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Our ref: ICAEW Rep 74/11

Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

By email: codereview@frc.org.uk

Dear Chris

GENDER DIVERSITY ON BOARDS

ICAEW welcomes the opportunity to comment on the consultation paper *Gender diversity on boards* published by The Financial Reporting Council in May 2011.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council (FRC). As a world leading professional accountancy body, we provide leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

ICAEW has participated in consultations throughout the development of the UK Corporate Governance Code (the Code) and plays an active role in corporate governance thinking in the UK and internationally.

This response reflects consultation with ICAEW's Corporate Governance Committee which includes representatives from the business and investment communities. The Committee is responsible for ICAEW policy on corporate governance issues and related submissions to regulators and other external bodies.

Major points

We fully support greater diversity on boards as a way of increasing board effectiveness. Diversity is an essential contributor to board effectiveness as it enables differing perspectives and avoids 'group think' or similar attitudes prevailing.

We believe that this subject is of sufficient importance to make changes ahead of the FRC's next formal review of the Code.

In light of the contents of Lord Davies' report and the recommendations made, the time is right to consider whether addition is needed to the Code to encourage companies to reflect to the outside world the actions they are taking to meet the expectations and spirit of the Supporting Principles in B.2. We

therefore believe that it is now right, even though the provisions are relatively new and have not had a chance to bed-in, to further strengthen the Code in this area rather than to wait to see how the Supporting Principles in B.2 are reflected by listed company boards.

The Code has been very successful in the past in effecting real change in behaviours in a short period of time, for example by encouraging the separation of the roles of Chief Executive Officer and Chairman and stimulating the change towards a majority of non-executive directors on boards. We believe that changes to the Code to require listed companies to establish and report against a boardroom diversity policy could equally bring about sustainable change.

Should further changes to the Code be made?

There is a recognised need to move to a situation where directors are chosen from a broadly based candidate pool. It is a given of course that directors must have the appropriate individual skills, relevant experience and sound judgement required to contribute effectively to a board but as a group they should also reflect diversity of gender, age, experience and background. Board members who bring different experiences to the boardroom will increase the opportunities for diversity of thinking.

Proposed changes to B.2.4

We support the introduction of the additional wording to B.2.4 to include a description of the board's policy on gender diversity in the boardroom including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. We believe that this amendment will focus the board's attention on their current and future policies in this area and this will provide welcome transparency to investors and stakeholders on the nomination committee processes and could perhaps go further to include diversity more generally.

As to whether the FRC should set out the key elements to be covered in a gender diversity policy we feel that this is not an area where undue prescription would be helpful and certainly we do not feel this should be covered in the Code itself. Companies themselves, and their practitioner advisors, are in the best place to devise their diversity and development policies according to the needs of their businesses and this is not an area where the Code is in need of any amendment or secondary guidance. After consideration of the consultation responses if the FRC is minded to create guidance in this area it will be vital to avoid prescription and be flexible in response to the differing needs of companies.

Proposed addition to B.6 and board evaluation

We are in favour of an additional paragraph to B.6 to make it explicit that a board evaluation should consider the balance of skills, experience, independence and knowledge of the company on the board and the policy on gender diversity. We believe that the suggested wording is workable and clear.

The timing of any changes

We believe that this subject is of sufficient importance to make any changes ahead of the FRC's next formal review of the Code. As stated in the consultation document the date of the next formal review is not fixed and is to be determined in part by whatever actions are taken at EU level. Therefore, it would seem sensible to make any necessary changes ahead of the next formal review.

We favour any revised Code being applicable to accounting periods beginning on or after 29 June 2012. In practice many companies will report on a voluntary basis earlier in 2012 as requested by Lord Davies as they have until the end of September 2011 to announce the number of directors they are aiming to have by 2013 and 2015. They will also need to report on their boardroom diversity policy and progress made against their goals in their 2012 corporate governance report in any event ahead of any regulatory changes. We believe that an effective date of 29 June 2012 will give companies and their advisors time to embrace the spirit of any revisions and make any necessary changes to their policies and practices and would not in any way preclude them from complying with the recommendations of Lord Davies.

We understand and sympathise with the arguments about piece-meal changes to the Code but we believe that this is an issue that warrants earlier action. That being said however, we would be concerned about any revised Code being applicable retrospectively notwithstanding that some companies may in any event choose to implement earlier.

The suggestion that a revised Code could take effect at the same time as any regulations made by Government in response to the Lord Davies review is of course a viable option but we do not believe that there needs to be linkage in this way.

Additional comments

Much more needs to be done to provide a level playing field to ensure that all potential candidates get the same treatment in terms of mentoring, networking and training for management positions. This is not a matter for the Code but in order to bring about sustainable change it will be developments in these areas that will bring about lasting results. ICAEW launched its 'Women in Leadership' programme in February 2011 which is designed to support female finance professionals with their career progression. In addition ICAEW's nationwide 'Narrowing the Gap' programme continues to support career breakers with their return to work.

Finally, the issue of the identification of suitable candidates is an area where there needs to be innovative solutions and these ultimately must come from boards and their advisors sooner rather than later if real change is to be effected. We welcome the development of a voluntary code for recruitment professionals to assist in this aim.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

T +44 (0)20 7920 8492
E robert.hodgkinson@icaew.com