

**Financial Reporting Council
Gender Diversity on Boards:
a response by the National
Association of Pension Funds**

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About the NAPF

The NAPF is the leading voice of workplace pension provision in the UK. We represent some 1,200 pension schemes from all parts of the economy and 400 businesses providing essential services to the pensions industry. Ten million working people currently belong to NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from those schemes. NAPF member schemes hold assets of some £800 billion, and account for over one sixth of investment in the UK stock market. Our main objective is to ensure the security and sustainability of UK pensions.

Contact details:

David Paterson
Head of Corporate Governance
david.paterson@napf.co.uk

Emily Dellios
Policy Adviser, Corporate Governance and Investment
emily.dellios@napf.co.uk

Introduction

The FRC's consultation document, *Gender Diversity on Boards*, maintains that "diversity, in all its aspects, serves an important purpose in connection with board effectiveness". We agree with the FRC's assertion that there are several benefits associated with board diversity, particularly gender diversity, and that the current lack of female representation on UK boards is an issue that may have implications for UK listed equity markets.

As described in the consultation document, there is a concern that low levels of women on boards can inhibit board effectiveness. The consultation document highlights three key areas for concern: a lack of diversity could encourage "group think"; a lack of diversity could indicate boards are not making wide enough use of the talent pool; and a lack of female representation on the board may weaken the board in terms of internal and external relationships. We believe these are valid concerns and that the proposed changes to the UK Corporate Governance Code (the Code) will go some of the way to addressing these issues.

It is important to ensure that any improvement in gender diversity does not come at the expense of skills and experience, and our view is that this is not a matter to be regulated. We therefore believe that the Code is an appropriate medium for addressing issues associated with board diversity, and we welcome the FRC's proposed changes to the Code.

Possible changes to the UK Corporate Governance Code

Principle B.2

In relation to the change to **Principle B.2, Provision B.2.4** of the Code (regarding reporting by the nomination committee), we agree in principle with the suggestion set out in the Consultation Document.

We believe there should be a formal and transparent procedure for appointing new directors to the board and this should encompass a balance of skills, experience, independence and knowledge of the company. The search for board candidates should give due consideration to the benefits of diversity on the board.

We support the Principle under the UK Corporate Governance Code, which states that there should be a section of the annual report describing the work of the nomination committee, including the processes used with respect to appointments to the board. We believe that this section of the annual report should disclose the company's diversity policy, including the extent to which professional, international and gender diversity are considered.

We do not believe that this should be specifically limited to gender, as suggested in the FRC's proposed wording, and such disclosures should also include such matters as international and professional diversity.

FRC Gender Diversity on Boards: NAPF response

Alternative wording might be:

This section should include a description of the board's policy on gender diversity, **and diversity more generally**, in the boardroom, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.

We are not supportive of quotas for the number of women on boards, as we are concerned that it could lead to 'box-ticking' or tokenism, and may come at the expense of board and company performance. Any increase in the number of women on boards should be through organisational development consistent with the company's strategic objectives. We are therefore comforted by the FRC's proposed changes to the Code, which allow the flexibility for companies to select their own measurable targets for boardroom diversity.

With respect to the key elements of a (gender) diversity policy, we do not believe the Corporate Governance Code is the appropriate place for such guidance. Instead, perhaps the FRC would consider issuing separate guidance highlighting the key elements they would expect to see covered by a diversity policy. However, policies relating to board composition and diversity will vary widely between companies, and therefore the FRC should exercise caution when issuing any such guidance so as to avoid boilerplate reporting.

Principle B.6

With respect to changes to **Principle B.6** of the Corporate Governance Code (relating to board evaluation), we agree with the inclusion of such wording under this Principle. However, in line with the FRC's intention for companies to actively increase diversity on boards we believe the wording could be strengthened. Again, we do not believe this should be limited to gender diversity, and that diversity more broadly should also be included in the board evaluation process.

We therefore suggest the following changes to the proposed wording:

At a minimum, evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, the board's policy on gender diversity **(and diversity more generally) and performance against this policy**, how the board works together as a unit, and other factors relevant to its effectiveness.

The timing of changes to the Corporate Governance Code

We have reviewed the FRC's options for bringing into effect any changes to the Code, and we believe the revised Code would be best applied to accounting periods beginning on or after 29 June 2012. This will allow companies time to develop and implement the policies against which they will assess themselves. Whilst this means that companies will not be required to report on progress until 2013, as suggested in the consultation document, companies should certainly be encouraged to report on a voluntary basis in 2012.

NAPF response to changes to the Corporate Governance Code

The NAPF Corporate Governance Policy and Voting Guidelines¹ are structured around the Corporate Governance Code. In response to any changes to the Code, we intend to review the NAPF Guidelines with a view to strengthening the recommendations on boardroom diversity.

The NAPF believes that there is a potential for shareholders to use their voting rights to encourage gender diversity, and the Guidelines currently ask that boards explain to shareholders what steps they are taking to bring diversity to their boardroom. Where there is no statement on a company's diversity policy, shareholders may choose to vote against the election of a director.

The NAPF Guidelines will be reviewed once the FRC has finalised its changes to the Corporate Governance Code.

¹ NAPF Corporate Governance Policy and Voting Guidelines:
http://www.napf.co.uk/PolicyandResearch/DocumentLibrary/0154_Corporate_governance_policy_and_voting_guidelines_2010.aspx