

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 bylaws, 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

- A. **Unique characteristics of the PRI**, including consideration of its mission, diverse global signatory base, UN partnerships and asset owner focus.
- B. **Evaluation of the difference between the former and current Constitution**, specifically in relation to the rights of asset owner signatories.
- C. **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.