance Code*, the *Dutch Corporate Governance Code*, *OECD Principles of Corporate Governance*, the *ICGN Global Corporate Governance Principles*, the *Commonwealth Association of Corporate Governance Guidelines* and the *Global Corporate Governance Forum Toolkit*.

Our benchmark review and the analysis of international governance standards led to the formulation of a set of principles of good governance. These are presented below.

4.1 Principles of good governance

The good governance library is extensive, ranging from academic papers and governmental documents to the many corporate governance codes that exist globally. We have taken the basic elements from several of these documents and have defined the following aspirational principles as being relevant to the review of the PRI governance structure.

Effective Leadership



- Every organisation should be headed by an effective board which is collectively responsible for its long-term success.
- The Board and any of its committees should have the appropriate balance of skills, diversity, experience, independence and knowledge of the organisation to enable it to discharge their respective duties and responsibilities effectively.
- The Chair is responsible for leadership of the Board and for ensuring its effectiveness on all aspects of its role.
- All directors should be able to allocate sufficient time to the organisation to discharge their responsibilities effectively.
- All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.
- The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Independence & Objectivity



- There should be a clear division of responsibilities between the running of the Board and the executive responsibility for the running of the organisation.
- There should be a formal, rigorous and transparent procedure for the appointment and/or election of new directors to the Board.
- All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance, to ensure Board refreshment.
- The Board should undertake a formal annual evaluation of its own performance and that of its committees and individual directors.
- The Board should set the strategy, taking into account the recommendations of the executive, and provide effective oversight of the implementation.
- No one individual should have unfettered powers of decision.

Accountability

- The Board should be accountable to the owners / members of the organisation and should communicate a fair, balanced and clear report on the organisation's position and prospects.
- There should be a formal oversight arrangement in place for risk management and internal control.
- The Board and committees have a duty to comply with the law, and are accountable for decisions and actions to their members / stakeholders.



Integrity

- Board duties should be carried out to the highest ethical standards.
- Decisions should be taken in the interests of the organisation as a whole, not to the benefit of the individual or their organisation or any other related party.
- Levels of remuneration should be sufficient to attract, retain and motivate a Chair and Managing Director of the quality required to run the organisation successfully, but the organisation should avoid paying more than is necessary for this purpose.
- There should be a formal and transparent procedure for developing policy on Chair and Managing Director remuneration. No director should be involved in deciding his or her own remuneration.



Transparency

- The Board has responsibility for ensuring that a satisfactory dialogue with important stakeholders takes place.
- Information should be shared, and reasons for decisions made clear (while handling confidential information with due care).
- The board should use the AGM and regular reporting to communicate with stakeholders and to encourage their participation.



5. Signatory Consultation

Carnstone presented a set of 10 initial recommendations for the future governance structure in the early summer of 2014. Following discussion at the Advisory Council meeting in New York on 2 July, these recommendations, accompanied by a letter from the Chair, were subsequently published on 16 July for review by the signatories.

Signatories were able to provide feedback during a consultation period which ran from 16 July until 5 September 2014. Carnstone received comments from current and potential signatories through the following consultation channels:

- In-person meetings (210 representatives)
 - Paris
 - London
 - Rio de Janeiro
 - Johannesburg
 - New York
 - San Francisco
 - Sydney
 - Melbourne
 - Copenhagen
 - Oslo
- Danish CEO Meeting (22 representatives)
- One-to-one meetings (1 representative)
- Webinars (46 representatives)
- Written submissions (7 responses; one letter was a joint submission of four Asset Owner signatories)
- Joint submission through Local Network Meeting in Montreal (16 representatives)
- Online questionnaire (39 responses).

Overall, 341 representatives from current and potential signatory companies took part in the consultation process. This total does not include interviews with Board / Advisory Council members and selected signatories as part of the early fact-finding phase. During this phase, Carnstone conducted 31 interviews.

Online questionnaire

Through the online questionnaire, we received a total of 39 responses. The majority of these responses came from Asset Owners, followed by Investment Managers, with most of them based in Europe and North America. For a detailed breakdown of the quantitative responses by signatory group and by region, please see Annex 2.

6. Summary of Feedback and Final Recommendations

In this section, we provide an analysis of the signatory feedback and explain how we incorporated the insights from the signatories into our final recommendations. We present the qualitative feedback received through all channels. This has carried most weight in our feedback analysis.

Separately, we also provide an overview of the quantitative preferences shared via the online questionnaire. We recognise that the group of respondents providing quantitative feedback was smaller at 39 signatories.

We have presented the information for each of the recommendations in the following order:

- Original recommendation
- Feedback from signatories – qualitative and quantitative
- Our response to the signatory feedback
- Final recommendation

For reference, the 10 recommendations are summarised here.

<i>Structure</i>	<i>Process & Performance</i>
1. Single governing body	6. Clear responsibilities
2. Advisory role of the UN	7. Signatory involvement in governance
3. Independent Chair	8. Board member continuity
4. Fewer standing committees	9. Maintaining skill levels of the Board
5. Unambiguous control	10. Formal Board reviews

Continuation of Asset Owner predominance

The current governance structure for the PRI Association creates a multi-layered decision making framework which is difficult to understand and ineffective. This is further exacerbated by the fact that the 'directors' of the company are different from the 'Members' of the company, with the latter largely being restricted to Asset Owner Council members.

In our view, this is too complex and should be simplified to create a direct correlation between the new PRI Board and controlling Membership of the Company. We suggest that all individuals on the Board, including Asset Managers and Service Providers (but excluding the UN) are made both directors and Members of the Company.

The PRI derives strength from being a very widely supported initiative, involving all players in the investment industry. The signatory feedback confirmed that there is strong support for the inclusion of all signatories in the decision-making process of the PRI.

However, the feedback also confirmed that the overwhelming majority of signatories want to retain Asset Owner predominance. Our recommendations on the composition of the Board together with the continuation of the current rules regarding changes on material issues will continue to support the Asset Owner predominance.

Majority on the Board

The allocation of the number of seats on the Board will preserve the Asset Owner majority. Asset Owners will have 7 out of the 11 director seats / votes on the Board. The UN does not occupy director positions and does not have a vote on the Board. The Chair's vote, while part of the overall 11 votes, is only a casting vote. Only Asset Owners signatories are eligible to vote for the Asset Owner elected members of the Board.

Asset Owner majority needed to support any material changes remains

Under the current rules, any changes to the Principles may only be amended with the consent of a simple majority of signatories who are Asset Owners. We propose to retain this within the new governance structure.

Similarly, any changes to the PRI Association's Articles and / or the Administrative Rules (relating to the Advisory Council and signatories) require the support of the Asset-Owner elected Advisory Council representatives and support of a majority of Asset Owner signatories.

Finally, a signatory resolution must be approved by a majority of signatories voting on the resolution in question, which majority must itself include a majority of the Asset Owner signatories.

Recommendation 1 - Single governing body

Original recommendation (July)

The dual Council/Board structure is merged into a single governing body, the PRI Board.

In addition:

- While the Board of the PRI can function well with the current number of members, we recommend a small reduction in the number of Board members, to aid practicality.
- All Board positions will be elected by the representative signatory groups, with exception of the Chair and the UN Representatives.
- The process for elections to the PRI Board will follow similar lines to the existing arrangements.
- It is important to maintain diversity on the new PRI Board, whether that represents market segmentation, geographical regions or other diverse characteristics such as gender. A mechanism needs to be developed to ensure effective representation and diversity.
- Board positions will retain the 3 year term, as currently exists for Council members. We recommend to limit Board positions to two terms.
- Transition arrangements will be put in place to transfer from the current structure to the new PRI Board. Existing Council members will remain until their term expires, after which their seat will be removed or put up for re-election.

Rationale: 

It is recognised by some that the current governance structure was necessary to see the organisation through its initial growth phase. However, it is considered complicated, and the structure is seen as prohibiting the PRI's potential being fully realised. There is a strong desire for clarity, simplicity and transparency in the governance of PRI. Removing the dual structure will assist with this aim.

The main governing body needs to lead the organisation. The new PRI Board is the recommended place for elected members to sit, and providing the elected members have the right skills, commitment and authorities, it can be effective. While the Board of the PRI can function at its current size, on balance we recommend a reduction in the number of seats on the new PRI Board.

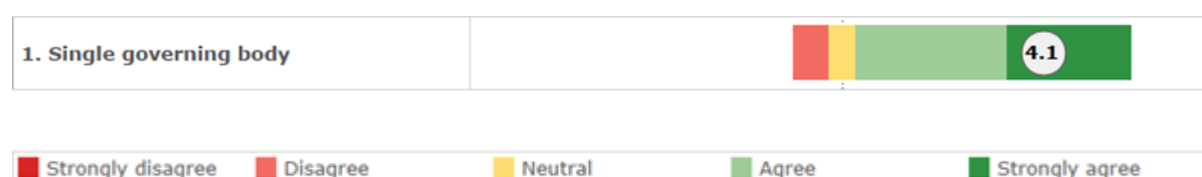
We recommend the 3-year term continues (with one re-election opportunity) and is staggered to help maintain a level of continuity on the board.

A mechanism needs to be developed to ensure effective regional representation and a wider diversity. The Council should consider removing the 6 fixed regional seats for Asset Owners and consider developing an alternative process for petitioning Board nominees.

Consolidated qualitative feedback (all responses including the online questionnaire) (n = 337)

- There is broad support for a single governing body. The only signatory feedback that has been somewhat negative has focused on the perceived lack of effectiveness of a single, larger Board, but not on the principle of a single governing body.
- There is a wish to reduce the size of the Board as signatories feel that a Board of 16 will be too large to be effective.
- Diversity on the Board is considered very important, particularly in terms of regions but also in terms of gender and skills.
- Several signatories have voiced concerns that the mandated geographic representation is no longer optimal. Instead, there is wide-spread support for a Nominations Committee which could be actively engaged in seeking and shortlisting suitable candidates.
- The role and responsibilities of a Nominations Committee need to be clearly defined. Specific requirements for future Board Directors developed by the Nominations Committee should be disclosed.
- Signatories were divided on whether Board Directors should be able to serve 2 or 3 terms.
- There is a broadly supported suggestion that, as a consequence of this review, the PRI should clarify the role and responsibilities of the Board.

Quantitative feedback (online questionnaire) (n=39)



Explanation of representation of quantitative feedback

The score in the circle represents the average of the responses, i.e. the sum of the responses from 'strongly disagree' (=1) to 'strongly agree' (=5) divided by the total number of responses.

The length of each coloured bar represents the percentage of respondents who answered using that particular category on the scale.

The positioning of the score within the bar represents the extent to which respondents agreed or disagreed with the proposal, i.e. the further to the right, the more respondents 'agreed' or 'strongly agreed'; the further to the left, the more respondents 'disagreed' or 'strongly disagreed'.

Our response to the feedback

We suggest to adapt the original recommendation to include the following additions:

- Reduce the size of the Board to 13 Directors (7 Asset Owners, 2 Investment Managers, 1 Service Provider, 2 UN positions, 1 Chair)
- Establish a Nominations Committee to help identify potential Board Directors. Develop clear terms of reference for the Nominations Committee.

Final recommendation

Single governing body.

The dual Council/Board structure is merged into a single governing body, the PRI Board.

- We recommend a small reduction in the number of Board members, to aid effectiveness and practicality: 7 Asset Owners, 2 Investment Managers, 1 Service Provider, 2 UN Representatives and 1 Chair. In total, 11 Board Directors and 2 UN senior representatives.
- Board positions will be elected by the representative signatory groups, with exception of the Chair and the UN Representatives.
- The process for elections to the PRI Board will follow similar lines to the existing arrangements.
- We recommend to establish a Nominations Committee which will be actively engaged in seeking and shortlisting suitable candidates. It is important to maintain diversity on the new PRI Board, whether that represents market segmentation, geographical regions or other diverse characteristics such as gender or skills.
- The Chair will be selected and nominated by the Nominations Committee and the nomination of the Chair will be confirmed by the signatories.
- Board positions will retain the 3 year term, as currently exists for Advisory Council members. We recommend to limit Board positions to two terms.
- Transition arrangements will be put in place to transfer from the current structure to the new PRI Board.

Recommendation 2 – Advisory role of the UN

Original recommendation

The UNGC and UNEP will continue to attend the PRI Board as senior advisors on a permanent basis.

In addition:

- The UN Representatives will not be directors of the Board, nor will they be members of the company.
- The UN Representatives will not have voting rights on the Board
- The UN should be represented on the Governance committees dealing with Policy. The UN will have voting rights on these committees providing they are made up of a majority of Board directors.

Rationale: 

There is strong support for the partnership with the UN, from both sides.

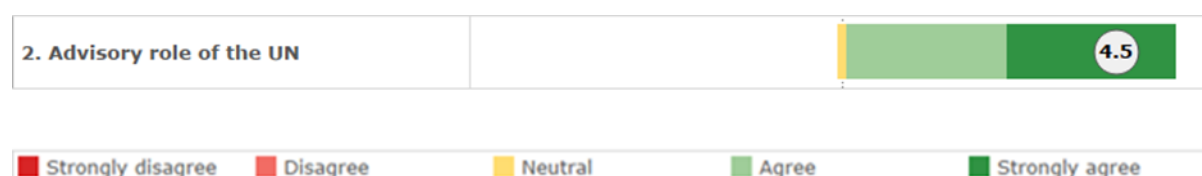
There is also a desire to streamline the PRI structure and to create one Board. This Board would have the legal and fiduciary responsibilities for the PRI association – a role that the UN representatives cannot perform.

The UN representatives wish to remain as advisors to the Board and to occupy seats on critical committees. They have consulted legal advice on how best to do this. A number of options were suggested, with the preferred option outlined in this recommendation.

Consolidated qualitative feedback

- There is very broad support for the proposed structure which allows the UN to participate as senior advisors.
- A clear majority of signatories consider it very important that the PRI retains the UN connection and have asked for a public acknowledgement of the strong ongoing relationship between UN and PRI. This issues is less strongly felt by US signatories.
- Signatories expressed dissatisfaction with the lack of Board attendance of the nominated UN representatives.

Quantitative feedback



Our response to the feedback

We suggest that there is no change to the original recommendations. We recommend the following additions / clarifications:

- The nominated UN Representatives on the PRI Board will change. In future, UNEP-FI and the UNGC will be represented by individuals at Executive Director and Deputy Director-level respectively. Both representatives are senior officials and will attend the Board meeting in person.
- The PRI and UN will develop a public message of support for the current relationship between the PRI and the UN

Final recommendation

Advisory role of the UN.

The UNGC and UNEP will continue to attend the PRI Board as senior advisors on a permanent basis.

In addition:

- The UN Representatives will not be directors of the Board, nor will they be members of the company.
- The UN Representatives will not have voting rights on the Board
- The UN should be represented on a Governance committee dealing with policy. The UN will have voting rights on committees providing they are made up of a majority of full Board directors.

Shadow Director or de facto director

In our considerations of the specific role of the UN representatives, we needed to make sure that the structure we devised did not cause any legal concerns, in particular, around the concept of shadow directorship. We asked for legal advice on this issue from Bristows LLP and their opinion is provided below:

A person who performs the functions of a director of an English company, but who has not been formally appointed as a director may, depending on the circumstances, be regarded in the eyes of the law, as being in fact a director: namely, a “shadow director”, or more precisely under UK law a “de facto director”. A de facto director owes duties to his or her company and is potentially liable for acts or omissions in the same way as a director who has been formally appointed.

Provided the UN representatives do not actually participate in voting and ultimate decision-making at PRI Association board meetings, but perform a purely subsidiary, advisory role, and provided they do not purport to act as directors within the organisation, nor hold themselves out to third parties as being directors, then it seems most unlikely that they would ever be regarded as de facto directors.

.../cont.

If the directors of an English company are accustomed to act in accordance with the directions or instructions of a particular person (which might be an individual or a legal entity), then that person will be a "shadow director". A shadow director incurs duties and potential liabilities as a director in certain circumstances – for example, where a company is insolvent.

On the assumption that the board of directors of the PRI Association will reach its own decisions independently, and in particular that it will not customarily act in accordance with the directions or instructions of one or both of the UN representatives, it seems extremely unlikely that a court would regard either representative or the UN itself as being a shadow director.

Recommendation 3 –Independent Chair

Original Recommendation

The Chair will not represent any of the signatory groups and will be an independent position.

In addition:

- It is important to retain some level of independence in the governance structure to provide checks and balance.
- Independence is defined by the fact that the Chair will not represent any one of the individual signatory groups, or the UN. There will be a written process explaining the Chair appointment, including how independence is maintained.
- The Chair will be the point of contact for all signatories, the Secretariat and relevant partners, and be able to act as an arbiter. The Chair will have a casting vote but not a normal vote.
- The Chair will be appointed by the Board. The Board will not be allowed to appoint one of its number to take up the role of the Chair.
- One of the Board members will be appointed as the Lead Director, and independent point of contact in the event that any signatory has issues to raise about the Chair. The Lead Director will resume the Chair's responsibilities at Board meetings if the Chair is unavailable.
- One of the Board committees will take responsibility for the regular review of the effectiveness of the Chair.
- As a final backstop, signatories can raise a resolution if they have major concern about the Chair (under current rules).

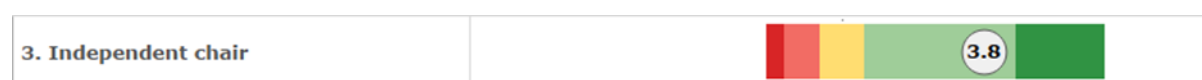
Rationale: 

Good governance principles are key to the future of the PRI and maintaining some level of independence is imperative. The Chair's role is a good place to maintain this independence. The Chair will be able to act as an arbiter.

Consolidated qualitative feedback

- There is support for the role of an independent Chair.
- Several signatories questioned whether the chair should be externally appointed or could instead be chosen from within the PRI membership.
- There is broad support for the introduction of a senior Board Director who will lead the evaluation of the performance of the Chair and act as a point of contact for signatories any concerns around the Chair. Several signatories have suggested to rename this role because independent Lead Director does not resonate internationally.

Quantitative feedback



Our response to the feedback

We suggest that there is no change to the original recommendations. We recommend the following additions / clarifications:

- The Chair of the Nominations Committee will lead the performance review of the Chair of the Board and act as the independent point of contact for concerns regarding the Chair of the Board.

Final recommendation

Independent Chair.

The Chair will not represent any of the signatory groups and will be an independent position.

In addition:

- The Chair will not represent any one of the individual signatory groups, or the UN. He / she will be the point of contact for all signatories, the Executive and relevant partners, and be able to act as an arbiter.
- The Chair will have a casting vote but not a normal vote.
- The Chair will be selected / nominated by the Nominations Committee. The nomination will be confirmed by the signatories, providing the Chair with a clear mandate.
- There will be an independent point of contact in the event that a signatory has concerns about the Chair. We recommend that this will be the Chair of the Nominations Committee.
- The Nominations Committees will take responsibility for the annual performance review of the Chair.

Recommendation 4 – Fewer Standing Committees

Original Recommendation

Board committees should be formed to facilitate governance and fiduciary responsibilities. They should be kept to a minimum and the seats will be restricted to Board members.

In addition:

- Committee membership and terms of reference will be defined.
- If represented on a committee, the UN Representatives will form a minority.
- There needs to be a clear segregation of duties. The Chair or any other Board Member will not sit on committees where there is a clear conflict of interest.
- Committees will make recommendations to the Board for final approval. They cannot take decisions that should be reserved for the Board as a whole unless they are given the delegated authority to do so through their terms of reference.

Rationale: 

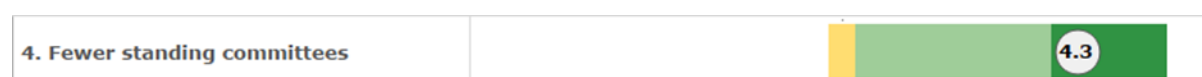
Board committees are essential to delivering the day to day needs of the organisation. Feedback suggests that there is a perception that currently there are too many committees. We suggest reducing the current number of committees.

This recommendation ties into Recommendation 6 describing clear delegation of authorities. It is important to have defined terms of reference for each committee which state what the decision-making powers are.

Consolidated qualitative feedback

- There is broad support for limiting the number of committees. Many signatories have asked that, as part of this review, we already outline the recommended committees.
- Signatories signal broad support for the provision that allows committees to invite experts to provide specialist opinion and advice.

Quantitative feedback



Our response to the feedback

We suggest that there is no change to the original recommendations. We recommend the following clarifications

- The role of the committees will be to support the effective functioning of the main Board. It is the responsibility of the Board to establish the number of committees and their terms of reference.
- From time to time, the Board may decide to set up a new committee or change the mandate of an existing committee.

Final recommendation

Fewer standing committees.

Board committees should be formed to facilitate governance and fiduciary responsibilities. They should be kept to a minimum and the seats will be restricted to Board members.

In addition:

- The role of the committees will be to support the effective operation of the main Board.
- It will be the responsibility of the Board to establish the number of committees and to define their terms of reference. From time to time, the Board may decide to set up a new committee or change the mandate of the existing Committees.
- If represented on a committee, the UN Representatives will form a minority.
- There needs to be a clear segregation of duties. The Chair or any other Board Member will not sit on committees where there is a clear conflict of interest.
- Committees will make recommendations to the Board for final approval. They cannot take decisions that should be reserved for the Board as a whole unless they are given the delegated authority to do so through their terms of reference.

Recommendation 5 – Unambiguous Control

Original recommendation

All Board members, with the exception of the UN, will be the sole 'Members' of the Company.

In addition:

- Extend the Member positions of the Company to include all Board members and not just Asset Owners, as it is now. This will introduce a one-to-one relationship between those on the Board and the directors/Members of the Company who can make decisions on behalf of the PRI Association.
- Asset Owners will retain majority control. They will have 9 out of the 14 director seats / votes on the Board. The UN does not occupy director positions and does not have a vote on the Board. The Chair's vote, while part of the 14 votes, is only a casting vote.
- Should a director no longer qualify for the position they hold and become ineligible for election to the Board (e.g. leave their own organisation or transfer to a different signatory category), they will retain their position on the Board only until the next election opportunity. Elections are held annually. At this point, they can either be removed or re-nominated and re-elected by the signatories.

Rationale: 

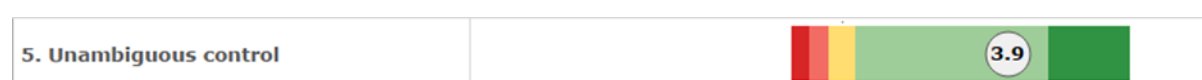
The current governance structure for the PRI Association creates a multi-layered decision making framework which is difficult to understand and ineffective. This is further exacerbated by the fact that the 'directors' of the company are different from the 'Members' of the company, with the latter largely being restricted to Asset Owner Council members. In our view, this is too complex and should be simplified to create a direct correlation between the new PRI Board and controlling membership of the Company.

There is strong support for the inclusion of all signatories in the decision-making process of the PRI, whilst retaining Asset Owner predominance. We support this and suggest that all individuals on the Board, including Investment Managers and Service Providers (but excluding the UN) are made both directors and Members of the Company. The allocation of the number of seats on the Board will preserve the Asset Owner majority.

Consolidated qualitative feedback

- There is broad support for clarifying the status of Board Directors and providing all Board Directors the same status.
- There is widespread and strong support for ensuring that the PRI remains an Asset-Owner lead initiative. This support is most widely articulated among Asset Owners themselves and Service Providers, less so among investment Managers.

Quantitative feedback



Our response to the feedback

We suggest that there is no change to the original recommendations.

Final recommendation

Unambiguous control. All Board members, with the exception of the UN but including the Chair, will be the sole 'Members' of the Company.

In addition:

- Extend the Member positions of the Company to include all Board members and not just Asset Owners, as it is now. This will introduce a one-to-one relationship between those on the Board and the directors/Members of the Company who can make decisions on behalf of the PRI Association.
- Asset Owners will retain majority control. They will have 7 out of the 11 director seats / votes on the Board. The UN does not occupy director positions and does not have a vote on the Board. The Chair's vote, while part of the 11 votes, is only a casting vote.
- Should a director no longer qualify for the position they hold and become ineligible for election to the Board (e.g. leave their own organisation or transfer to a different signatory category), they will retain their position on the Board only until the next election opportunity. Elections are held annually. At this point, they can either be removed or re-nominated and re-elected by the signatories.

Recommendation 6 – Clear Responsibilities

Original Recommendation

Clear terms of reference, lines of accountability and delegated authorities should be defined for the Chair, the Board of directors, the committees and the Managing Director.

In addition:

- Board members should understand their responsibilities and be given a clear mandate, including full expectations.
- The responsibilities should be made clear to nominees being put up for election by signatories, and nominees will be asked to demonstrate their ability to meet them.
- Each Board member will sign a letter of appointment, and agree to adhere to the PRI Board code of practice & ethics. There needs to be a clear process for removal of a particular Board member in the event of a breach of the code of practice or poor performance / attendance.
- Matters reserved for the signatories, the Chair, the Board and the committees should be clearly defined, as well as all delegations to the Managing Director.

Rationale: 

There is a desire to make the new PRI Board as effective as possible. Comments have been made that the current Council is not 'engaged enough' to lead the PRI, and that the existing Board gets 'too involved in management activity' and should step back.

Clarity of role and purpose is key. Over the past year, there has been a move to establish letters of appointment, formal terms of reference for committees, code of ethics, etc. We recommend that this is continued to define clear delegation of authorities between all levels in the organisation.

Consolidated qualitative feedback

- There is broad support for developing clear terms of reference, lines of accountability and delegated authorities for the Chair, the Board, the Committees and the Executive.
- Several signatories have commented that it is best practice to share these terms of reference with the signatories.

Quantitative feedback



Our response to the feedback

We suggest that there is no change to the original recommendations. We will clarify that we expect the terms of reference to be made available to all signatories.

Final recommendation

Clear responsibilities.

Clear terms of reference, lines of accountability and delegated authorities should be defined for the Chair, the Board of directors, the committees and the Managing Director.

In addition:

- Board members should understand their responsibilities and be given a clear mandate, including full expectations.
- The responsibilities should be made clear to all nominees being put up for election by the signatories, and nominees will be asked to demonstrate their ability to meet them.
- Each Board member will sign a letter of appointment, and agree to adhere to the PRI Board code of practice & ethics. There needs to be a clear process for removal of a particular Board member in the event of a breach of the code of practice or poor performance / attendance.
- Matters reserved for the signatories, the Chair, the Board and the committees should be clearly defined, as well as all delegations to the Managing Director.
- The terms of reference will be published and made available to signatories.

Recommendation 7 – Signatory Involvement in Governance

Original recommendation

Signatories will have certain matters reserved for their endorsement.

In addition:

- All non-Board member signatories will remain Associate Members of the Company. Hence there is no change recommended.
- A schedule of matters reserved for endorsement by the signatories should be established. This will include:
 - Election of the individual Board members for 3 year terms.
 - Approval of any changes to the mission or the PRI principles.
- The Board would be expected to consult with signatories on other significant issues. These can include: governance; main elements of the strategic plan; significant changes to the fee structure.
- Finally, signatories will continue to be able to raise resolutions (See Appendix 4 for the current rules on resolutions).

Rationale: 

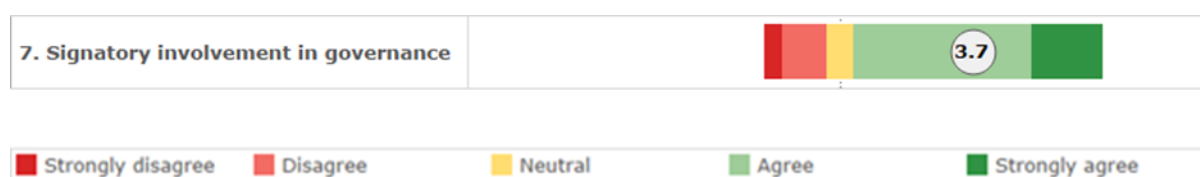
The PRI derives strength from being a very widely supported initiative, involving all players in the investment industry. It is not wholly transparent, however, how individual signatories can get involved in the governance of the PRI – with the exception of electing their respective members on the Council.

In the current Articles of Association, all signatories are classed as Associate Members of the PRI - we suggest this continues.

Consolidated qualitative feedback

- This recommendation solicited by far the most comments. Signatories widely indicated their concern about the lack of signatory involvement in the governance of the PRI and in particular about the perceived lack of influence around the SGM.
- Signatories indicated that the schedule of matters reserved for endorsement by the signatories should be extended to include the annual (re-)confirmation of Board Directors and the sign-off of the financial accounts of the PRI.
- Signatories broadly indicated that the current threshold for raising signatory resolutions was prohibitively high and suggested to reduce this threshold.
- Signatories asked for further clarification of the proposed consultation process.

Quantitative feedback



Our response to the feedback

We suggest to change the original recommendations to include the following additions / changes:

- Extend the schedule of matters reserved for endorsement by the signatories. Signatories will be asked to:
 - approve last year's Annual Report and Accounts
 - confirm the appointment of the auditor
 - confirm the nomination of the Chair, proposed by the Nominations Committee
 - to annually re-confirm the Board of Directors
- Reduce the threshold for raising signatory resolutions to 5% of the PRI signatories or 5% of all signatories within a signatory category.

Final recommendation

Signatory involvement in governance.

Signatories will have certain matters reserved for their endorsement.

In addition:

- All non-Board member signatories will remain Associate Members of the Company. Hence there is no change recommended.
- A schedule of matters reserved for endorsement by the signatories will be established. This will include:
 - Election of the individual Board members
 - Approval of any changes to the mission or the PRI principles.
 - Confirmation of the nomination of the Chair, proposed by the Nominations Committee
 - Annual re-confirmation of the Board of Directors
 - Approval of last year's Annual Report and Accounts
 - Confirmation of the appointment of the auditor
- The Board will undertake a formal consultation process to consult signatories on other significant issues, which can include governance, main elements of the strategic plan, and significant changes to the fee structure.
- The consultation process will be defined by a strict set of rules, including:
 - Clearly articulated recommendations / questions for consultation, a specific time window for consultation feedback, and multiple channels for providing feedback
 - The Board commits to disclose the feedback and provide a considered response ('comply or explain' principle)
- Signatories will continue to be able to raise resolutions. The threshold for proposing a signatory resolution will be at least 5% of all PRI signatories or, if the signatory resolution is only to be put to the vote of a single category of signatory, at least 5% of all signatories in that category (see Appendix 3).

Members versus Associate Members

In the current Articles of Association, all non-Board member signatories are classed as Associate Members of the Company. We recommend that this continues.

Under the UK Companies Act 2006, every company must keep a register of its Members, detailing the names and addresses of all Members, the date on which each Member was registered as a Member and the date at which any person ceased to be a Member.

Every company having more than 50 Members must also keep an index of the names of the Members. The index must at all times be kept available for inspection. The register and index of Members' names must be open to inspection of any Member of the company without charge or of any other person on payment of a fee.

A company does not have to keep a register or an index of its Associate Members.

Under the Articles of Association, the PRI is able to define the exact rights and responsibilities of Associate Members thereby giving the signatories all the rights that it feels are appropriate to exercise effective oversight of the PRI.

Recommendation 8 – Board Member Continuity

Original recommendation

Board members should provide continuity in governing the PRI and be accountable to the signatories. The role of Alternates will be removed.

In addition:

- Alternates will no longer be able to stand in for directors at Board meetings and when absent, a Board member's vote will either be lost, or transferred by proxy to the Chair or to another Board member in the same signatory category.
- Board members will be able to bring their own advisors to board meetings, or even send them in their absence, but the advisors will have no right to vote.
- As under the current rules, Board member attendance (by type of attendance: in person, by conference call, through an advisor, etc.) at meetings will be published in the year-end report.

Rationale: 

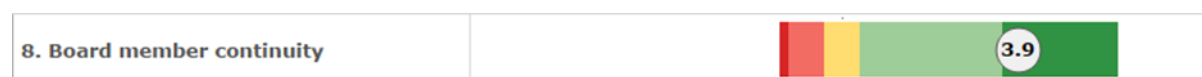
There is a clear demand for Board members to be accountable. Part of this relates to personal attendance at Board meetings. While there is some support for Alternates, usually from busy Board/Council members, other signatories question their role in decision-making and challenge the accountability of non-elected Alternates participating in Council discussions.

We hope that by allowing Board members to bring advisors, rather than formal Alternates, this solves the potential conflict.

Consolidated qualitative feedback

- There is broad support for the removal of Alternates. Signatories view removal as improving the accountability of the elected Board Directors.
- There remains some support for alternates among a small group of signatories, citing a trepidation about the expected time commitment of Board Directors

Quantitative feedback



Our Response to the feedback

We recommend that there is no change to original recommendations.

Final recommendation

Board member continuity.

Board members should provide continuity in governing the PRI and be accountable to the signatories. The role of Alternates will be removed.

In addition:

- Alternates will no longer be able to stand in for directors at Board meetings and when absent, a Board member's vote will either be lost, or transferred by proxy to the Chair or to another Board member in the same signatory category.
- Board members will be able to bring their own advisors to Board meetings, or even send them in their absence, but the advisors will have no right to vote.
- As under the current rules, Board member attendance (by type of attendance: in person, by conference call, through an advisor, etc.) at meetings will be published in the year-end report.

Recommendation 9 – Maintaining skills levels of the board

Original recommendation

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.

In addition:

- Retired or ex-officials will need to be nominated and supported by a signatory company, seconded by another signatory company of the same category and then voted for by signatories of the same category.

Rationale: 

There has been much debate about how to balance elected signatory/regional representation on the Council with getting the right mix of skills in place to do the job. This challenge has been cited as a reason why the PRI needed an appointed Board, where the 'right candidates could be found' to oversee the business of the Secretariat.

In our view, the seniority eligibility criteria (CEO, CIO, etc.) go some way in addressing this perceived skills issue, as does the ability to nominate an independent Chair who can bring an additional skillset. We feel that there is a case for widening the eligibility criteria to enable greater diversity on the Board. A mechanism needs to be developed to ensure effective representation and diversity.

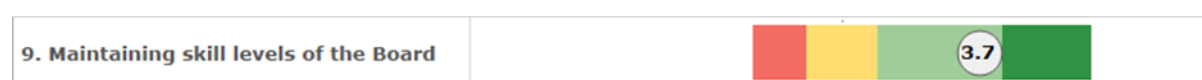
It is also worth considering other nominees, not fitting the above criteria, if they can make a case to the Board that they are able to fulfil the requirements of the role. In such cases, the Board would make the final decision on their nomination.

Potential skills gaps can be addressed by being clear about what is needed during the election process. If the new Board mandate is transparent enough and candidates are clear that the role requires significant resources, commitment and particular skills, this will lead to increased self-selection. In the future, if performance is weak, the Board review process should pick this up.

Consolidated qualitative feedback

- There is strong support to extend the eligibility requirements and allow ex-CEOs / CIOs / Board directors and trustees to stand for Board positions.
- There is a need to develop clear eligibility rules, including a specific time-limit after retirement so that retired candidates still have relevant and up-to-date experience.
- Some signatories recommended that the pool of potential Board Directors could be extended beyond the C-suite to include senior RI practitioners.

Quantitative feedback



Our Response

We suggest that there is no change to original recommendations but we will recommend that the Board will clarify the eligibility guidelines for ex-CEOs / CIOs / Board Directors and trustees.

Final recommendation

Maintaining the 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.

In addition:

- Retired or ex-officials will need to be nominated and supported by a signatory company, seconded by another signatory company of the same category and then voted for by signatories of the same category.
- The Board will articulate detailed rules which will define the eligibility criteria of ex CEOs / CIOs / Board directors or trustees

Recommendation 10 – Formal Board reviews

Original recommendation

The Board will carry out a formal review process on an annual basis, evaluating both Board function, committee function and individual member performance.

In addition:

- The Board review process will be by self-assessment.
- A summary of the review will be communicated by the Chair to the signatories as part of the annual report in order to feed back into the Board reconfirmation process.
- The Chair will be accountable to the signatories as a whole, and will have an annual performance review carried out by the Lead Director.

Rationale: 

In order for the proposed structure to work, it is imperative that the new PRI Board is effective. Feedback on the current structure has suggested that the Council is seen as not effective in leading the organisation and that sometimes members are ill-prepared and reliant on their Alternates to drive the debate.

A formal Council and Board review process might have addressed the issue earlier. We recognise that Board membership is not a paid position. Nevertheless the Board should be engaged and possess the right skill set.

Board members should act in the best interests of the PRI as a whole, remain objective and constructively challenge the system. Their contribution will be diminished if they are ill-prepared or have little time to commit to meetings. The mandate should be made clear to all signatories, especially those putting themselves up for election.

Consolidated qualitative feedback

- There is broad support for the introduction of annual reviews of Board performance. Signatories recommend that a summary of the annual review will be published and made available to signatories.
- There is a strongly supported view that an annual self-assessment review should be completed by an externally facilitated review at regular intervals.

Quantitative feedback



Our Response to the feedback

We suggest to change the original recommendation to include an externally facilitated performance review of the Board every three years.

Final recommendation

Formal Board reviews.

The Board will carry out a formal review process on an annual basis, evaluating both Board function, committee function and individual member performance.

In addition:

- The review process will be by self-assessment.
- Once every three years, the assessment of the Board will be undertaken by an independent, external advisor.
- A summary of the review will be communicated by the Chair to the signatories as part of the annual report in order to feed back into the Board reconfirmation process.
- The Chair will be accountable to the signatories as a whole, and will have an annual performance review carried out by the Chair of the Nominations Committee.

7. Next steps

The PRI has committed itself to implementing the changes to the governance structure by 1 April 2015.

From October, the PRI will focus on communicating the proposed governance structure, the reasons for the proposed changes and the implementation plan. Details of the transition from the current dual structure to the proposed single governing body, the PRI Board, will be proposed later, subject to broad approval of these recommendations by the signatory base.

Working with the PRI legal advisors, the PRI Executive will draft the necessary amendments to the Articles. Under the current rules, any changes to PRI Association's Articles and/or the Administrative Rules relating to the Advisory Council and signatories require the support of Asset Owner-elected Advisory Council representatives and Asset Owner signatories.

All signatories will have the opportunity to vote on the proposed governance structure and draft Articles in December. The proposal will be deemed successful if both a majority of Asset Owner signatory votes cast and a majority of all signatory votes cast agree to the proposals.

Appendices

- Appendix 1: The PRI Governance Review – Draft Scope for Consultation
- Appendix 2: Chart – Overview of Quantitative Feedback from Online Questionnaire
- Appendix 3: Suggested rules for raising and voting on resolution



PRI Governance Review – Draft Scope for Consultation

Signatories and other stakeholders are invited to comment on this draft by emailing governance@unpri.org by 28 February 2014.

Background

In 2010, the Principles for Responsible Investment (PRI) made changes to its legal structure and incorporated the PRI Association as a not-for-profit company limited by guarantee under UK law. The PRI's financial and legal affairs were previously run as a division of the Foundation for the Global Compact, a US-based charity responsible for administering the affairs of the UN Global Compact, which remains a close partner of the PRI.

The process of incorporation required changes to be made to the PRI's governing body and the establishment of a new Constitution. The ultimate result was a complex governance structure made up of an asset owner-majority Advisory Council (the Council) directly elected by signatories, an Association composed of the asset owner members of the Council, and an Association-appointed fiduciary Board of Directors (the Board). Certain signatory rights and responsibilities were also moved from the signatory body as a whole to the Council.

These changes were made in good faith and following legal advice to improve the operational effectiveness of the PRI and to meet what the Council believed to be the needs of the organisation and signatories at that time. The changes were driven by the rapid growth of the PRI's signatory base, the need to strengthen management oversight of the Secretariat, a desire to deepen and expand the PRI's work programmes and a resulting decision to move from voluntary to mandatory fees, payable annually by all signatories. These developments necessitated more effective fiduciary responsibility for PRI Association.

Some signatories, however, have raised concerns about the process used to adopt the new legal and governance structure and elements of the new Constitution, particularly how these changes affected the rights of asset owner signatories.

After listening to these concerns, the Council agreed at its meeting on 30 September 2013 to carry out a formal review of PRI's governance. This review was announced at the 2013 Signatory General Meeting (SGM) on 1 October and all signatories were advised of the decision to undertake the review in a letter from the Council Chair on 23 October 2013.

An overview of the PRI's current governance structure can be found on the PRI [website](#) and 2013 [Annual Report](#). This [overview](#) answers some of signatories' most frequently asked questions about PRI governance. Copies of the [Articles of Association](#) and [Administration Rules](#) are also available on the PRI website.

Context: A Unique Global Initiative

In early 2005, the then UN Secretary-General, Kofi Annan, invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment. A 20-person Investor Group drawn from institutions in 12 countries was supported by a 70-person group of experts from the investment industry, intergovernmental organisations and civil society.

The Principles were launched in April 2006 at the New York Stock Exchange. The preamble to the Principles, which signatories aspire to implement, states:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society.

As a founding partner, the UN believed that, in order for the Principles to be successful, they needed to be approved, launched and backed by asset owners. With ongoing support from two UN partners, UNEP Finance Initiative and the UN Global Compact, the PRI has grown to become a diverse global organisation with nearly 1,300 signatories in more than 50 countries (including around 250 asset owners; 750 investment managers; and 250 service providers).

The PRI's Mission is to contribute to the development of a more sustainable global financial system for the benefit of society:

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole. The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

Governance review

The aim of this review is to assess what governance structure the PRI should adopt to fulfil its Mission. Its recommendations must balance the interests of different signatories and ensure that decisions about the PRI's mission, direction, strategy, finances and operations are transparent, accountable to signatories, efficient and fit-for-purpose. The governance structure and processes determine – internally and externally – how effectively the organisation operates, and how it is perceived by signatories and stakeholders.

The governance review is expected to include, but will not be limited to, an evaluation of the rights of each category of signatory, the roles and responsibilities of the governing bodies and their committees.

The review will not consider whether asset owners should remain predominant in the PRI's governance structure, nor whether non-asset owner signatories (investment managers and professional service providers) should be excluded from being signatories or from being involved in the PRI's governance. However, it will review the extent to which asset owners should predominate and how this predominance is best enshrined and exercised to ensure broad representation for other categories of signatory.

The PRI is committed to ensuring the review is consultative and is carried out to the highest standards of independence, impartiality, transparency and accountability. Further, the review's findings and

recommendations – along with any subsequent changes to PRI governance that may result from the review – must be clear, practical and well communicated to signatories. The Council has established six principles to guide the review:

- **Mission.** The governance structure should facilitate the engagement of all signatories in the PRI's mission to advance the development of a more sustainable global financial system for the benefit of society.
- **Simplicity.** The governance structure must be straightforward to administer and easy to describe, with clearly articulated roles and responsibilities.
- **Transparency.** The requirements and process for communicating governing body decisions to signatories and stakeholders must be transparent.
- **Accountability.** Lines of responsibility must be clear and those within the governance structure must be answerable to signatories.
- **Practicality.** The governance structure must meet the practical requirements of the organisation.
- **Representation.** The governance structure must retain an asset owner-majority and must include all categories of signatory.

Process

The review will be undertaken by an external independent individual or organisation that will work with the Council's Governance Committee, the PRI Executive team and the new Council Chair, who is expected to be appointed within the next few months.

A Request for Proposal (RfP) for an independent individual or organisation to carry out the review will be released for tender by mid-March 2014. This individual or organisation will be formally appointed following the next meeting of the Council in London in March.

We envisage that the independent individual or organisation will prepare their review and recommendations for the Council by the end of June (consulting further with signatories as necessary between March and June). The Council expects to be in a position to consult signatories on any specific recommendations or proposals in August and September, ahead of the next Signatory General Meeting in Montreal, Canada, on 24 September 2014.

If, following consultation with all signatories, the outcome of the review is that changes are proposed to PRI Association's Articles and/or the Administrative Rules relating to the Council and signatories, the implementation of these changes will require the support of asset owner-elected members of the Council and asset owner signatories as outlined below.

- 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 Council and the Chair of the 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 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 Council and signatories may only be amended (i) by a special resolution of the PRI Association members, or (ii) by a resolution of the Council passed by a majority of the asset owner elected members, the Chair of the Council and the UN members of the Council, taken together as one group. (Article 41.2 of the Articles and Rule 9 of the Administrative Rules.)

The Council will be ultimately responsible and accountable for finalising the scope of the review, overseeing the review process and ensuring that any recommendations emanating from the review are effectively implemented in accordance with the Articles, Rules and byelaws, following consultation with signatories.

Feedback

The PRI invites input from all signatories and other stakeholders on this draft scope. As a membership-based organisation, your views are critical.

Feedback can be provided by emailing governance@unpri.org. The deadline for providing feedback is 28 February 2014.

A copy of the final scope, along with a list of the individuals and organisations providing feedback and a summary of this feedback, will be published on the PRI website in April.

Updates on the progress of the review will be available periodically at <http://www.unpri.org/about-pri/pri-governance/>.

Draft Scope

Context and wider environment

- **Unique characteristics of the PRI**, including consideration of its mission, diverse global signatory base, UN partnerships and asset owner focus.
- **Evaluation of the difference between the former and current Constitution**, specifically in relation to the rights of asset owner signatories.
- **Peer review**, including a comparison of the governance arrangements of similar global membership-based organisations to identify best practice.

1. Signatory Rights, Responsibilities and Representation

- A. **Signatory input**, including the areas, extent and frequency that signatories, or certain types of signatory, should be directly involved in setting, reviewing and approving changes to PRI's mission, strategy, annual work programme, signatory fees, budgets and financial report/accounts.
- B. **Signatory status**, including the criteria and processes for admission and removal of signatories in case of non-compliance with signatory requirements (i.e. payment of fees and failure to report implementation of the Principles annually via the PRI Reporting Framework).
- C. **Signatory/Annual General Meetings**, including the type, purpose and frequency of meetings, under what circumstances general meetings can be called and by whom, the number and type of signatories required to table agenda items or resolutions and the process for doing so, and whether resolutions passed at meetings should be binding.
- D. **Communication with signatories**, including the frequency and content of reporting before and after each meeting of the governing bodies and of signatories at general meetings.

2. The PRI governing bodies

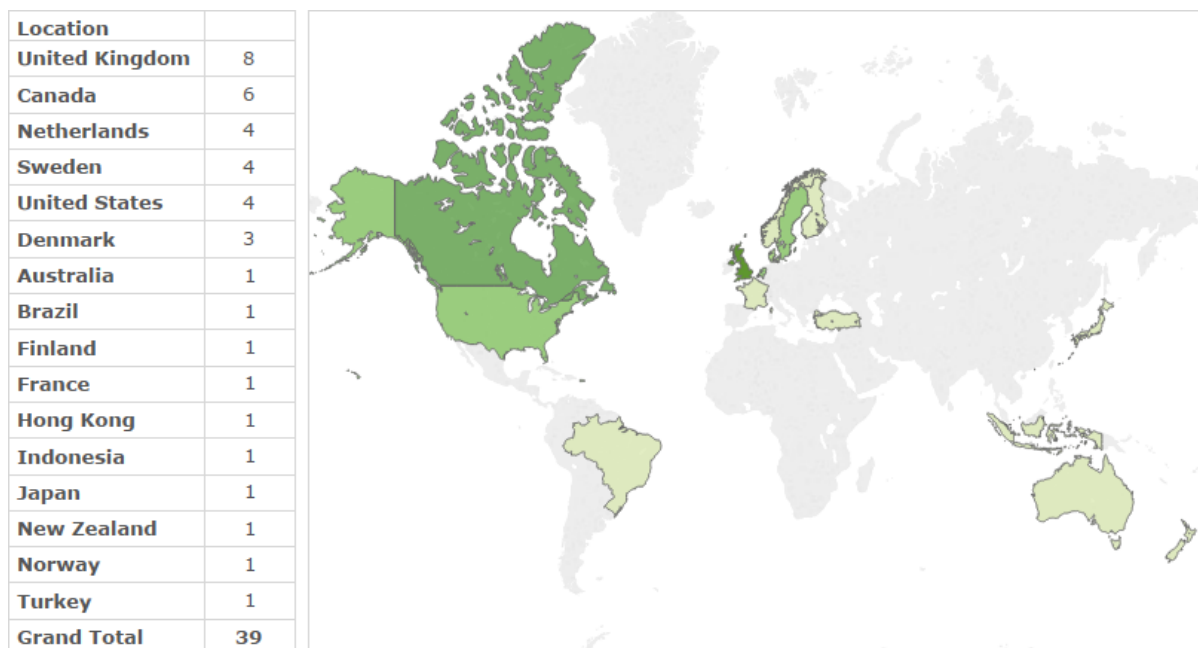
- A. **Number**, including whether individual representatives can serve on multiple bodies, if applicable.
- B. **Structure, size and composition**, including the number and type of positions for each category of signatory, and the mix of skills, experience, diversity and geographic make-up of individual representatives.
- C. **Role and function**, including in setting, reviewing and approving the direction, strategy, financials and management of the PRI.
- D. **Appointments and removals**, including the process and who is responsible for nominating and appointing or electing individuals to the governing body, and their length of terms.
- E. **Decision making processes**, including procedures for making decisions at and in between meetings of the governing bodies, the role of delegates/designates and the circumstances in which authority can be delegated and to whom, and reserved items that can only be approved by a particular body, certain categories of signatory or the Chair.
- F. **Meetings**, including their frequency, duration and attendance requirements.
- G. **Compensation and fees**, including reimbursement of travel and accommodation costs for attending meetings and official business for the Chair and individual representatives, and who decides on compensation matters.
- H. **Reporting to signatories**, including the content and frequency of reporting of the agendas, discussions, decisions, voting and outcomes of each meeting.
- I. **Effectiveness**, including how and when the effectiveness of each individual serving on the governing body and the governing body as a whole will be reviewed and reported and by whom, and how feedback from reviews is reflected in the nominations process.
- J. **Conflicts of interest**, including the disclosure and management of conflicts, including those inherent within the three categories of signatory.

3. Committees of the PRI governing bodies

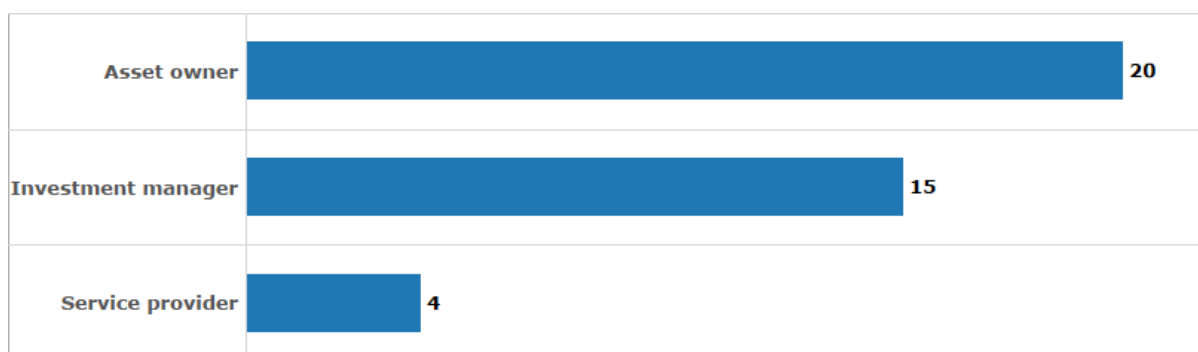
- A. **Number of committees, their scope, function and terms of reference.**
- B. **Size and composition**, including the number of positions for each category of signatory, and the mix of skills, experience, diversity and geographic make-up of individual representatives.
- C. **Appointments and removals**, including the process and who is responsible for nominating and appointing or electing individuals, their length of terms and ability to serve on multiple committees.
- D. **Decision making processes**, including the procedure for making decisions at and in between meetings, the role of delegates/designates and the circumstances in which authority can be delegated, and reserved items that can only be approved by a particular body or certain individuals.
- E. **Meetings**, including their frequency, duration and attendance requirements.
- F. **Reporting to the governing body and signatories**, including the content and frequency of reporting of the agendas, discussions, decisions, voting and outcomes of each meeting.
- G. **Effectiveness**, including how and when the effectiveness of each individual serving on the committee and the committee as a whole will be reviewed and reported and by whom, and how feedback from reviews is reflected in the nominations process.
- H. **Conflicts of interest**, including the disclosure and management of conflicts, including those inherent within the three categories of signatory.

Appendix 2 - Overview of Quantitative Feedback from Online Questionnaire

Feedback by location



Feedback by signatory category



Summary feedback - overview



Appendix 3 - Suggested rules for raising and voting on resolutions

Ordinary Resolutions

An ordinary resolution of the Members of the Company means a resolution that is passed by a simple majority of those Members.

Special Resolutions

A special resolution of the Members of the Company means a resolution passed by a majority of not less than 75% of those Members. Special Resolutions are required to alter the articles, rules or byelaws of the Company.

Signatory Resolutions

Any signatory may also propose a resolution to be put to a vote of either (i) all signatories in all categories or (ii) all signatories in the same category of signatory as that signatory.

To propose a resolution, a signatory should e-mail the PRI Secretariat the text of the resolution together with evidence that it is supported by at least 5% of all PRI signatories or, if the signatory resolution is only to be put to the vote of a single category of signatory, at least 5% of all signatories in that category.

Guidelines are provided below.

Signatory category	Total number of signatories	Number of signatories required to support a resolution
Asset owners	274	14
Investment managers	807	40
Service Providers	185	10

Signatory data as at 23 June 2014.

Resolutions that do not have evidence of the required level of support will still be considered by the Advisory Council but there is no obligation to hold a vote.

Glossary

Definitions of some of the main terms used in the report:

Term	Definition
Asset Owner	An organisation that manages or controls investment funds, either on its own account or on behalf of others, and which owns more than half of such investment funds.
Associate Member of the Company	A signatory to the PRI Principles, once approved by the Board, is automatically admitted to be an Associate Member of the Company. They are not Members of the Company for the purposes of the Companies Act, and hence they are not entered in the Register of Members.
Board of the Company	All of the Company Directors. The UN representatives will be senior advisors to the Board and have a permanent right to attend.
Company limited by guarantee	The Members guarantee the payment of a nominal amount (£1) if the company goes into insolvent liquidation, but they have no economic rights in relation to the company. This type of company is common in England.
Director of the Company	An individual who is appointed to be a director of the Company by the Members to direct / manage the business of the company. All Directors form the Board of the Company. The UN representatives will not be Directors of the Company.
Independent Chair	A Chair of the Board who is independent from the signatories and not representative of any one of the signatory groups or the UN.
Investment Manager	An organisation that manages or controls investments funds, either on its own account or on behalf of others, and which does not own more than half of such investment funds.
Member of the Company	A signatory representative who is admitted to membership of the Company as defined by the UK Companies Act 2006 and effectively acts as an 'owner' of the Company. Members sit on the Board and are able to make decisions on the Company's behalf according to the Articles of Association. UN representatives will not be Members of the Company.
PRI Association	The PRI Association is a Company limited by guarantee without having any share capital.

	Established in England under the UK Companies Act 2006.
Principles	Principles for Responsible Investment (PRI) established by the PRI Initiative.
PRI Initiative	An investor initiative established in partnership with the UN Environment Programme (UNEP) and the UN Global Compact (UNGC), originally launched in April 2006 by the UN Secretary-General in New York.
Secretariat	The PRI executive body employed by the PRI Association to run the business of the PRI Initiative.
Service Provider	An organisation that does not manage investment funds, but provides professional services to Asset Owners and/or Investment Managers in order for them to do so.
Signatory	Investment institutions with funds under management, or service providers, either public or private, who commit to the Principles.