



**The Quoted
Companies Alliance**

Chris Hodge
Corporate Governance Unit
Financial Reporting Council (FRC)
Fifth Floor, Aldwych House
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codereview@frc.org.uk

12 August 2011

Dear Mr. Hodge,

The Financial Reporting Council: Gender Diversity on Boards

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The QCA Corporate Governance Committee has examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

We welcome the opportunity to respond to this consultation and view the issue of diversity as integral to achieving effective boards and good governance.

We also note that this issue is of particular relevance to the small and mid-cap quoted company sector – this constituency tends to have a low proportion of women on their boards and in senior management roles. However, we would not want to see any prescriptive measures on diversity imposed on small and mid-cap quoted companies – any action or governance provisions in this area should be proportionate, recognising their smaller structures and their company sizes more generally.

We have responded to the consultation questions below:

- 1. The FRC welcomes views on whether further changes should be made AND**
- 2. The FRC welcomes views on this wording (Provision B.2.4)**

We welcome the recent Government attention to this issue and more specifically are supportive of the FRC's proposal to amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, objectives for measuring and implementing this policy and to report on the progress.

It is imperative is that boards ensure that they have the right mixture of skills and attributes to reflect the diversity of their business. Broader ranges of backgrounds at board levels would be a positive step to growing a business and creating shareholder value. We would note however that gender is only one aspect of diversity and restricting diversity in the Code to just gender would be too prescriptive. As such, we would recommend that Main Principle B.1 be amended to include the reference to board diversity:

*The board and its committees should have the appropriate balance of skills, experience, **diversity**, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.*

Accordingly, we would recommend that the suggested wording for Provision B.2.4 not refer just specifically to gender, but to diversity as a whole, instead reading:

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

We would also note 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:

~~**...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 talent pool available.**~~

- 3. The FRC does not consider that this recommendation requires a change to the Code, but welcomes views on whether it would be helpful to set out some of the key elements to be covered by a gender diversity policy - such as the criteria used when recruiting directors, or the steps taken to develop of senior executive talent - and if so, whether this should be done in the Code or elsewhere.**

We do not believe that it would be helpful for the FRC to define what should be included within a company's gender diversity policy. As stated previously, we would view diversity going beyond gender and we believe that doing so may, in our view, encourage more of the boilerplate reporting that clutters many companies' governance disclosures and annual reports.

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

We agree with the FRC's proposal to add a new supporting principle on board evaluation. However we would suggest minor amendments consistent with our views above on references to diversity instead specifically gender diversity:

*Evaluation of the board should consider the balance of skills, experience, independence, 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.*

- 5. The FRC welcomes views on when any changes to the Code that might be introduced should take effect.**

We do not see any problems with the first option suggested in the consultation paper. Given that companies would not be reporting against these provisions until 2012, we believe it allows sufficient time for companies to develop the necessary policies.

If you would like to discuss any of these issues in more detail, we would be happy to attend a meeting.

Yours sincerely,



Tim Ward
Chief Executive

Quoted Companies Alliance Corporate Governance Committee

Tim Goodman (Chairman)	Hermes Equity Ownership Services
Edward Beale	London Finance & Investment Group PLC
Tim Bird	Wedlake Bell LLP
Dan Burns	McguireWoods
Nigel Burton	Petrosaudi Oil Services
Anthony Carey	Mazars LLP
Louis Cooper	Crowe Clark Whitehill
Madeleine Cordes	Capita Registrars Ltd
Edward Craft	Wedlake Bell LLP
Kate Elsdon	PricewaterhouseCoopers LLP
Nicola Evans	Hogan Lovells International LLP
Clive Garston	Davies Arnold Cooper LLP
Nick Graves	Burges Salmon
Eugenia Jackson	F & C Asset Management plc
Colin Jones	UHY Hacker Young
Dalia Joseph	Oriel Securities Limited
Derek Marsh	China Food Company PLC
Georgina Marshall	Aviva Investors
James Parkes	CMS Cameron McKenna LLP
Nick Teunon	FTSE International Limited
Andrew Viner	BDO LLP
Melanie Wadsworth	Faegre & Benson LLP
Cliff Weight	MM & K Limited
Kate Jalbert	Quoted Companies Alliance
Tim Ward	Quoted Companies Alliance

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European **Issuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
 - corporation tax payable of £560 million per annum
 - income tax paid of £3 billion per annum
 - social security paid (employers' NIC) of £3 billion per annum
 - employees' national insurance contribution paid of £2 billion per annum
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The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

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