



KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7311 8059
Fax +44 (0) 20 7311 8499

Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN

Our ref tc/815

26 July 2011

Dear Chris

Gender Diversity on Boards

We welcome the opportunity to respond to the Consultation Paper '*Gender Diversity on Boards*' and stress that we are fully supportive of both the over-arching objective of Lord Davies' Report (to increase the number of women on corporate boards) and the specific proposals that the FRC "should amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity, including measurable objectives for implementing the policy, and disclose annually a summary of the policy and progress made in achieving the objectives".

We believe that these proposals represent an important step towards greater diversity in the boardroom that from our own experience enhances company performance. As members of the 30% Club – a group of Chairmen and organisations committed to bringing more women onto UK Corporate boards – we have declared our voluntary support for a goal of 30% of boards being female by 2015 and are taking actions to achieve it.

We note that the proposals do not specifically address numerical targets for gender diversity or the deadlines for when companies expect to achieve them. We recognise the difficulties associated with including deadlines in the Code, nevertheless we are conscious that progress towards gender diversity has been slow and therefore any steps that can be taken to encourage boards to move swiftly to a minimum of 30% female representation would be welcome. We do believe boards should be given time to achieve their aspirational goals, nevertheless this is an area the FRC should keep under review and aim to introduce a specific Code provision in (say) 3 to 5 years time when many boards should have much greater female representation. Such a provision might state '*at least 30% of the board should be female*'. We see this as analogous with board balance and the transition from Sir Adrian Cadbury's 1992 recommendation "the board should include non-executive directors of sufficient ... number for

their views to carry weight” to the current Code Provision (B.1.2) that recommends that *‘at least half the board, excluding the chairman, should comprise non-executive directors ...’*

In our view boards perform better when they include the best people who come from a range of perspectives and backgrounds and in this sense ‘diversity’ can go beyond the important issue of gender diversity. As Lord Davies articulates in his report, diversity is about the richness of the board as a whole, the combined contribution of a group of people with different skills and perspectives to offer different experiences, backgrounds and life styles and who together are more able to consider issues in a rounded, holistic way and offer an attention to detail that might not be present on non-diverse boards.

With this in mind, we suggest a number of amendments to the current proposals which hopefully not only further the importance of gender diversity, but also encourage boards to think about other aspects of diversity when considering board appointments and reviewing board effectiveness. [Note: suggested amendments are shown in italics, underlined or struck through as appropriate.]

- Principle B.1: The board and its committees should have the appropriate balance of skills, experience, *diversity of background and gender*, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- Provision B.2.2: The nomination committee should evaluate the balance of skills, experience, *diversity of background and gender*, 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. *It should report as to whether the company:*
 - *has developed a board skills matrix and uses this matrix to identify any ‘gaps’ in the skills and experience of the directors on the board;*
 - *the process by which candidates are identified and selected, including whether professional intermediaries are used to identify and/or assess candidates;*
 - *the steps taken to ensure that a diverse range of candidates is considered; and*
 - *the factors taken into account in the selection process.*
- Provision B.2.4: 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 of background and gender* in the boardroom, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives. *In order to promote orderly succession to senior management, the policy should include specific reference to the creation of a pipeline within the company to support the achievement of meaningful diversity within this group. The definition of ‘senior management’ for this purpose should be determined by the board but should normally include the first layer of management below board level.*

An explanation should be given if progress towards the measurable objectives is not achieved, alongside proposals which demonstrate how they will be met in future. An explanation should *also* 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.

- Supporting Principal B.6: Evaluation of the board should consider the balance of skills, experience, diversity of background and gender, independence and knowledge of the company on the board, the board's policy on diversity of background and gender diversity, how the board works together as a unit, and other factors relevant to its effectiveness.

Finally, we see no reason why the proposed changes to the Corporate Governance Code should be delayed as we believe the practices addressed by the changes should already be being undertaken and could be addressed at little or no cost. Consequently, we are supportive of applying the revised Code to accounting periods beginning on or after 29 June 2011 (i.e. one year after the existing Code came into effect.) We recognise that this would mean that the new provisions would have to apply retrospectively, however, companies would not be reporting against these provisions until 2012, and many companies may in any event choose to respond to these matters more quickly as requested by Lord Davies' report.

We hope that our comments prove to be useful and we welcome an on-going dialogue with the FRC as it continues to develop the UK Corporate Governance Code. Please do not hesitate to contact me should you wish to discuss any of the points raised in this response.

Yours Sincerely



John Griffith-Jones
UK Senior Partner