carnstone
partners llp

Principles for Responsible Investment

Governance Review - Recommendations

Contents

1. Introduction

We are delighted to present our recommendations on a new governance structure for the PRI. We believe that the recommended structure is transparent and fit-for-purpose and, above all, 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.

In this document, we briefly replay the brief for the governance review, outline the work we have undertaken and present headline findings of our research and analysis. The report describes in detail our views on governance best practice and then provides our recommendations on a governance structure that we feel will most suit the demands of the PRI at this stage of its development.

We are confident that we have produced a set of governance recommendations which will provide practical governance oversight to support the future growth of the organisation.

2. Brief – what we were asked to do

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 Secretariat, a desire to deepen and expand the PRI's work programmes and a resulting decision to move from voluntary to mandatory fees. Some signatories have raised concerns about the new governance structure. After listening to these concerns, the Council agreed to carry out a formal review of PRI's governance.

The aim of this review has been to assess what governance structure the PRI should adopt to fulfil its mission. The governance structure and processes impact how effectively 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 effective and transparent to signatories, and the Board needs to be accountable for these decisions. The 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 other categories of signatory groups. The *PRI Governance Review – Draft Scope for Consultation*, as circulated to all signatories in February 2014, is attached as Appendix 1.

3. Methodology – what we did

The first phase 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 and carried out a legal review of our governance ideas and options.

3.1 Desk research

We undertook a review of the current structures and the rationale for deciding upon the current governance set-up. This involved an appraisal of all documentation related to the legal incorporation of the PRI as a company, including the *Articles of Association*, and the *Administrative Rules*, as well as minutes of recent Signatory General Meetings (SGMs) and correspondence from members detailing the decision-making discussion around the time of the newly suggested structure.

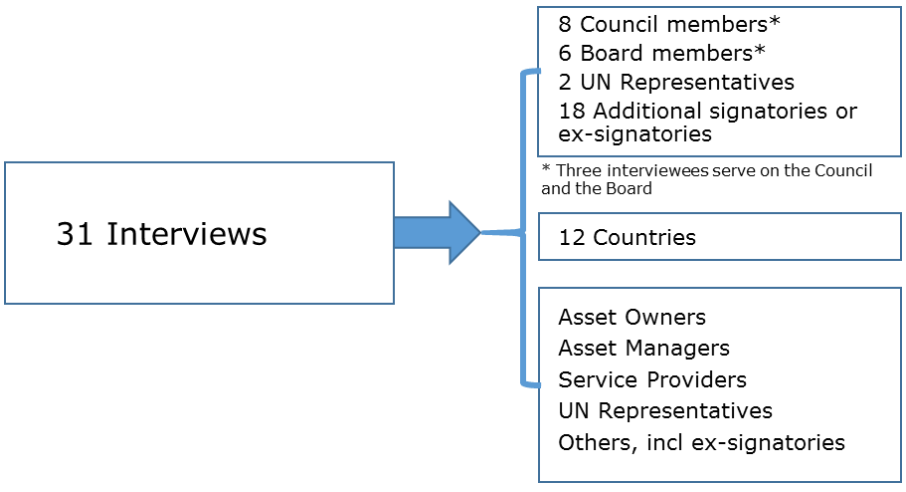
We reviewed all the correspondence from those members who resigned their membership of the PRI at the end of 2013 and the notes from recent meetings with signatories in the Nordic countries. We also reviewed all correspondence from signatories in response to the scope of the governance review and analysed the results of the recent signatory survey.

3.2 Interviews

To supplement the desk research, we interviewed a range of interested parties, particularly those closely involved with the Council, the current Board and the PRI Secretariat. We also interviewed the UN Representatives and some selected signatories and ex-signatories.

In total, we spoke to some 31 people as part of the fact-finding exercise. This was not part of the formal consultation process, which will be carried out later this year.

Interview Breakdown



3.3 Peer benchmarking and review of governance best-practice

As part of the assignment, we undertook a peer benchmarking analysis to compare the governance structures of other organisations, including membership organisations, international NGOs and corporations/trade associations. We looked primarily at international organisations and corporations, rather than national entities. 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 supervisory/management board structures, etc.

Peer benchmark review group, examples of the types of organisation considered:

Membership Organisations	International NGOs	Corporation/trade associations
World Business Council on Sustainable Development	Amnesty International	International Banking Federation
Extractive Industries Transparency Initiative	Friends of the Earth International	UK Sustainable Investment & Finance Association
International Corporate Governance Network	WWF	Global Sustainable Investment Alliance
Business in the Community	Red Cross	BUPA

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 have led to the formulation of the best practice guidelines as presented in Chapter 4.

3.4 Legal review

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 this was at a broad level only[1].

As part of this, we undertook an extensive interview with Howard Jacobs, who was instrumental in providing legal input into the current governance structure. We discussed the legal implications of UN participation with the UN Representatives, and in particular the inability of UN Representatives to participate in a fiduciary oversight body. In preparation for these discussions, the UN Global Compact (UNGC) – on behalf of both UNGC and the UN Environment Programme (UNEP) - took legal opinion from their in-house counsel as well as their external legal advisors, Latham & Watkins LLP.

We discussed our early recommendations with Bristows LLP, the current legal advisors to the PRI Secretariat, to sense check our first findings and to ensure that our draft recommendations complied with English law governing the PRI Association.

[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.

4. Findings – what was the main feedback

As outlined, we reviewed the signatory feedback, and undertook a series of interviews, to understand the range of views, opinions and concerns regarding the current situation and to inform our recommendations for a future PRI governance structure. Below, we have highlighted some of the key themes emerging from the fact-finding phase.

4.1 Overall feedback on current governance structure

Signatories are positive about the PRI's achievements over the last 10 years and there is a broad recognition of the potential of the PRI to be a very substantial force for change. The signatories are strongly committed to the implementation of the six Principles for Responsible Investment.

Many signatories have shown personal commitment to support the work of the PRI, volunteering their time and company resources to play an active role within the PRI network, either through serving on one of the governing bodies or through support for many of the PRI's projects. Despite criticism of the current governance structures, many recognise the personal commitment and professional skills of the people that have served on the Council and the Board and have helped to provide guidance to the PRI Secretariat over the last years.

There is a clear sense of optimism about the future, driven by the recognition that the organisation now has a newly appointed Chair and a new Managing Director leading a bigger Secretariat with a more senior bench of Directors.

There is, however, a genuine and widely-shared concern about the current governance structures which are seen as overly complicated and lacking in transparency. Many respondents commented that the organisation's governance does not meet the standards of governance that are actively promoted by the PRI itself.

4.2 The Council and the Board

There is confusion about the roles and responsibilities of the Council and the Board. Many signalled that the Council, directly elected by the signatories, should lead the organisation but then commented that it does not seem to do so. Interviewees expressed their concern about the perceived lack of accountability of a 'dual-board structure' whereby the management oversight of the Secretariat is driven by an appointed fiduciary board.

4.3 The Council

The Council is seen as the natural body to provide leadership to the organisation. It is directly elected by the signatories and it provides broad representation of the different signatory groups – by signatory membership, and region. There is strong support for a structure whereby the top governing body is directly elected, and not appointed.

However, the Council is not seen as providing this leadership at the moment, through a perceived combination of a lack of focus, a lack of structure and a lack of effective management and support.

4.4 The Board

The Board invites mixed responses. While interviewees recognise that it comprises of very competent people who have provided powerful and efficient oversight of the Secretariat, the Board's responsibilities are not well understood. The current structure of having a Council and a Board with different responsibilities is seen as confusing.

As the Board is not directly elected but rather appointed, it struggles to overcome concerns about its accountability. The current situation whereby the Council and the Board have had a different Chair has been seen as unhelpful and not conducive to effective communication.

4.5 Committees

Most interviewees comment that they believe that there are too many committees at present. There is confusion about which committees report to the Council and which to the Board. There is a perception that there is a lack of a clear delegation of powers from the top governing bodies to the committees.

4.6 Balance of signatory powers

Among the interviewees, there is broad agreement that the PRI should remain an Asset Owner driven initiative. This view is shared among all signatory groups. It is accepted that the governance structure should therefore continue to reflect a majority of Asset Owners.

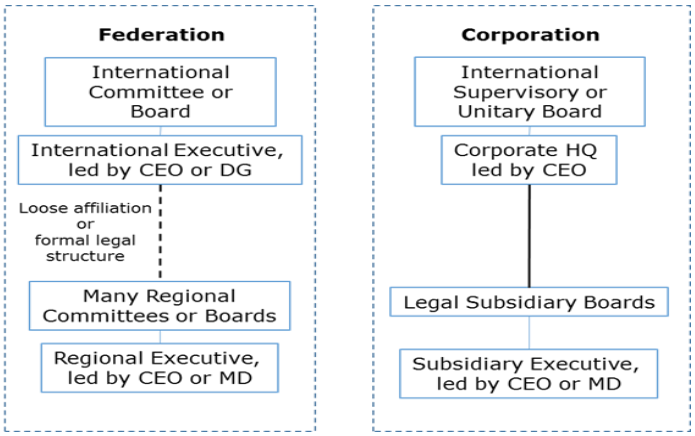
There is also wide recognition that the Asset Managers and Service Providers now make up the majority of the membership and that their membership is crucial to the ongoing success of the PRI. It is therefore commented that the governance bodies should have an effective representation from these non-Asset Owner signatories.

4.7 Processes and behaviours

A substantial part of the feedback focused on the governance structure. However, many interviewees also stated a desire for better and more efficient practices to support effective governance, including effective management of the Council by the Chair and greater support from the Secretariat.

5. Governance best practice – what are the principles of good governance

International organisations are structured in many different ways, depending on whether they are international due to their membership, their scope or their physical presence. For international NGOs, the member is usually an individual or a group of organisations or both. Others, such as private companies and corporations, have shareholders. Two common governance structures have been observed during the peer-review which we have illustrated below. These we have called the Federation and the Corporation.



The Federation is used most often by the large NGOs, where they are held together by a common mission or objective. The international body usually holds the rights to the intellectual property, e.g. the principles, mission and overall guidelines of the organisation, and manages the global communications, between the regions and with international stakeholders. The regions are then free to operate relatively autonomously within the guidelines set by the international body. There is usually a more formal legal structure between the Corporation HQ and its subsidiaries and formal governance structures.

In addition, Federation councils and boards are more often likely to be made up of elected members. Corporation Board members are mostly appointed and then endorsed later by shareholders at AGMs.

Although the benchmarking review illustrated a variety of options that the PRI could adopt, there was no direct comparator. We therefore took the review back to first principles by considering what good governance might look like.

5.1 Principles of good governance

The good governance library is extensive, with many academic papers and governmental documents extolling the principles of good governance, 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

- Highest ethical standards should be employed when carrying out Board duties.
- 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.

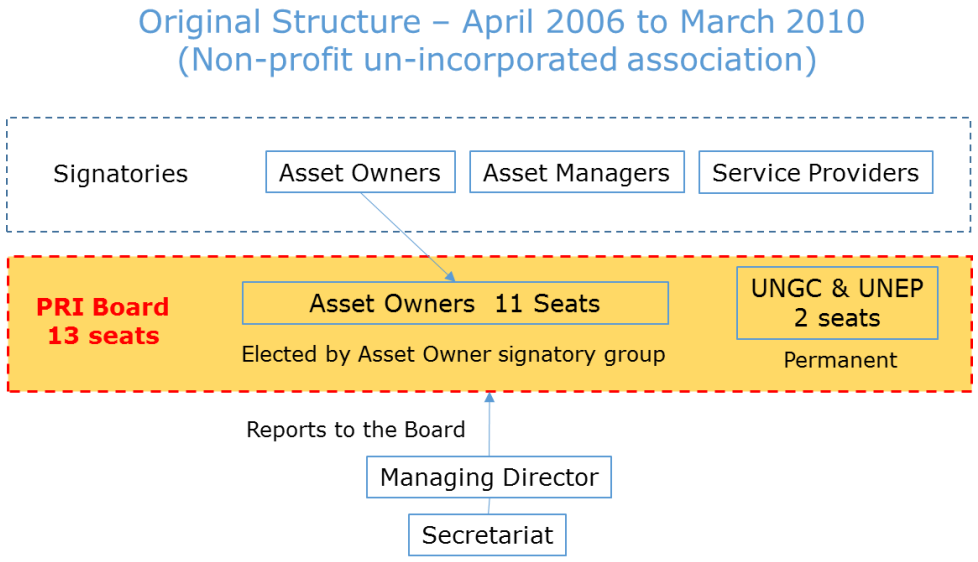
Transparency

- 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.

6. Recommendations – what is our recommended structure for the PRI

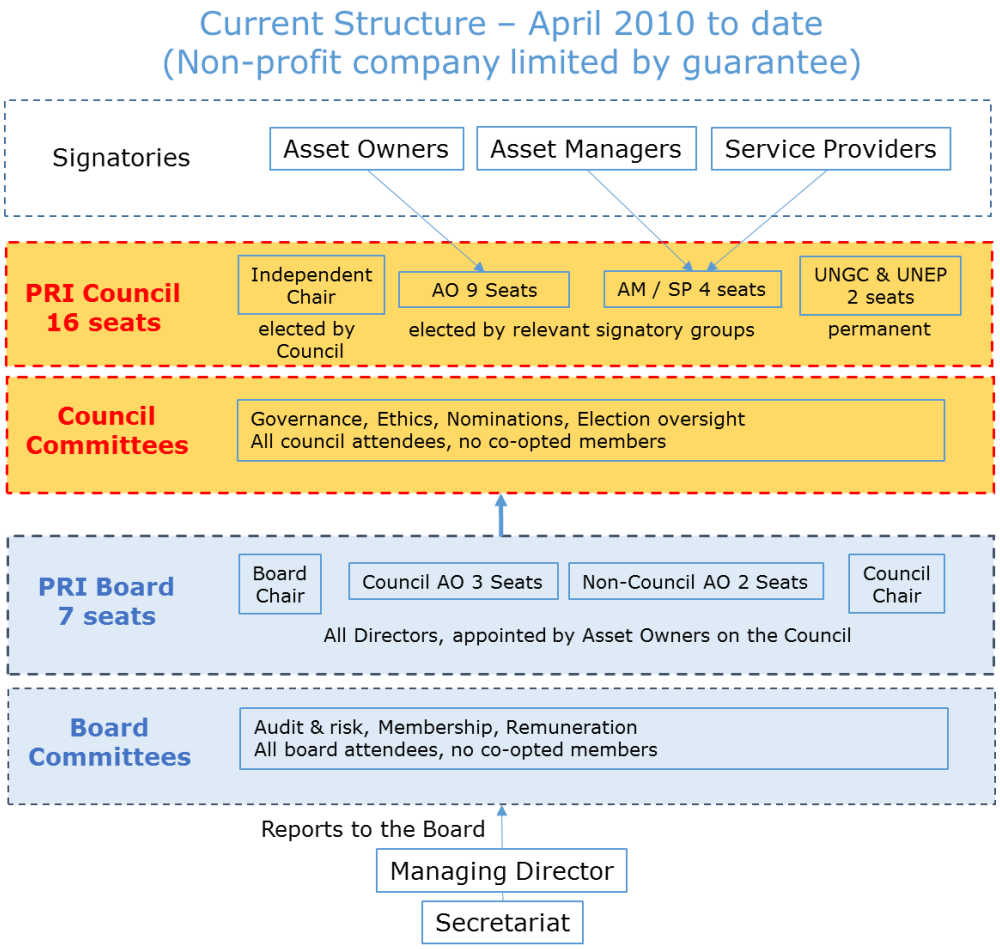
6.1 Evolution of the PRI governance structure

The PRI governance structure has developed and evolved since its first incarnation as an initiative under the banner of the UNGC. During the years leading up to March 2010, the PRI had been run as an unincorporated association (defined under English Law) with a single governing Board. Asset Owners were the controlling influence of the PRI and retained 11 out of the 13 seats on the Board. Whilst this was fit-for-purpose in the early years, as the PRI grew in size and global reach, the model was deemed no longer practical nor meeting the needs of the organisation.



During 2010, a number of changes to the PRI structure were made. It was put on a more secure legal footing by establishing it as a non-profit company limited by guarantee (registered in England as the PRI Association). A dual Advisory Council / Board structure was introduced with additional seats being made available on the Council to Asset Managers and Service Providers.

Although established with good intentions, the structure is seen as complex and difficult to communicate. Furthermore, although the Council was the oversight body, to which the Board reported, only Asset Owners on the PRI Board were appointed members of the UK company and therefore able to make decisions on behalf of the company.



6.2 Recommended structure for the PRI

We have reviewed the existing structures of the PRI against governance best practice and have, where appropriate, recommended changes. The aim was to create a structure that lends itself to delivering on the PRI principles, is straightforward to administer and easy to describe, with clearly articulated roles and responsibilities.

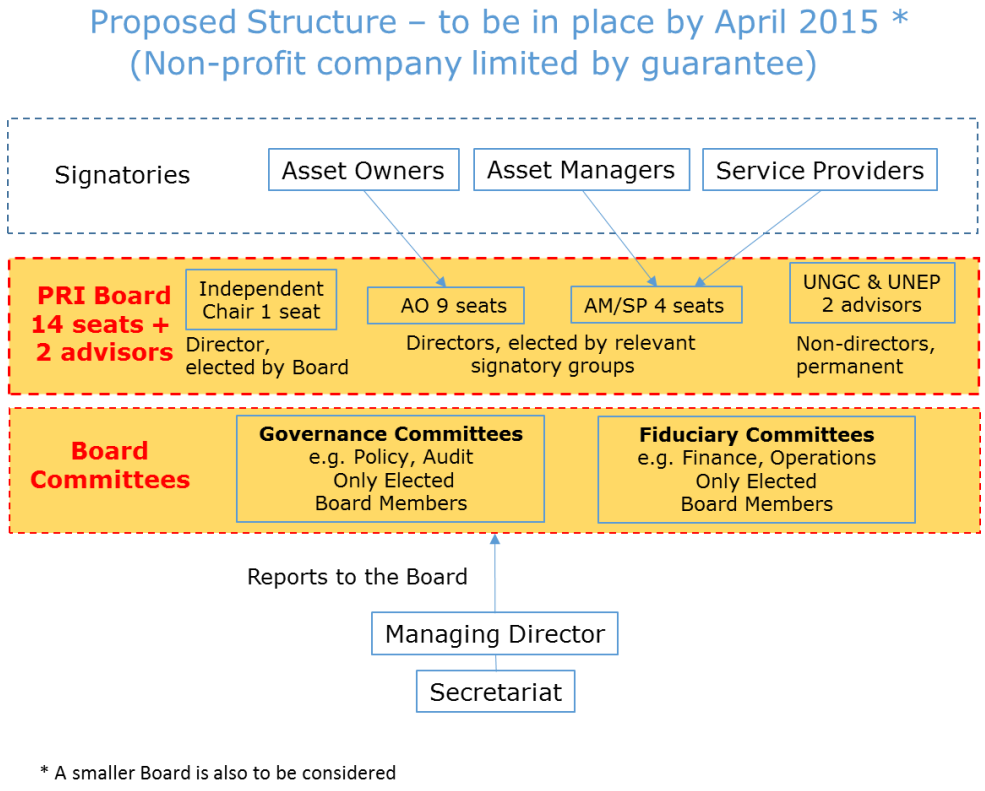
The structure needs to be practical and meet the requirements of the PRI organisation. Lines of responsibility need to be clear and those within the governance structure must be answerable to signatories. We have taken the baseline assumption that the current UK incorporation of the PRI Association will remain. However, the *Articles of Association* and *Administrative Rules* will need to be changed.

A key aspect of our review has been to recommend a governance structure which could facilitate the engagement of all signatories in the PRI's mission, whilst retaining an Asset Owner majority in decision making. Although Asset Owner predominance remains throughout our recommendations, we propose that additional Company director positions are made available to the Asset Manager and Service Provider elected members of the Board. Hence, they will also become Members of the Company[2]. To date, only Asset Owners have been

[2] see the Glossary for further definitions

eligible to be Members of the PRI Association and been able to appoint the directors of the Company.

The diagram below illustrates a proposed, revised structure for the PRI. In our view, this takes account of all of the desired attributes outlined above. The implications of the new structure are itemised in the 10 recommendations below.



* A smaller Board is also to be considered

10 Recommendations:

Structure	Process & Performance
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

Structure

Recommendation 1: Single governing body

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 the see the organisation through its initial growth phase. However, it is seen as 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 and be sustainable as the PRI evolves over time. This body (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 perfectly well at its current size, on balance we recommend a small reduction in the number of seats on the new PRI Board, but not too small to overwork the remaining Board members. We recommend the 3-year term continues (with one re-election opportunity) and is staggered, as now, 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. We recommend that the Chair would have a role reaching out to potential nominees.

Recommendation 2: 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 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.

Recommendation 3: Independent Chair

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.

Recommendation 4: 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:

- 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, comprising governance and fiduciary committees (as illustrated above).

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.

Recommendation 5: 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 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 Asset 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.

Process and Performance

Recommendation 6: 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, 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 a point at which there is a defined delegation of authorities between all levels in the organisation and that internal oversight is clear and transparent.

Recommendation 7: 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 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. The PRI harnesses this wealth of knowledge and experience through its working groups, network groups and conferences. 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. We would also recommend further clarification of the role of decisions made by the signatories in governance terms.

Recommendation 8: 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 along 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 this potential conflict.

Recommendation 9: 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.

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.

Some of this skills challenge can also be alleviated, 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 will be designed to do to pick this up.

Recommendation 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 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.

Appendices

- Appendix 1: PRI Governance Review – Draft Scope for Consultation (attached)
- Appendix 2: List of Interviewees
- Appendix 3: PRI Governance Review – Interview Questions / Interview Guideline
- Appendix 4: Rules for raising and voting on resolutions

Appendix 2 - List of Interviewees

No	Date/time	Name	Organisation	Country	Council/ Board
	12/05 at 13:00	Jon Duncan	Old Mutual IM	SA	
	13/05 at 12:00	Melanie Brooks	Government Pension Fund	NOR	
	14/05 at 11:00	Peter Webster	EIRIS	UK	Council
	14/05 at 14:00	Daniel Simard	Batirent	CAN	Council
5	16/05 at 14:00	Rosalie Vendette	Desjardin Inc	CAN	
	19/05 at 14:30	Adrian Bertrand	GEPF	SA	
	19/05 at 16:00	Else Bos and Marcel Jeuckens	PGGM	NL	Council / Board
	19/05 at 22:00	David Atkin	CBus	AUS	Council / Board
	20/05 at 14:00	David Russell	USS	UK	Board
10	21/05 at 20:00	Glen Saunders		NZ	Board
	22/05 at 11:00	Mike Clark	Russell Investments	UK	
	22/05 at 12:00	Ole Buhl	ATP	DK	
	22/05 at 14:15	Niels Erik Petersen and Zaiga Strautmane	UniPension Invest	DK	Council
	28/05 at 11:00	Howard Jacobs	Formerly USS	UK	
15	28/05 at 17:00	Barbara Zvan	Ontario Teachers' Pension Plan	CAN	

No	Date/time	Name	Organisation	Country	Council/ Board
	29/05 at 16:00	Brian Minns	Addenda Capital	CAN	
	30/05 at 11:30	Cathrine De Coninck-Smit	Threadneedle AM	UK	
	02/06 at 11:00	Colin Melvin	Hermes	UK	Council
	03/06 at 15:45	Gavin Power	UNCG	USA	Council
20	06/06 at 10:30	James Gifford	Formerly PRI	USA	
	11/06 at 14:00	Peter Damgaard Jensen	PKA	DK	
	11/06 at 17:00	Priya Mathur	CalPers	USA	Council / Board
	11/06 at 19:00	Anne-Maree O'Connor	NZ SuperFund	NZ	
	12/06 at 10:30	Charles Anderson	UNEP-FI	SUI	Council
25	12/06 at 14:00	Chris Ailman	CalSters	USA	Board
	12/06 at 15:30	Eric Wetlaufer	CPPIB	CAN	Council
	16/06 at 09:30	Helena Charrier	Casse des Depots	FR	
	19/06 at 09:00	Olivier Bonnet	ERAPF	FR	
	25/06 at 16:00	Marie-Claude Provost	Caisse de dépôt et placement du Québec	CAN	
30	26/06 at 15:00	Wolgang Engshuber	Former Chairman	GER	
	01/07 at 13:00	Olivier Bonnet, Jean-Philippe Rouchon	ERAPF	FRA	

Appendix 3 - PRI Governance Review – Interview Questions / Interview Guideline

Overview questions:

1. **Benefits of PRI:** What is the main benefit of PRI membership for your organisation?

2. **Your role:** What role do you play within the UN PRI?

3. **Feedback on current governance:** What is your overall view of the governance of the PRI? What works well? What doesn't work so well?

4. **Key points you wish to make:** Do you have any major concerns about the current governance? If so, what are they?

5. **The future structure:** We are looking at a possible new governance structure for the PRI. In your opinion what would effective governance for the PRI look like?

More detailed questions:

6. **Council vs Board:** What is your view of the roles and effectiveness of the Council vs the Board? Are you clear about the role and responsibilities of each? Is the Council the right size? Does it have the right mix of skills? Do you understand how decisions are made?

7. **PRI Committees:** What is your view of the PRI Committees? Do they function well? Is the relationship between the Council and the Committees clearly defined? Are there enough/not enough? Are they the right size? Do they have the right membership?

8. **Balance of signatories:** Asset owners are currently predominant in the PRI's governance structure. We will not question that. However, do you have views on how this predominance is best exercised to ensure broad representation for other categories of signatories?

9. **Election process:** Do you have think the election, appointments and removals of signatories to the Council is effective? Is the process transparent?

10. **Role of deputies:** Do you have any views on the effectiveness of delegates or deputies?

Anything else you wish to cover?

Appendix 4 - 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 10% 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 10% 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	28
Investment managers	807	81
Service Providers	185	19

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 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.
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 otherwise 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.
Lead Director	One of the Board Directors appointed to act as a main point of contact for the signatories, other than the Chair, and who will stand in for the Chair as needed to run meetings of the Company
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. The 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 Asset 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.

About the authors

The authors

Jacqui Boardman has extensive experience in working with not-for-profit and charitable organisations. She supports the Board of the Creative Diversity Network, a membership organisation, and leads the review of their Governance structure. She advises the Board of The Connection, a leading charity for homeless people, on its Governance structure and its outreach to business partners. Jacqui has been the Chair of the Board and Director of WLTC, a charitable company delivering leisure and cultural services on behalf of Wigan MBC. She is the author of an influential report, commissioned by Aviva, on health and safety governance.

Peter de Graaf leads much of Carnstone's work in the area of responsible investment and financial markets. He was Managing Director (EMEA) with FTSE Group, where he was heavily involved with FTSE4Good, the responsible investment index. He has also served on the board of Trucost Plc, an environmental investment research organisation. At Carnstone Partners LLP, Peter has acted as a senior advisor to the Pension Protection Fund (PPF), MSCI/RiskMetrics and the UN Development Programme (UNDP). He has previously worked with the PRI when he advised on the development of the organisation's new signatory Reporting Framework.

Christian Toennesen has wide experience in the field of responsible investment, most recently leading the work for PRI on human capital management practices in the retail sector. He specialises in stakeholder engagement and has a strong understanding of both the social and technological mechanisms and platforms available to structure successful stakeholder engagements. Prior to joining Carnstone in 2008, Christian obtained a doctorate in business administration with a focus on sustainability at the Oxford Martin School.

Carnstone Partners LLP

Carnstone Partners LLP is an independent management consultancy, specialising in corporate responsibility and sustainability. The company advises clients on environmental, social and governance (ESG) topics and has extensive experience of working with clients on the review, development and implementation of effective and appropriate governance structures – whether these clients are large corporate entities, not-for-profit companies and charities, or global membership organisations like the PRI.

The company's experience with the investment industry has included work with the UK Pension Protection Fund (PPF), Aviva, Insight Investment, HBOS, the Financial Services Authority (FSA) MSCI/RiskMetrics and UKSIF. Carnstone has worked with the PRI on the review of the Reporting Framework, and more recently, on a research project identifying the most appropriate indicators to assess the impact of human capital management practices among listed retailers.

For more information, please visit www.carnstone.com