

THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



Response from The Institute of Chartered Accountants of Scotland

The Financial Reporting Council Consultation Document: Gender Diversity on Boards

29 July 2011

INTRODUCTION

The Business Policy Committee at ICAS welcomes the opportunity to respond to the Financial Reporting Council's (FRC) Consultation Document: 'Gender Diversity on Boards'.

As the Institute's Charter requires, we act in the public interest, and our proactive projects and responses to consultation documents are therefore intended to place the general public interest first, notwithstanding our charter requirements to represent and protect our members' interests. The Institute's Business Policy Committee is broadly based with members drawn from practice, industry, the investment community and also the legal profession.

The Committee acknowledges the FRC's position in not seeking views on the other recommendations in Lord Davies' report 'Women on Boards' that was issued in February 2011, other than views relative to any potential changes to the UK Corporate Governance Code. ICAS fully supports the FRC's stance in this instance and we have therefore restricted our comments as to how diversity policies should be reflected in the UK Corporate Governance Code.

POSSIBLE CHANGES TO THE UK CORPORATE GOVERNANCE CODE

ICAS believes that in the current climate, where the issue of diversity is already being discussed in the boardrooms of UK listed companies, it is appropriate for the UK Corporate Governance Code to require disclosure of a company's diversity policy which would of course be subject to the "comply or explain" principle.

There are however two points we would like to make in this regard:

1. In relation to the proposed change to Provision B.2.4, we do not agree this should be restricted solely to gender diversity. Gender is but one subset of an overall diversity policy and we would prefer the UK Corporate Governance Code to be more "inclusive" of all areas of diversity that the boards of listed companies in the UK are currently looking at.

One of the main issues that boards of UK listed companies are faced with is the desire to improve long-term boardroom performance which can only be achieved by ensuring that the board's membership is wide-ranging and open to a diverse and varied range of perspectives, ideals and contributions. We would question if this can be achieved by solely focusing on one single aspect of diversity such as gender.

ICAS believes that diversity is a much wider issue than simply gender and extends to other areas such as age, ethnicity, experience, sexual orientation and skills for example. To narrow this down to any specific subset of diversity in the context of a listed company's board risks missing the point of what the concept of diversity is really about. It is perhaps more important to have a focus on new board members and developing a rigorous induction process that exposes them to all aspects of the business to assist in making them more "board ready" than perhaps to single out one specific aspect of diversity. Having a strong, well thought out and structured induction process should leave new board members in no doubt what the key aspects of the business are, and therefore in a good position to challenge the traditional attitudes in the boardroom.

We believe that listed companies should be required to disclose whether they have a diversity policy and if so describe its objectives, main content and to regularly report on its application provided this information will ultimately prove to be useful to shareholders, analysts and other stakeholders of the company.

There is a move in the UK however to remove unnecessary clutter from annual reports and to provide clear and transparent information on key areas, with other information still being made available on the company's website: we would suggest that a diversity policy may fall into this latter category.

The only danger we see in developing this policy is the possibility of "boiler plate" language being used for such disclosures, which is neither desired nor helpful to the users of annual reports. We would task the FRC to ensure this does not become a reality.

With regard to the suggested wording, in light of our above comments, we would ask the FRC to consider some re-phrasing and to specifically refer to "gender and other diversities" instead of simply "gender".

2. In relation to the disclosure of "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", we agree with the FRC that this does not necessitate a change to the Code and is better addressed elsewhere. We would suggest that the Higgs Guidance on improving board effectiveness is the appropriate place to contain such guidance.

ICAS would be happy to assist the FRC in drafting the necessary guidance needed in this regard.

We agree with the FRC's assertion that in changing Provision B.2.4, the section in the Code on the board evaluation process would also need to be updated to fully reflect the new emphasis on diversity.

With regard to the proposed wording of the new supporting principle on board evaluation, in line with our earlier comments, we would prefer to see the word "gender" replaced with "gender and other diversities".

THE TIMING OF ANY CHANGES TO THE CODE

Given the number of changes that companies have had to deal with over the past eighteen months or so, we believe that postponing the implementation of any changes until the FRC's next formal review of the Code is the desirable option in this instance.

Whilst we are in no way seeking to demote the relevance of diversity amongst listed companies, we believe that as the disclosure of diversity policies does not have an immediate impact on the main operations and outlook of a business that it is not of such an immediate concern as to merit an immediate change to the Code. We would add that many companies may be proactive in this area and already reporting on diversity.

We also agree with the FRC in that possible changes at an EU level may possibly circumvent any measures on diversity taken solely at a UK level.