

34th Board Meeting

Enhanced Governance Structure and Revised Core Documents

GF/B34/18 – Revision 1
Board Decision

PURPOSE: This paper presents the Transitional Governance Committee's (the "TGC") recommendations on the new structure, size and composition of the Board's standing committees. Additionally, it presents revisions to certain operating procedures of the Board and Committees. As such, a decision point is presented for the Board to approve the following revised core governance documents: Bylaws, Operating Procedures of the Board and Committees, Charters of the standing committees and terms of reference for the Coordinating Group.

I. Decision Point

1. Based on the rationale described below, the following decision point is recommended to the Board:

Decision Point: GF/B34/DP07: Enhanced Governance Structure

1. ***Based on the recommendations of the Transitional Governance Committee (the “TGC”), presented in GF/B34/18, the Board:***
 - a. ***Approves, in principle, the establishment of the following three standing committees (the “Standing Committees”) and each Standing Committee’s respective purpose, functions, and composition:***
 - i. ***Audit and Finance Committee to exercise the powers and perform the functions set forth in the draft charter presented in Annex 1 to GF/B34/18 – Revision 1;***
 - ii. ***Ethics and Governance Committee to exercise the powers and perform the functions set forth in the draft charter presented in Annex 2 to GF/B34/18 – Revision 1;***
 - iii. ***Strategy Committee to exercise the powers and perform the functions set forth in the draft charter presented in Annex 3 to GF/B34/18 – Revision 1;***
 - b. ***Endorses, in principle, the draft:***
 - i. ***Amended and restated Terms of Reference of the Coordinating Group, as set forth in Annex 4 to GF/B34/18 – Revision 1;***
 - ii. ***Amended and restated Bylaws, as set forth in Annex 5 to GF/B34/18 – Revision 1; and***
 - iii. ***Amended and restated Operating Procedures of the Board and Committees, as set forth in Annex 6, revision 1, to GF/B34/18 – Revision 1; and***
 - c. ***Notes that the Standing Committees shall replace the Audit and Ethics Committee, Finance and Operational Performance Committee, and Strategy, Investment and Impact Committee upon the conclusion of the first Board meeting in 2016.***
2. ***Accordingly, the Board requests the TGC (i) consider all potential refinements, suggested by the Board, to the charters and other core governance documents referenced in paragraph 1 above and (ii) propose final versions to the Board for approval as soon as possible to enable the Chair and Vice-Chair of the Board to launch the process for the Board to appoint the Chairs and Vice-Chairs, as well as membership, of the Standing Committees, by no later than the first Board meeting in 2016.***

This decision does not have material budgetary implications.

II. Relevant Past Decisions

2. Pursuant to the Governance Plan for Impact as approved at the Thirty-Second Board Meeting in November 2014,¹ the following summary of relevant past decision points is submitted to contextualize the decision point proposed in Section I above.

Relevant past Decision Point	Summary and Impact
GF/B32/EDP04: Membership of the Transitional Governance Committee (December 2014)²	The Board appointed six members to serve on the Transitional Governance Committee (the “TGC”) in their independent, personal capacities under the terms of reference previously approved in November 2014 as part of the Ad-Hoc Working Group on Governance’s recommendations on an enhanced governance structure.
GF/B32/DP05: Approving the Governance Plan for Impact (November 2014)³	<p>The Board approved, among several recommendations contained in the Ad-Hoc Working Group on Governance’s Governance Plan for Impact,⁴ the finalization of an enhanced governance structure by the November 2015 Board meeting, comprised of the Board, the Coordinating Group and three re-configured standing committees— Audit and Finance, Ethics and Governance, and Strategy and Operations. Additionally, it established a Transitional Governance Committee (the “TGC”) and approved certain modifications to the terms of reference of the Coordinating Group (the “CG”) to transition to the enhanced governance structure. Furthermore, due to other recommendations by the TGC, the Board amended the Bylaws and the Operating Procedures of the Board and Committees.</p> <p>Approval of the decision point presented in this paper (GF/B34/18) completes the action item related to the enhanced governance structure. It also amends the Bylaws, Operating Procedures of the Board and Committees and terms of reference of the Coordinating Group, as amended in November 2014.</p>

¹ GF/B32/DP05: Approval of the Governance Plan for Impact as set forth in document GF/B32/08 Revision 2.

² <http://www.theglobalfund.org/Knowledge/Decisions/GF/B32/EDP04/>

³ <http://www.theglobalfund.org/Knowledge/Decisions/GF/B32/DP05/>

⁴ http://www.theglobalfund.org/documents/board/32/BM32_08-TheGovernancePlanForImpact_Report_en/

Relevant past Decision Point	Summary and Impact
<p>GF/B32/DP08: Market Dynamics Oversight (November 2014)⁵</p>	<p>The Board agreed to dissolve the Market Dynamics Advisory Group and place joint oversight of market dynamics matters with the Strategy, Investment and Impact Committee (the “SIIC”) and the Finance and Operational Performance Committee (the “FOPC”). As such, the Board approved amendments to their respective Charters.</p> <p>Approval of the decision point presented in this paper will result in replacing the Charters of the SIIC and FOPC, as amended in November 2014.</p>
<p>GF/B27/DP06: Amendments to the Charters of the Audit and Ethics Committee and the Finance and Operational Performance Committee (September 2012)⁶</p>	<p>The Board approved revisions to the Charters of the Audit and Ethics Committee (the “AEC”) and the FOPC to shift the responsibilities regarding review and recommendation of the annual audited financial statements from the FOPC to the AEC.</p> <p>Approval of the decision point presented in this paper will result in replacing the Charter of the AEC, as amended in September 2012.</p>
<p>GF/B25/EDP18: Appointment of Independent Members of the Audit and Ethics Committee (April 2012)⁷</p>	<p>The Board approved the initial independent members of the Audit and Ethics Committee (the “AEC”). In doing so, it revised the AEC Charter and the Operating Procedures of the Board to reflect the increase in the number of independent members from 4 to 5 and the total number of members from 7 to 8.</p>
<p>GF/B25/DP07: Governance Reforms (November 2011)⁸</p>	<p>The Board approved a new governance structure, including the establishment of the Audit and Ethics Committee, the Finance and Operational Performance Committee, and the Strategy, Investment and Impact Committee, under Charters outlining their decision-making, advisory and oversight functions, together with revised Bylaws and Operating Procedures of the Board and Committees. Additionally, the Board established the Coordinating Group with its terms of reference outlining their responsibilities.</p> <p>Approval of the decision point presented in this paper (GF/B34/18) will replace the committee structure, size and composition adopted in November 2011.</p>

III. Action Required

- If the Board approves the recommendations presented in this paper, the amended or restated core governance documents, annexed to this paper, will become effective as follows:

⁵ <http://www.theglobalfund.org/Knowledge/Decisions/GF/B32/DP08/>

⁶ <http://www.theglobalfund.org/Knowledge/Decisions/GF/B27/DP06/>

⁷ <http://www.theglobalfund.org/Knowledge/Decisions/GF/B25/EDP18/>

⁸ <http://www.theglobalfund.org/Knowledge/Decisions/GF/B25/DP07/>

- a) The charters of the Global Fund’s three standing committees become effective upon the conclusion of the first Board meeting in 2016;
- b) The terms of reference of the Coordinating Group become effective upon the conclusion of the first Board meeting in 2016;
- c) The Bylaws become effective upon the conclusion of the first Board meeting in 2016; and
- d) The Operating Procedures becomes effective immediately, except for provisions pertaining to the structure, size and composition of the standing committees, which will become effective upon the conclusion of the first Board meeting of 2016. In the interim, such provisions remain according to those contained in the Operating Procedures of the Board and Committees, as initially approved in November 2011 (GF/B25/DPO7) and most recently amended in November 2014 (GF/B32/DPO5).

4. The Secretariat shall support the process for transitioning from the current governance structure, in particular implementation of the revised Operating Procedures of the Board and Committees, as well as the structure, size and composition of the standing committees. This includes the process to nominate and appoint the members and leadership of the standing committees that will commence their terms following the first Board meeting in 2016.

5. The Chair and Vice-Chair of the Board will launch the process to nominate and appoint the new Chairs and Vice-Chairs of the standing committees, as well each committee’s membership, by no later than the first Board meeting of 2016. In consideration of facilitating the transition from the current standing committees, the process to nominate and appoint the incoming Chairs and Vice-Chairs of the standing committees may be organized so that the incoming leadership teams may attend the committee meetings scheduled for the first quarter of 2016, prior to the Board meeting.

IV. Executive Summary

6. In 2014, the Office of the Inspector General conducted a review of the Global Fund’s governance structures and functions (the “OIG Advisory Report”). Following the results of this report, the Board established an Ad-Hoc Working Group on Governance (the “WGG”) to develop recommendations and options for the Board to consider. In November 2014, the Board adopted certain recommendations by the WGG, as presented in the Governance Plan for Impact, including a new committee structure that would be finalized by November 2015.

7. To take forward these recommendations, the Board established the Transitional Governance Committee (the “TGC”) formed by members serving in their personal capacity for an interim period until April 2016.

8. Following TGC deliberations outlined in this paper and consultations in July 2015 and October 2015, the TGC recommends the following standing-committee structure:

- a) Strategy Committee formed by 10 constituency-nominated members (5 donor, 5 implementer), each in a voting capacity, and the following non-voting members:
 - i. TRP Chair;
 - ii. TERG Chair; and
 - iii. 2 representatives of non-voting Board constituencies.
- b) Audit and Finance Committee formed by 10 constituency-nominated members (5 donor, 5 implementer), each in a voting capacity, and the following non-voting members:

- i. World Bank;
- ii. 1 representative of another non-voting Board constituency;
- iii. 1 independent with audit expertise; and
- iv. 1 independent with investigations expertise.

- c) Ethics and Governance Committee formed by 6 constituency-nominated members (3 donor, 3 implementer), each in a voting, personal capacity, and 1 independent, non-voting member with ethics expertise.

9. Each of the committees will continue to have neutral, non-voting Chairs and Vice-Chairs that will alternate between individuals nominated by donor and implementer constituencies each term taking into account that the Strategy Committee and Audit and Finance Committee Chairs will be from different constituency groups each term.

10. Moreover, the revisions to the committees' structure, size and composition also require modifications to core documents such as the Bylaws and the Operating Procedures of the Board and Committees. The TGC has identified, with the support of the Secretariat, various categories of revisions (e.g., removing inconsistencies that have existed since the 2011 governance reforms, clarifying or aligning the language based on existing practice, or reorganizing the grouping and ordering of rules for greater logical coherence). Furthermore, following additional discussions with Board constituencies regarding methods for increasing engagement, participation and information flow, the Operating Procedures have been amended to allow constituencies not represented on a committee to send either the Board Member or Alternate Member as an observer. Additionally, input provided by the Board on processes or rules that need review, particularly with respect to the survey results presented at the July 2015 Board retreat have been incorporated. Annex 7 is provided to assist in reading the amendments to the Operating Procedures of the Board and Committees.

11. Further revisions have been made to reallocate governance responsibilities previously with the Coordinating Group to the Ethics and Governance Committee.

12. Based on all of the above, the Board is requested to approved the following set of core governance documents:

- a) The Charter of the Audit and Finance Committee, as presented in Annex 1;
- b) The Charter of the Ethics and Governance Committee, as presented in Annex 2;
- c) The Charter of the Strategy Committee, as presented in Annex 3;
- d) The amended and restated Terms of Reference of the Coordinating Group, as presented in Annex 4;
- e) The amended and restated Bylaws, as presented in Annex 5; and
- f) The amended and restated Operating Procedures of the Board and Committees, as presented in Annex 6.

V. Background

01 Governance Reforms of 2011

13. In November 2011, the Board approved a governance structure that included the Board, a Coordinating Group comprised of the Chairs and Vice-Chairs of the Board and each of the following standing committees:

- a) Audit and Ethics Committee (the “AEC”);
- b) Finance and Operational Performance Committee (the “FOPC”); and
- c) Strategy, Investment and Impact Committee (the “SIIC”).

14. Additionally, the Board approved the amended and restated Bylaws and Operating Procedures of the Board and Committees. Other features of this structure included an AEC comprised of initially four, but later five, independent voting members each with specific skills and expertise, including the Chair, with three constituency-nominated members.

02 Governance Plan for Impact Recommendations in 2014

15. In 2014, the Office of the Inspector General issued an advisory report on the effectiveness and efficiency of Global Fund governance, as set forth in GFOIG-14-008, following a review of the Global Fund’s governance structures and functions (the “OIG Advisory Report”). Following the OIG Advisory Report, the Board established an Ad-Hoc Working Group on Governance (the “WGG”) to develop recommendations and options for the Board to consider.

16. At the November 2014 Board retreat and meeting, the WGG presented its recommendations to the Board in its Governance Plan for Impact. With respect to governance functions, the Governance Plan for Impact noted that the committee structure established in 2011 facilitated many improvements such as the allocation of responsibilities across the committees through delegated authority and a designated body to ensure coordination between the committees. However, there were gaps such as key governance functions that had been allocated but not performed, as well as key governance functions that had not been allocated within the structure.

17. Accordingly, the WGG recommended an “enhanced governance structure” comprised of the Board, Coordinating Group with certain governance-related responsibilities reallocated from its terms of reference to allow greater focus on coordination among the committees and the Board, and a revised three-committee structure. The Board noted the recommendations and approved finalization of the following three committees by November 2015:

- a) Audit and Finance;
- b) Ethics and Governance; and
- c) Strategy and Operations.

18. The rationale presented by the WGG for this three committee structure was as follows:

- a) Audit and Finance Committee: it is standard practice to combine audit and finance in one committee. This combination also makes the best use of the available expertise on finance by combining this in one committee. This committee would benefit from specific external expertise in addition to members from Board constituencies.

- b) Ethics and Governance Committee: the governance functions that need to be placed in the system are closely linked to the functions in the area of ethics (codes of conduct, etc.). The Ethics and Governance Committee could also benefit from external expertise in addition to members from Board constituencies.
- c) Strategy and Operations Committee: given the strong link between strategy and the implementation of the strategy (operations) these functions would be combined in one committee.

19. To take forward the recommendations of the WGG, the Board established the Transitional Governance Committee (the “TGC”), which for an interim period until April 2016, would serve as a temporary standing committee with members serving in their personal capacity, tasked with following up or delivering on recommendations from the Governance Plan for Impact adopted by the Board. Among these tasks was finalization of the new structure, size and composition of the committees.

VI. Discussion

01 July 2015 Board Survey

20. Prior to the July 2015 Board retreat, the TGC deliberated on the recommendations in the Governance Plan for Impact that had been endorsed by the Board in November 2014. It reviewed what modifications would be needed with respect to the allocation of functions and responsibilities across the standing committees. Furthermore, it outlined additional questions related to the size and composition of the committees that pertained more towards membership matters. As part of these discussions, the committee recognized—as experienced in the appointment of committee members in March and April 2014—there would be great interest in serving on the committee charged with overseeing the strategy, perhaps requiring active efforts to attract more interest in participating in finance and operational performance matters. Through these reflections, the committee agreed it was important to keep the operational performance responsibilities currently under the FOPC with the committee overseeing audit and finance matters, noting also the critical linkages between the organization’s finances and its corporate and administrative operations.

21. Based on these discussions, the TGC launched a survey among Board constituencies and presented the results at the July 2015 Board retreat, which can be reviewed in full in the relevant resource folders on the Board Effect platform.

22. Some of the noteworthy results from the survey include:

- a) Committee Structure: Of the 18 responses received, 13 supported the option that was closest to the recommendation in the Governance Plan for Impact, rather than a second option whereby the current structure would remain with governance functions added to the existing AEC mandate.
- b) Leadership and Membership Profile: Of the 19 responses received, 13 supported maintaining current practice where any qualified individual that is part of the relevant Board constituency may serve as the Chair or Vice-Chair, as well as a member, of a standing committee.
- c) Mid-term Replacements: Of the 19 responses received, 13 indicated support for automatically nominating qualified candidates from the outgoing member’s constituency as opposed to the current situation where a call for nominations is opened to all relevant constituencies. With respect to Chairs and Vice-Chairs of the standing committee, 15 of 19 respondents supported

selecting a replacement from the relevant constituency group rather than limiting replacements to individuals nominated from the same constituency as the one that nominated the outgoing Chair or Vice-Chair.

- d) Constituency Representation: 16 of the 19 responses also indicated support ensuring each constituency is represented on at least one, but not more than two standing committees.
- e) Competency Based Selection: When it comes to selecting committee members, 16 of 19 responses found a candidate's skills and competencies, in comparison to the mandate of the committee, to be the most important selection criteria.
- f) Independent Committee Members: Though there was a near even split with respect to whether there should be independent committee members, 15 of 19 responses did not favor such individuals having voting power.

23. Many of these results confirmed the need to adapt rules and processes from previous rounds of governance reforms that had created unintended consequences, gaps and inconsistencies. As part of the broader exercise to recast the committee structure and its membership, the TGC also identified areas of the existing Operating Procedures that could be revised to streamline, align and clarify processes such as committee member nominations, replacements and appointments, which are described in Annex 7.

02 TGC Deliberations Following Board Retreat

24. A concern with respect to the committee structure option that received the greatest support in the Board survey also arose during July 2015 Board retreat. Specifically, the concern raised was that while the audit and finance functions were brought together within one committee, the responsibilities related to internal audit, namely the work of the OIG, remained in another committee with ethics and governance. While this had been the case in the Governance Plan for Impact recommendations, following the concerns expressed at the Retreat, the TGC used their next in-person meeting in September 2015 to discuss whether external and internal audit needed to be combined, which had implications on the placement of responsibilities related to the OIG's activities.

25. In doing so, the TGC recognized there was a need to bring external and internal audit functions together. This would mean that wherever oversight of financial statements, accounting and reporting resided, the responsibilities related to the OIG's audit and investigation functions would have to follow. The TGC deemed this a priority. Though another way to maintain external and internal audit in one committee was considered, namely combining audit, ethics and governance responsibilities, the TGC acknowledged that in both the November 2014 and July 2015 feedback from the Board, there was strong support for bringing audit and finance together. Factoring in all the comments and concerns, the TGC agreed to reallocate the responsibilities related to the OIG to the committee that would be responsible for audit and finance. It felt the complementarity of the audit and finance, as well as operational performance, responsibilities was a compelling argument to also bring the work of the OIG into a single committee. As part of this discussion, the TGC also revisited each decision-making, advisory and oversight responsibility of the committee mandated with ethics and governance matters, clarifying, reinstating and adding governance functions.

26. As part of the review of committee responsibilities, the TGC noted the linkages between the work of the committees and the Coordinating Group. It recognized that the terms of reference of the Coordinating Group had been amended in November 2014, based on the recommendations in the Governance Plan for Impact, to allow the Coordinating Group to focus more on the cross-committee coordination and facilitating the process of bringing the work of the committees to the Board. As such, the TGC considered the Coordinating Group terms of reference in the context of aligning with any

reinstatement or addition of governance responsibilities to the ethics and governance committee mandate. Furthermore, it recognized that its modified terms of reference would further enable the Coordinating Group to focus on coordinating and facilitating communication and collaboration across audit, finance, ethics and governance matters to give the Board a comprehensive view of key oversight and assurance considerations.

27. During these discussions, the TGC also considered various options for the size of the three committees. These options included scenarios where all constituencies would be represented in the committee responsible for strategy, as well as other scenarios where each committee would have a smaller membership as with the current structure. In recognition of the confidentiality and sensitivity of ethics matters, as well as the precedent in which TGC members, though nominated from the Board constituency groups, were appointed to serve in their personal capacity, service on the committee responsible for ethics and governance would also be in a personal capacity. Based on these deliberations, the TGC decided to present the committee with the following two options for the size of committees:

- a) 20, 14, and 6 voting, constituency representatives for the strategy, audit and finance, and ethics and governance committees, respectively (the “20-14-6 Option”); or
- b) 10, 10 and 6 voting, constituency representatives for the strategy, audit and finance, and ethics and governance committees, respectively (the “10-10-6 Option”).

28. Further discussions among committee members confirmed the value of independent committee members. The TGC considered the type of expertise that needed to be represented by independent members of the committees, taking into account other skills and experiences that could be found by constituency-affiliated members, particularly given the Board’s emphasis that membership selection should be based on skills, competencies and experiences. Following spirited deliberations, the TGC agreed that independent committee members would be needed for financial audit, forensic investigations and ethics, but wanted to seek further input from the Board on whether the independent members would have voting power.

29. The TGC also discussed the length of committee member terms and noted that the Board survey results showed support for maintaining the current two-year terms for Chairs and Vice-Chairs as well as members of the committees. As such, the TGC agreed to maintain the two-year term of service. Relatedly, the TGC discussed staggering terms so committees do not turn over at the same time. Since the results from the Board survey regarding staggering were more mixed, the TGC decided to retain the current system where members serve coinciding terms. In reaching this position, the committee weighed mechanisms for staggering, noting that a staggered system across the committee structure could create challenges regarding the added frequency of membership appointment processes and rotation across committees.

30. Based on these discussions, the TGC launched a consultation with Board constituencies and the Coordinating Group in October 2015.

03 October 2015 Consultation

31. The TGC asked the Board and the Coordinating Group for additional input on: a) two options for the size and composition of the new committees; b) matters related to independent committee members; and c) any additional final feedback on the overall TGC recommendation on committee structure, size and composition.

32. Of 19 respondents, 11 supported the 10-10-6 Option, which is close to the current system, citing both efficiency and effectiveness among the reasons for supporting this option. Moreover, 13 out of 18 responses supported the continuation of having independent committee members, but without voting

rights. Board constituencies showed general comfort with the minimum number of independent members and expertise proposed by the TGC (i.e., financial audit, forensic investigation and ethics).

33. Additionally, a number of Board constituencies commented on the need to balance workload across the three standing committees. In particular, constituencies noted the trade-offs related to unifying external and internal audit functions while also bringing audit and finance together. Feedback provided during this consultation included:

- a) Requests for additional rationale for the proposed structure;
- b) Potential solutions to further improve the overall risk management oversight model;
- c) Providing UNAIDS, WHO and the Partners constituencies each with a non-voting seat on the committee responsible for strategy; and
- d) Tension between effectiveness and representation in relation to committee structure and size.

34. Several constituencies requested further information about the need for a different process to select Committee Chairs and Vice-Chairs and Committee Membership.

04 Committee Structure

35. After discussing the variety of comments received, the TGC heard the support from constituencies on the proposed structure and agreed to maintain its recommendation to bring the responsibilities related to OIG previously combined with ethics and governance, as part of audit and finance. The TGC recognized the shift in workload, acknowledging that this committee would essentially maintain the current responsibilities of the FOPC, which includes operational performance and administrative matters, and then take on a significant workload previously overseen by the AEC. Nevertheless, the TGC felt that this was an appropriate allocation and combination of responsibilities given the complementarity of the audit and finance work streams, and that the critical, interrelated issues this committee would address would likely motivate more qualified and engaged talent across Board constituencies to consider service beyond the committee overseeing strategy.

36. The TGC noted that a consequence was that the committee charged with oversight of ethics and governance matters could have a lesser workload. However, it also acknowledged that with the newly adopted Ethics and Integrity Framework, and the establishment of a new ethics function, the work around ethical values and conduct within the Global Fund, but also the activities financed by Global Fund resources, would likely grow. While the TGC noted that having the OIG, ethics and governance functions together in one committee given the assurance linkages of the work of the OIG and ethics function could also have been beneficial, it could change as the ethics function becomes more established. TGC members recognized that with any decision there would be tradeoffs as there are also benefits of having the audit and finance functions under a single committee's oversight. As such, it was decided that internal audit would be placed alongside external audit in the audit and finance committee.

37. The TGC also delved deeper into the ethics and governance functions and confirmed there would be substantial governance functions to match the work on ethics matters. For example, the committee would be charged with overseeing regular performance assessments of the Board and committees under the performance assessment framework approved by the Board. Additionally, it would engage on attracting, developing and retaining individuals that serve in a governance role, while overseeing the work of the Privileges and Immunities Advisory Group with respect to the acquisition of privileges and immunities or in relation of other legal status matters that rise to the level of the Board. Based on the scope of the ethics and integrity framework the committee would also have responsibilities with respect to coordinating with the Secretariat when matters overlap with respect to operational and governance matters, including with respect to CCM matters. Furthermore, the committee would be overseeing the

process for nominating committee members as well as supporting the Board Chair and Vice-Chair in identifying the leadership of standing committees.

38. Altogether, the TGC agreed to recommend the following committee structure for adoption:

- a) Strategy Committee (the “Strategy Committee”): As presented at the Board Retreat in July 2015, relatively similar to the current SIIC mandate, which aligns with the Board’s feedback.
- b) Audit and Finance Committee (the “Audit and Finance Committee”): As presented at the Board Retreat in July 2015, but with the functions and responsibilities related to the OIG re-located from the Ethics and Governance Committee with finance and audit functions remaining together in one committee. The remaining mandate is similar to the current FOPC as corporate and financial management, as well as operational performance matters, remain as part of this committee’s mandate.
- c) Ethics and Governance Committee (the “Ethics and Governance Committee”): As presented at the Board Retreat in July 2015, with the inclusion/reinstatement of:
 - i. Working with the Board Leadership to nominate Committee Leadership;
 - ii. Oversight of the process for nominating and appointing Committee membership;
 - iii. CCM matters related to governance and ethics concerns;
 - iv. Legal status issues that warrant Board attention;
 - v. Review reports from the Privileges and Immunities Advisory Group; and
 - vi. Oversight of financial implications of governance activities.

39. The Strategy Committee maintains the same mandate of the SIIC. Revisions to the existing SIIC Charter include updates and clarifications to terminology with respect to areas of responsibility, some of which remove redundancies that had been spread across decision-making, advisory and oversight functions, while others reflect the current funding model that had yet to be established when the SIIC Charter was initially adopted in November 2011. This committee continues to have primary oversight of the grant portfolio operations, and will continue the current practice of jointly reviewing the cross-cutting dimensions of such matters with the Audit and Finance Committee (e.g., market shaping), as is the current case for the SIIC and FOPC.

40. In terms of the Audit and Finance Committee, responsibility for external audit, internal audit and investigation matters, previously with the AEC, have been added to the FOPC’s current mandate. As such, corresponding shifts in Charter functions and responsibilities have been made, together with updates and clarifications in some of the terminology and grouping of responsibilities in the existing FOPC Charter that the Board adopted in November 2011. To a degree, the current structure resembles elements of the initial FOPC established by the Board—the initial Charter only allocated external audit responsibilities to the FOPC, which was later re-allocated to the AEC where internal audit and investigations had already been placed. As mentioned above, the collaboration on cross-cutting aspects that has developed for the SIIC and FOPC work will continue to be important for the Strategy Committee and the Audit and Finance Committee, on both the strategic implementation and financial implications of grant operations.

41. Adding to the discussion above on the Ethics and Governance Committee, the proposed structure establishes a committee that will be accountable for the key governance functions previously allocated in the system, but not implemented, as well as the key governance functions that had not been previously allocated across the structure. These were among the issues identified by the OIG Advisory Report and the Governance Plan for Impact.

42. During these discussions, the TGC felt the committee tasked with governance responsibilities should have oversight of the broader process, not each nomination and appointment of committee members. As such, it supports the current process by which the Chair and Vice-Chair of the Board, in

consultation with the other members of the Coordinating Group, present candidates for committee membership to the Board for approval. Where there is need to look into refinements or modifications to the process, this committee would undertake such review. For the nomination of Chairs and Vice-Chairs of Committees, the TGC felt it was appropriate for the standing committee to work with the Chair and Vice-Chair of the Board to present the Board with candidates. As such, the Coordinating Group's terms of reference will be modified to re-locate the responsibilities with respect to the nomination of Committee Chairs and Vice-Chairs to the Ethics and Governance Committee.

43. The resultant charters and terms of reference of these deliberations and recommendations are presented in the Annexes to this paper for review and approval by the Board.

05 Committee Size and Composition

44. Following consideration of several options and seeking the Board's feedback, the TGC recommends for committee size, a 10-10-6 scenarios whereby:

- a) Strategy Committee: 10 constituency-nominated members (5 donor, 5 implementer) in a voting capacity, and the following non-voting members:
 - i. TRP Chair;
 - ii. TERG Chair; and
 - iii. 2 representatives of non-voting Board constituencies.
- b) Audit and Finance Committee: 10 constituency-nominated members (5 donor, 5 implementer) in a voting capacity, and the following non-voting members:
 - i. World Bank;
 - ii. 1 representative of another non-voting Board constituency;
 - iii. 1 independent with audit expertise; and
 - iv. 1 independent with investigations expertise.
- c) Ethics and Governance Committee: 6 constituency-nominated members (3 donor, 3 implementer) in a voting, personal capacity, and 1 independent, non-voting member with ethics expertise.

45. The Chairs and Vice-Chairs of each committee will:

- a) Serve in a non-voting, neutral capacity, as is current practice.
- b) Not count towards their nominating constituencies' minimum and maximum limits in committee participation (i.e., a minimum of one and a maximum of two), as is current practice.
- c) Alternate between individuals nominated by donor and implementer constituencies each term taking into account that the Strategy Committee and Audit and Finance Committee Chairs will be from different constituency groups each term.

46. With respect to independent committee members:

- a) The TGC puts forward a minimum number and a minimum set of expertise to be represented to complement members affiliated with Board constituencies. Committees may recommend the Board to add independent-member seats based on their assessment of need for expertise on standing basis.

- b) Committee Leadership may invite external, independent experts on an ad-hoc basis for particular needs or issues, which is current practice.
- c) Independent committee members may receive an honoraria as per current practice and in line with any framework that may be approved by the Board.

47. In arriving at these recommendations, the TGC addressed a threshold question of whether the governance structure should operate under a model in which the Board delegates specific responsibilities to smaller committees versus a system where every discussion or deliberation requires each constituency of the Board. Though the committee recognized the importance of inclusivity and broad participation, the TGC felt there was great value in having smaller committees dividing the equally important responsibilities and aspects of the organization, to hopefully achieve greater efficiency while reflecting trust and collaboration across constituencies. These principles, together with the greater support voiced by the Board through consultations, pointed towards the 10-10-6 option. And because the Strategy Committee will not be a “committee of the whole,” the TGC also decided to maintain the current system with respect to seats for the non-voting constituencies of the Board (i.e., UNAIDS, WHO, Partners, World Bank). As such, two seats on both the Strategy Committee and Audit and Finance Committee are available for non-voting Board constituencies, with one seat on the Audit and Finance Committee designated to the World Bank, as Trustee. The other three seats across the Strategy and Audit and Finance Committees would be allocated among UNAIDS, WHO and Partners.

48. Nevertheless, the TGC considered the views expressed by constituencies prior to and during the 34th Board meeting, particularly with respect to engagement and participation across committees. The TGC noted existing mechanisms that have facilitated greater opportunities for constituencies to input into committee discussions. For example, committee documents are now available to the Board when distributed to committee members. The Chairs and Vice-Chairs of the committees attend the meetings of other committees, as well as seek and bring the input of constituencies not represented on a committee into the discussions. Committee Chairs and Vice-Chairs also hold conference calls following each meeting for all Board constituencies to get an update on the committee’s discussions and outcomes. Detailed reports of committee deliberations are also made available to all Board constituencies, including the full text of all decisions or recommendations to Board. Recognizing the value of in-person participation and engagement stressed by constituencies, and in the spirit of engagement and participation, the TGC agreed to allow either the Board Member or Alternate Board Member for each constituency not represented on a committee to attend as an observer. The amended and restated Operating Procedures presented in Annex 6 now reflect these provisions.

06 Core Governance Document Updates

49. As the revisions to the committees’ structure, size and composition also require modifications to core documents such as the Bylaws (i.e., updating the standing committees described therein) and Operating Procedures, the TGC has identified, with the support of the Secretariat, various categories of revisions. These include removing inconsistencies that have existed since the 2011 governance reforms, consolidating redundant provisions in one place with relevant cross references throughout the core governance documents, clarifying or aligning the language based on existing practice, and reorganizing the grouping and ordering of rules for greater logical coherence.

50. Additionally, input provided by the Board on processes or rules that need review, particularly with respect to the survey results presented at the July 2015 Board retreat have been incorporated. As such, a revised set of Bylaws and Operating Procedures have also been prepared and presented in the annexes to this paper. A change log, presented as Annex 7, that summarizes the changes to the Operating Procedures accompanies them to help identify the amendments. The TGC presents these revised core documents to the Board for approval as they complement and support the recommendations regarding

the enhanced governance structure. They also facilitate greater efficiency, consistency and clarity with respect to governance processes.

51. As the TGC received comments and questions on how risk oversight has been addressed in the proposed committees, the charters for each of the three new committees consolidates the advisory and oversight role each committee has with respect to risks related to their respective mandates. The Coordinating Group, under its terms of reference, and in accordance with the approach for risk oversight approved by the Board in November 2014, will coordinate how each committee engages on and reviews risk matters. Furthermore, the TGC considered comments with respect to re-allocating additional governance responsibilities from the Coordinating Group to the Ethics and Governance Committee. These changes have been incorporated in the amended and restated terms of reference of the Coordinating Group, presented in Annex 4, and the charter of the Ethics and Governance Committee, presented in Annex 2.

VII. Recommendation

52. Based on the discussion presented in this paper, the TGC recommends that the Board approve:

- a) The Charter of the Audit and Finance Committee, as presented in Annex 1;
- b) The Charter of the Ethics and Governance Committee, as presented in Annex 2;
- c) The Charter of the Strategy Committee, as presented in Annex 3;
- d) The amended and restated Terms of Reference of the Coordinating Group, as presented in Annex 4;
- e) The amended and restated Bylaws, as presented in Annex 5; and
- f) The amended and restated Operating Procedures of the Board and Committees, as presented in Annex 6.