



GOVERNANCE CHANGES – SUMMARY OF THE MAZAR’S REPORT

The Governance review was carried out by consultants, Mazars with the assistance of solicitors Baker Botts, (“the Review Team”).

In conducting the review, they carried out interviews with all the current Board Director, a selection of past Directors, senior management and solicited views by detailed questionnaires. In addition, they attended Board meetings and committee meetings to observe and reviewed the existing documents and reports relating to the current structure and running of PRS.

This document, prepared by PRS for Music, is a summary of their findings and main recommendations relating to the changes Members are being asked to approve at the AGM 2020.

1. Key issues

The following key issues were identified during the review:

- The uniqueness of PRS – a quasi-non-profit-making organisation with a major commercial function in which the different Board members have some overlapping and different interests;
- This is a period of major change for PRS, both in terms of the change of CEO technological and other changes in the wider music industry;
- The overall performance of PRS has been positive in recent years;
- Increased tension in the governance structure which has impeded the efficiency and effectiveness of the decision-making process;
- A perception among a number of directors of growing and insufficiently managed conflicts of interest with regard to the allocation of royalty revenues and potential withdrawal of certain rights;
- A perception that certain groups of members can exercise undue influence on the election of directors within the current voting structure;
- The cost of supporting the existing governance structures;
- A perception of over-involvement on occasion by non-executive directors in the management of the business, and a tendency towards micro-management;
- Attention required in the areas of employee and Member engagement.

2. Seven key principles that should underpin the governance model

With due regard to the highest standards of governance and features specific to PRS, the Review team’s recommendations were made in the context of the following interlinked principles:

1. Ensuring PRS is ‘fit for the future’ on an ongoing basis in a fast-changing environment;
2. Enhancing the efficiency and effectiveness of the governance structure and of PRS generally;
3. Fully and openly managing inherent conflicts of interest;
4. Linked to ‘3’, above, strengthening the role of the independent (external) directors of PRS;
5. Promoting widespread acceptance of the democratic legitimacy of the governance structure;



6. Empowering the management team to lead the management of the business with full accountability; and
7. Encouraging behavioural as well as structural change in matters of governance to enable PRS to achieve its full potential.

3. The Key recommendations

The key recommendations which directly relate to the proposals being recommended for membership approval are summarised as follows:

1. The Board of PRS (currently called 'the Board') should become 'the Members' Council' and the Board of PRS for Music (currently called 'the Executive Board') should become 'the Board'. Each should have clear and distinct responsibilities in the PRS governance structure which should be respected in practice. The directors of each body would retain their fiduciary responsibilities.

The Members' Council

2. The Members' Council should have a clearly defined set of overarching responsibilities to which it adheres, including:
 - ensuring effective two-way engagement with the PRS Membership
 - setting out an inspiring purpose for PRS, its desired culture and proposed values, assessing the extent to which they are being fulfilled / implemented and agreeing follow-up actions where necessary with the Board;
 - considering and, if appropriate, approving the strategy for PRS as recommended by the Board having regard to the long-term success and sustainability of PRS;
 - considering and, if appropriate, approving key targets and KPIs for PRS as proposed by the Board; and
 - receiving minutes of Board meetings and reports from the Chair of the Board and CEO on the implementation of the strategy, progress on meeting the key goals / KPIs, and agreeing follow-up actions where necessary.
3. The Members' Council should not be involved in approving detailed individual decisions relating to the running of the 'commercial functions' of the PRS.
4. The Members should elect their publisher and writer members of the Members' Council on an electoral college basis with each group of Members – writers, independent publishers and major publishers – electing directors from their own grouping. It would also be appropriate to review the eligibility criteria of Members to stand for election to the Members' Council.
5. The Members' Council should elect an honorary President from among its writer members. The roles of Chair and President could be separate or combined. If it is desired to retain the rotation of the Chair's role between writers and publishers, this should be achieved by having separate Chair and President roles and rotating concurrently the Chair and Deputy Chair role between writers and publishers (resulting in writers and publishers both holding one each of the Chair and Deputy Chair roles at any one time). These two roles together with the writer President would form the Members' Council leadership team. All three roles would hold office for a single two- or three-year term.
6. The Members' Council should have three committees reporting to it: Audit, Remuneration and Nominations. In line with the expectations of the UK Governance Code, the Audit and Remuneration Committees should wholly comprise independent directors and each should have three members. The Nominations Committee should be chaired by an independent director and a majority of the membership of the five-person committee should comprise



independent directors along with a publisher director and a writer director as chosen by each group. It is recognised that the committees will need to interact effectively with both the Members' Council and Board to fulfil their roles.

7. The number of publisher and writer directors on the Members' Council should be such as to ensure the forum is of a size sufficient to challenge the Board members and hold them fully accountable for, *inter alia*, effective strategic delivery.. In any event, there should be not less than eight writers and eight publishers on the Members' Council, as its number of publishers and writers should always be at least twice the number on the Board. All independent directors should serve on both the Members' Council and Board. An independent director should chair each of the committees of the Members' Council and Board. One of the independent directors should be appointed as the Senior Independent Director. The maximum period of service on the Members' Council should not exceed 15 years.
8. In appointing independent members of the Members' Council and Board, the Nominations Committee should have regard to the importance of diversity.
9. The Members' Council should pay significant attention to engaging with the Members and, in particular, ensuring it is engaging effectively with Members from various music genres and backgrounds, especially those not represented or under-represented on the Members' Council. This will ensure the Members' Council is fully able to take account of the views of the Membership as a whole in its work and that it is also fully in touch with developments across the music industry. As part of strengthening its engagement with the wider Membership, the Members' Council should consider how it can best encourage Members from a diverse range of backgrounds who are eligible to do so to stand for election to the Members' Council and also how to enable candidates for election to the Members' Council to engage more actively with the wider Membership. This will include reviewing the accuracy of its database of Members and considering the information candidates should be able to submit through PRS in electronic form. In order to ensure a level playing field, the sending of additional material to the Membership in addition to that provided by PRS on candidates for election should not be permitted.
10. There should be three or four Members' Council meetings, and the number of Members' Council meetings should be no more than half the number of expected Board meetings.

The Board

11. The Board should be responsible for the 'commercial functions' of PRS, including for matters relating to individual licensing agreements and for the distribution of funds to Members. The Board should also be responsible for the oversight of joint venture arrangements in which the PRS is a partner, and for public affairs activities relating to ensuring the appropriate protection of Members' copyright. To do this, the Board should consult with and then propose the strategy for PRS to the Members' Council for approval and keep risks related to its operations under review. Significant attention should be paid to people and IT issues and to the likely sources of competition in the years ahead.
12. The Board should delegate the management of PRS's operations to PRS Management, with the CEO accountable for its performance. There should be an agreed set of Management KPIs and targets, including timeframes which will flow from the overall organisational performance goals agreed by the Board with the Members' Council. There should be a move away from micro-management of PRS Management. The nature and form of contact between members of the Members' Council and Board and PRS Management, both in person and by email or other means, should be agreed with the CEO.
13. Recognising the inherent conflicts of interest faced by publisher and writer directors on the Board, the largest group on the Board should be the independent directors who should play a key and visible role in decision making. The Review team recommended that the Board should achieve this by increasing the number of independent directors by one to five and maintaining



the number of publisher and writer directors at four (each) which, with the CEO, would lead to a Board with 14 members.

14. In looking at the skill sets of independent directors, they should include those relating to: IT; finance and business matters; legal matters; and the music industry, recognising that an individual director may possess more than one of the necessary skillsets.
15. Given the business nature and responsibilities of the Board, the Review team suggested it should be regularly refreshed and so believed that directors should not serve for more than nine years save in exceptional circumstances to be approved by the Nominations Committee. The nine-year rule should apply to new Board members. For existing Board members, the Nominations Committee should decide the period of further service that would be appropriate, having regard also to the need for continuity and for staggered rotation of the membership of the Board.
16. It would be helpful to strengthen the induction for new Members' Council and Board members, in particular that for writer directors. Given the amount of material to absorb, the induction should probably be spread over a number of months and up to a year. There should also be more investment, again especially by the Board, in training and development activities and in briefings on relevant developments related to the music industry.
17. More attention should be paid to addressing conflicts of interest. Firstly, the Conflicts Committee, which should continue to be made up wholly of independent directors, should identify the most frequent conflicts and recommend how they should be addressed.

As the Members' Council will no longer be dealing with negotiations related to individual agreements, it could be expected that most of the conflicts will arise with regards to the Board, hence the Conflicts Committee would remain a committee of the Board.