

VETERINARY PROFESSIONAL INSURANCE SOCIETY INCORPORATED

EXPLANATORY NOTE

PROPOSED AMENDMENTS TO CONSTITUTION

BACKGROUND

1. In anticipation of the proposed changes to the Incorporated Societies Act 1908 in the Incorporated Societies Bill (**Bill**), and in light of the Reserve Bank of New Zealand's Governance Guidelines for Licensed Insurers (**Guidelines**), Veterinary Professional Insurance Society Incorporated's (**VPIS**) Board has sought and received legal advice about the implications of the Bill and Guidelines on VPIS' Constitution (**Constitution**) and governance arrangements generally.
2. That advice included recommended amendments to the Constitution to ensure compliance with existing and anticipated regulations and guidelines requiring:
 - a. the majority of VPIS' Board to be VPIS' Members or Principals of Members;
 - b. the majority of VPIS' Board to be independent; and
 - c. VPIS' Board to comprise members with an appropriate mix of skillsets to demonstrate effective oversight of the organisation.
3. The Board has also sought and received tax advice about its operation under an income tax exemption. That advice included further recommended amendments to VPIS' purposes to more closely align with the relevant exemption.
4. The Board's proposed amendments, and their intended purposes, are explained **below**.

PRIMARY AMENDMENTS

5. The primary amendments proposed to be made to VPIS' Constitution include the following:
 - a. Adjustments to VPIS' purposes so that they more closely align with the relevant income tax exemption.
 - b. The introduction of a requirement that the majority of VPIS' Board Members be Members (or Principals) of VPIS, to reflect new requirements in clause 40 of the Bill.
 - c. The introduction of an express requirement that all Board Members be natural persons, to reflect new requirements in clause 40 of the Bill and to ensure that "*Members*" means Members who are natural persons in the context of Board Membership.
 - d. The introduction of a requirement that the majority of VPIS' Board Members be independent, to reflect requirements in the Guidelines.

- e. The removal of an express cap on elected Board Members and the introduction of a maximum number of total Board Members (seven), to promote flexibility of Board composition while ensuring the Board remains an appropriate size and can maintain the necessary level of independence.
 - f. The introduction of a nine-year cap within any 15 year period as to the length of time a Board Member can serve on the Board (three three-year terms or any other combination of terms totalling nine years), in recognition of Financial Markets Authority guidance indicating that a Board Member's independence may be impacted by length of tenure.
6. VPIS' Board considers these amendments are necessary and appropriate in the circumstances.

CONSEQUENTIAL AND OTHER AMENEMENTS

- 7. The instances of the word "*shall*" in both rule 13.1 and rule 13.7 are proposed to be replaced with the word "*may*" to ensure the flexibility of Board composition in accordance with the amendments identified in paragraph 4.e. **above**. This amendment would mean an election or appointment do not necessarily have to happen when there is a vacancy on the Board.
- 8. In light of the amendment identified in paragraph 4.e. **above**, the VPIS' Board proposes that the number of Board Members required to constitute a quorum to change from 4 Board Members to a 2/3 (two-thirds) majority of Board Members. This change would recognise the flexibility of Board composition and ensure that a quorum can be achieved more easily where there are fewer than seven Board Members.
- 9. A number of other minor amendments are proposed to ensure references to provision of the Bill in the Constitution are accurate following changes to the Bill at Select Committee stage. These can be seen in the Board's motion to amend the Constitution circulated with this Explanatory Note.