

# Changes for the articles of association for the AGM 2008

## What are the Articles of Association?

The Articles of Association of a company are its governing constitution and lay down the rules which dictate how the firm must be run. Over time many external and internal factors can affect a company's operation and therefore maintaining the Articles so that they are always contemporary and reflect the various stakeholder needs is of particular importance.

It has become apparent during 2007/2008 that the Articles of Association require several amendments if they are to meet the needs of the PFS today. The PFS Board are proposing that changes are made for the following reasons:

## Why should we have Lay Directors?

Recent corporate governance guidance suggests that Lay Directors are a beneficial addition to most boards. Lay Directors are individuals who are; neither employees of nor have a material interest in the company for which they are Directors, nor can they be PFS members. Their independence enables them to take an objectively critical view of the company and to bring experience from wider areas in which other Board Members may have little experience. The PFS Board feel that a Lay Director from a consumer background could prove to be an enormous asset to the Board.

At present the Articles do not allow the appointment of a Lay Director and as such the Articles need to be amended. There is also a knock on effect to the Articles in that the term 'Non-Member Director' which currently refers to employees of the CII as opposed to Member Directors will have to be broadened. For this reason, we have introduced the term Institute Directors to refer to Directors who are employees of the CII.

## If the changes are approved, we will then have the following categories of Directors: "Member Directors and Non-Member Directors which will include Lay Directors and Institute Directors"

In addition, once we have enabled Lay Directors to be appointed, the composition of the Board will need to be amended.

## Why do the number of Institute Directors need to increase?

To allow the CII to continue consolidating the PFS results into the group accounts, it is necessary to retain the ability for the CII to appoint a majority of Directors to the Board. Therefore, if the number of Directors who are not employed by the CII are increased, the Articles will need to be amended to increase the number of Institute Directors on the Board. **This power does not change the current position.** If Lay Directors are to be appointed, then the current article 13.1 (14.1 in the proposed articles) requires amendment to ensure that one of the Non-Member Directors on the Nominations Committee is an Institute Director.

## Updating the Articles

There are a number of areas which require minor revision to clarify the wording and to bring them up to date. The most obvious examples are the removal of phrases which refer to "the first President" and the "first Vice Presidents". As these people are no longer in post, these references are no longer required.

The most interesting are the proposed changes to article 8.2. Whilst the changes to the qualifications align the Articles with the changes to the qualification structure the removal of the last sentence caused concern at the 2007 AGM. There is no validity or member benefit in retaining the phrase '**any resolution to amend this requirement shall be invalid and of no effect whatsoever**', under the Companies Acts 1985 and 2006, **as it is not legally enforceable.** Under the legislation, all Articles can be changed by the membership at a general meeting provided a 75% majority of all members voting is achieved. The article has, therefore, been rephrased to reflect this.

## Additional Disqualification and Removal Provisions for Directors

The proposed changes to the Articles for the disqualification and removal of Directors were **brought into sharp focus** through the decision to appoint Lay Directors. Clearly, if Lay Directors are to be appointed, a mechanism needs to be in place to disqualify or remove them. In reviewing these provisions, the Board were of the opinion that the current provisions for removing and disqualifying the current Directors were **inadequate** and, as a result of this, these revisions are being proposed to apply to **all Directors.**

## Nominations Committee

Due to their experience as a Member Director and as a former President, the Board believes that the Immediate Past Presidents are an invaluable resource to assist the Board in making decisions about future Member Directors. For this reason, it is proposed that the composition of the Nominations Committee be amended to ensure that the Immediate Past President is on the Committee. As previously stated the current article 13.1 (14.1 in the proposed articles) requires amendment to ensure that one of the Non-Member Directors on the Nominations Committee is an Institute Director

## Electronic Communications

To enable better communications and prevent unnecessary paper from being circulated, the PFS Board recommends that we take advantage of the Companies Act 2006 provisions **which allow electronic communication.** Even more than before members need to ensure that their email address is kept up to date.