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29 July 2011

## FRC CONSULTATION: GENDER DIVERSITY ON BOARDS

### Response by F&C Investments

F&C Investments (F&C) is a London-based global asset management firm with institutional and retail clients collectively representing over £159.6 billion of assets<sup>1</sup>. We manage funds on behalf of insurance companies, institutional investors, pension funds and private individuals. Through our Responsible Engagement Overlay service (*reo*<sup>®</sup>) we have also been mandated to engage and/or vote on behalf of a number of insurers, pension funds and banks whose money is managed by other parties.

F&C welcomes the opportunity to respond to the FRC consultation on further changes to The UK Corporate Governance Code (the Code) aimed at achieving more diverse and effective boards.

#### Are further changes to the Code needed?

F&C has long held the view that high-performing, effective boards require diversity of perspectives and experience, which may include diversity of gender, ethnicity and national background, and professional experience. We were supportive of the June 2010 amendments to the Code, including Supporting Principle B.2, which recognises the value of diversity. Earlier this year, we welcomed the publication of Lord Davies's report *Women on Boards* and its main recommendations, including clear diversity targets at the board and senior management level.

Given the slow progress towards greater diversity of UK public company boards over the past few years, **F&C is supportive of the proposal to amend the Code** to require listed companies to establish a policy concerning boardroom diversity, measurable objectives for implementing the policy, and to report on progress made in achieving the objectives.

Our extensive experience of engagement with the boards of listed companies suggests that insufficient board diversity often stems from either a poor understanding of the benefits it can bring or the perceived unavailability of candidates of suitable calibre. The former can be addressed by a strong message on the value of diversity in corporate governance code of best practice and by shareholder engagement. The latter will require positive efforts to broaden the pool of eligible applicants so as to include candidates from non-traditional backgrounds, experienced professionals at sub-board level and candidates from overseas markets.

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<sup>1</sup>F&C Management Limited is a subsidiary of F&C Asset Management plc. F&C Asset Management plc is the listed holding company of the F&C Group, a global asset management group based in London, United Kingdom, with offices in Amsterdam, Boston, Dublin, Edinburgh, Frankfurt, and Lisbon. As at 31 March 2011, F&C Management directly managed £106.1 billion in assets. In addition, F&C has been mandated to vote and/or engage in dialogue on behalf of a further 20 investment institutions whose assets, including equities and corporate bonds, total £53.5 billion.

We therefore believe that best-practice guidance on board diversity, such as inclusion of recommendations on the board diversity in the Code, would be a useful aid to enabling boards to seek out the best available talent and manage the transition to a more diverse board without compromising board effectiveness and cohesion.

### What should the changes be?

While we see the current wording of Supporting Principle B.2 and the proposed amendment of Provision B.2.4 as steps in the right direction, we do not believe that they deliver a sufficiently strong message on the value of board diversity and its impact on board effectiveness.

We would therefore propose that the wording in the Main Principle B.1 be amended to include the reference to board diversity (our additions in bold).

*The board and its committees should have the appropriate balance of skills, experience, **diversity of background, gender and personal attributes**<sup>2</sup>, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.*

We would also encourage FRC to include a sentence on the value of board diversity under Supporting Principles B.1. For example, the FRC Guidance on Board Effectiveness of March 2011 helpfully states: *Diversity in board composition is an important driver of a board's effectiveness, creating a breadth of perspective among directors, and breaking down a tendency towards 'group think'.*

F&C agrees that the board's nomination committee should be responsible for identifying the skills and personal qualities required for the effective functioning of the board; it should also ensure that the objectivity and independence of its members' judgement be preserved and that the composition of the board be sufficiently diverse. We would, therefore, recommend amending Provision B.2.2 to reflect the above suggestion for the amendment of Main Principle B.1 (our additions in bold).

*The nomination committee should evaluate the balance of skills, experience, **diversity of background, gender and personal attributes**, independence and knowledge on the board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment.*

F&C supports the FRC's proposal to amend the Code's wording of Provision B.2.4, which concerns the report of the nomination committee. We agree that the Code should require listed companies to establish a policy concerning boardroom diversity, including measurable objectives/targets, and to report on progress in its implementation in the annual report. We specifically note, however, that the use of external search consultants does not necessarily mean that consultants are given the mandate to search from a diverse pool of talent. We believe, therefore, that boards should be reporting on the steps taken to broaden the pool of eligible applicants rather than merely on the use of external consultants. We, therefore, suggest amending the wording of Provision B.2.4 as follows (our additions/amendments in bold):

*A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. This section should 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. ~~An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non-executive director.~~ **The nomination committee should provide an explanation of positive efforts taken to broaden the pool of eligible applicants so as to ensure access to the full***

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<sup>2</sup> We use the term "personal attributes" as defined in Provision 4.3 of the FRC's Guidance on Board Effectiveness of March 2011: *"It is important to consider a diversity of personal attributes among board candidates, including: intellect, critical assessment and judgement, courage, openness, honesty and tact; and the ability to listen, forge relationships and develop trust. Diversity of psychological type, background and gender is important to ensure that a board is not composed solely of like-minded individuals. A board requires directors who have the intellectual capability to suggest change to a proposed strategy, and to promulgate alternatives."*



***talent pool available. To the extent that the committee makes use of external search consultants to fill board roles, a key dimension of the search consultant's mandate should be to encourage board diversity.***

Furthermore, F&C believes that for companies to access and benefit from the full talent pool available, they should have and actively implement a diversity policy across the organisation. While board-level leadership and board composition are a necessary first step, this matter must equally be addressed at all levels, not least as challenges in identifying suitably-qualified board candidates begin with investing today in the "pipeline" of tomorrow.

F&C, therefore, believes that the board of directors should oversee the implementation of the company's overall diversity policy and report its assessment of progress in the directors' report or the corporate governance report. We would recommend that:

- ***Consideration be given to enhancing the role of the nomination committee to have oversight of the implementation of the company's diversity policy;***
- ***The nomination committee report on any gaps in skills, experience, expertise or personal attributes on the board, as well as steps taken to close those gaps while ensuring that candidates are identified and selected from a diverse pool of talent; and***
- ***The nomination committee report on steps taken to develop senior executive talent and ensure orderly succession at the top executive level.***

This can be done through additional Code Provisions under section B.2 of the Code.

F&C agrees that the board evaluation process would provide an important opportunity for boards to review progress on implementing their diversity policy and whether it was contributing to the ultimate objective of increasing the board's effectiveness. We agree that a new supporting principle to Principle B.6 should be added and propose the following wording (our additions/amendments in bold):

*Evaluation of the board should consider the balance of skills, experience, **diversity of background, gender and personal attributes**, independence and knowledge of the company on the board, ~~the board's policy on gender diversity~~, how the board works together as a unit, and other factors relevant to its effectiveness.*

### **The timing of changes to the Code**

F&C believes that the change to the Code should apply to accounting periods beginning on or after 29 June 2011, even though it means that the new provisions would have to apply retrospectively. Given that companies would not be reporting against these provisions until 2012, we believe this allows sufficient time for companies to develop necessary policies, objectives and implementation plans. The early introduction of best practice provisions would also help the companies to prepare for any additional regulatory measures that may be introduced by the UK government or at the EU level.

For any further comments and questions please contact:

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