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Financial Reporting Council: Gender Diversity on Boards – A Consultation Response from the Recruitment and Employment Confederation (REC)

We welcome the FRC's Consultation into Gender Diversity on Boards. Below we have outlined our thoughts on 1) The possible changes to the UK Corporate Governance Code and 2) The timing of any changes to the code. By way of introduction, we have included a short paragraph outlining the role of the REC and our involvement in the recent activity around promoting board diversity.

The REC

The REC represents over 8000 recruitment company branches, estimated to constitute half of all UK recruitment branches by number but a higher proportion by turnover. The REC operates a number of specialist sector groups, one of which is the Association of Executive Recruiters (AER) a group established for search and selection consultancies, many of whom place candidates into board level roles.

AER members have been involved with diversity initiatives for some time and the group has been even more active in recent months, working with the GEO to examine the practical implementation of the code for executive search firms as advocated by Lord Davies' report into Women on Boards.

1. Possible Changes to the UK Corporate Governance Code

The AER welcomes Lord Davies' recommendation that the UK Corporate Governance Code should be revised to require "listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclosure annually a summary of the policy and progress made in achieving the objectives".

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This target system recommended by Lord Davies has the potential to offer companies a strong incentive to ensure they are making progress in achieving boardroom diversity. In our response to the Lord Davies review, we explained that mandatory quotas are not the best option, as these can potentially harm women in the long run if it is perceived that they have gained directorships through a system of quotas rather than genuine merit.

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The target system is progressive and offers a more cohesive, flexible approach to address the issue on a voluntary basis. We believe that a step-change in attitudes towards diversity may emerge as a result of this 'comply or explain' model of reporting.

With regard to the proposed changes to the Code itself (Section B.2.4.) we agree with the wording that is being proposed by the FRC. We agree because the proposed wording will encourage companies operating in all sectors of the economy to draw up a policy on boardroom diversity. This is extremely important as firms should report against internally-set targets, which reflect their different circumstances, to achieve lasting progress towards increased diversity.

To expand on this, many of our members have pointed out that formulating effective diversity policies will vary depending on the company's size and sector, the current composition of the board, the potential candidates already within the company and the availability of talent in the pipeline. For instance, some of our members are search consultancies that operate in niche areas such as the pharmaceuticals industry and the IT industry. With many of these roles being technical and scientific, they tend to attract more men, who are more likely to study STEM subjects at university. Factors such as this will take time to overcome and to this end, it makes sense to keep the wording broad, giving it scope to apply to all industry sectors.

Fundamentally, we believe that implementing a reporting policy will act as a 'wake up call' to businesses. Whilst companies will not be bound into mandatory targets, we believe that there will be a strong desire to adhere to the internally set targets companies have set themselves. Progress will be a valuable indication to investors that the business is responding to the government's call to action and that it takes governance and corporate social responsibility issues seriously.

2. The Timing of any Changes to the Code

In his report, Lord Davies was keen to point out that the rate of progress has been very slow. Given the fact that our members are broadly supportive of changes to the Corporate Governance Code, we support the FRC's view that the changes could apply from on or after 29th June 2011, i.e. twelve months after the current Code came into effect. A retrospective application of the new provisions would thus have to apply.

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In summary, whilst the proposed change to the Corporate Governance Code will affect employers first and foremost, there will be consequential effects on the recruiters in our membership. However, our members firmly believe that the voluntary reporting code will translate into real action. They are committed to working with their clients – employers - to identify the most suitable talent and do everything possible to make the new reporting system a success.

If you would like any further information on the points above, please feel free to get in touch with either myself or Scott Pendry (scott.pendry@rec.uk.com).

Kind regards,

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