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Dear Chris

Financial Reporting Council consultation: Gender diversity on boards
- Comments by the British Bankers' Association -

Introduction:

The British Bankers' Association ("BBA") is the leading association for banking and financial services in the UK, representing 230 banking organisations from 60 countries, and 40 professional service firms within our associate membership. The BBA welcomes the opportunity to comment on the Financial Reporting Council's (FRC) consultation document.

The BBA supports the objective to promote diversity on company boards and would add that it supports work to promote diversity in company workforces more generally. The BBA recognises the existence of a gender imbalance within company boards and broadly agrees with Lord Davies' analysis of these issues in his [Women on boards](#) report published in February 2011.

The BBA recognises Lord Davies' recommendation that diversity should be one factor alongside 'business needs, skills and ability'¹ in the appointment process for board members, and that diversity contributes to the long-term success of a company. The BBA does not believe gender diversity should be prioritised to the detriment of these factors, or other aspects of diversity such as ethnicity. Any approach to diversity should avoid suggestions of a quota system and should instead emphasise that any board appointment should continue to be based on the candidate's ability to meet the requirements of the role.

Whilst acknowledging the need for more progress on gender diversity, the BBA believes that any proposals should seek to increase the number of suitable candidates from diverse backgrounds for board level appointments. The key to improving board diversity in the longer term is ensuring that suitable training and development is provided to create a supply of candidates who can progress to board level. This will provide a talent pipeline which equips a broad range of people with the necessary skills and experience to serve on company boards.

¹ <http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf> Page 18 paragraph 3

Davies' report also notes that there are demand side issues which also need to be considered. The BBA supports the voluntary code of practice for executive search firms recommended by Lord Davies. Further to this, The BBA would draw attention to the Female FTSE 100 Index, the FTSE 100 cross company mentoring programme and the 30% club which are voluntary initiatives committed to bringing more women onto company boards. These examples show the progress currently being made by companies in addressing diversity at board level and we would ask that the FRC is mindful of these and other voluntary initiatives currently being pursued.

The BBA notes that Lord Davies and others believe that the pace of change is not quick enough and have suggested that companies should aim to have women account for 25% of board positions by 2015. Lord Davies also suggests that companies should disclose their policies and progress in this area. Although this is one way for companies to improve the number of women and diverse candidates serving on their board, the BBA would caution against these becoming hard targets, rather than firm aspirations, and believe that board appointments should continue to be based on the candidate's ability to meet the requirements of the role. The 'comply or explain' principle is well established in UK corporate governance and the BBA would support its use in this regard when companies disclose the actions they have undertaken in this area and their progress on diversity. This would also ensure an appropriate level of transparency over the processes companies have used to address this.

General points:

- The BBA broadly agrees with Lord Davies' analysis of gender imbalance on boards in his report 'Women on boards'
- Diversity contributes to the long-term success of a company and this is best achieved by improving the supply of suitable candidates from diverse backgrounds
- Supply side measures will provide a talent pool of suitably qualified candidates
- Firm aspirations are more appropriate than hard targets or any suggestion of quotas
- Companies should be allowed the flexibility to adopt their own policies on diversity, and these should be assessed on a 'comply or explain' basis.

Q. Should further changes to the code be made?

The BBA supports changing the UK Corporate Governance Code in line with Lord Davies' recommendation. However, as the consultation notes, companies have only been required to apply the principle that boards must consider gender diversity from 2011, and should be given sufficient flexibility to respond to these changes in a manner that suits their business needs and circumstances. The BBA does not believe that any changes to the code should be applied retrospectively.

Q. The FRC welcomes views on the additional wording to provision B.2.4 in the corporate governance code:

The BBA supports the inclusion of a specific reference to diversity, as opposed to gender diversity, in this additional wording. However the BBA is concerned that 'measurable objectives' lend themselves towards hard targets which the BBA would not support. As stated above, companies should be allowed the flexibility to address the low level of female representation on their boards in a manner which suits their company's business needs and individual circumstances. Given the 'soft' nature of many initiatives and policies in place to improve gender diversity on boards, the BBA believes that companies should not be required to quantify their results. The materiality of such reporting would be difficult to assess and could be seen as boiler-plating. The BBA would therefore suggest replacing

'measurable objective' with 'objectives' in the additional wording, as this would lead to more substantive information being disclosed. In addition reference should be made to the 'Board's policy on diversity' and not 'diversity in the boardroom', this ensures that diversity is seen as an issue for the company as a whole and not restricted to the boardroom.

Q. Davies also suggests: 'Chairmen should disclose meaningful information about the company's appointment process and how it addresses diversity in the company's annual report, including a description of the search and nominations process'. The FRC welcomes views on whether it would be helpful to set out some key elements to be covered by a gender diversity policy, such as criteria used when recruiting directors, or steps taken to develop talent – and if so should this be in the code or elsewhere?

The requirement that Chairmen disclose information in this regard would potentially duplicate information provided elsewhere in a company's annual report. Assuming that the proposed changes to provision B.2.4 in the previous question are adopted it would also be explicitly stated in the description of the nomination committee. The disclosure therefore needs to be reviewed in tandem.

Although it may be helpful for the FRC to provide information on the key issues of diversity, the BBA would not like to see this positioned as an industry standard or best practice guidance on how to establish a diversity policy. Companies must retain the flexibility to address the low level of female representation on their boards in a manner which suits their needs and circumstances.

Of the two examples mentioned, the BBA would be concerned about the FRC defining criteria to be used during the recruitment or selection process. This could limit the ability of companies to make board appointments based on the needs of their business and may have adverse effects. The BBA could foresee a role for the FRC in providing information to companies on how they can promote networking and development opportunities for their staff. Companies, and their staff, may be unaware of the opportunities available in this regard and publicising them through the FRC could encourage their take up by prospective candidates and interested companies.

Q. The FRC welcomes view on whether a new supporting principle on board evaluation is desirable and, if so, on the proposed wording

The UK Corporate Governance Code already includes main principle B.2 which states 'There should be a rigorous and transparent procedure for the appointment of new directors to the board. This is supplemented by the supporting principle that reads 'The search for board candidate should be conducted, and appointments made, on merit, against objective criteria and with due regard for the benefits of diversity on the board, including gender diversity'.

Should it be considered necessary to add a supporting principle to B.6 on board evaluation then the BBA believes that the additional supporting principle should be drafted by more direct reference to main principle B.2. The evaluation statement could perhaps include reference to progress being made on boards becoming more diverse, but not an assessment of the board's cohesiveness or whether not this has a bearing on the board's effectiveness.

Q. The FRC welcomes views on when any change to the code that might be introduced should take effect

The BBA supports an implementation date of 29 June 2012 for the revised UK Corporate Governance Code. This would ensure certainty as to the date of the implementation of changes, and allow companies plenty of time to ensure compliance. In addition it would avoid any complications which could result from retrospective compliance. The BBA would add that given other initiatives in

this area, such as the EU Green Paper on corporate governance frameworks and potential Government regulations following Lord Davies' report, the FRC should seek to harmonise any changes to the UK Corporate Governance Code with other developments. This would enable companies to respond to these initiatives in a co-ordinated manner and promote certainty for UK companies.

Yours sincerely

A handwritten signature in black ink that reads "Paul Chisnall". The signature is written in a cursive, flowing style.

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