

Response to Financial Reporting Council Consultation Document For Gender Diversity on Boards

The **Local Authority Pension Fund Forum** was set up in 1991 and is a voluntary association of 53 local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The Forum's members currently have combined assets of over £100 billion. The Forum has taken the opportunity below to provide our view on those issues which we consider relevant to our activities.

Response

The Financial Reporting Council is seeking views on:

(1) Whether further changes to the Code are needed in order to help achieve more diverse and more effective boards; if so, what these changes should be.

The Forum welcomes the FRC's focus on the composition of boards as this pertains to the underrepresentation of women.

Increasingly, global research shows that group decision making is likely to be at its best in presence of people who have a range of experience and backgrounds.¹ Numerous studies also demonstrate that by increasing the number of women results in stronger-than-average profits at companies where at least three women serve.² Notwithstanding these studies, a lack of female representation continues to persist in UK boardrooms.

In light of the conclusions of current research and in accordance with Lord Davies' review, we support the proposed targets that FTSE100 boards should aim for a minimum target of 25% female representation by 2015 and therefore encourage changes to the Code that will reflect this recommendation. While we believe the targets proposed in Davies' review will aid in achieving swifter change than allowing companies to continue at their own discretion, responding to these targets should not provide a catalyst for tokenism.

¹ http://www.wjh.harvard.edu/~dobbin/cv/workingpapers/Board_Diversity_and_Performance_07_01_10.pdf

² <http://www.catalyst.org/file/139/bottom%20line%202.pdf>

LAPFF considers that chairmen should disclose meaningful information about a company's appointment process and how it addresses diversity in the company's Annual Report. Other international regulatory systems have taken measures to support diversity such as the US Security and Exchange Commission that since 2009 has required companies to 'disclose whether diversity is a factor in considering candidates for nomination to the board of directors, and how the company assesses how effective the policy has been'. The adoption of this rule in the US has proved a useful tool for investors and other key stakeholders to evaluate a company's progress in increasing diversity.

The current glacial pace of progress suggests that existing directors fill board vacancies with individuals in their own image. Evidence for this is provided by the small number of females who chair FTSE100 nomination committee – just two. Improvement in female representation on this committee is an obvious place to start if seeking to ensure that more women are at least included on the shortlist for board positions.

(2) If changes are made to the Code, when these should come into effect.

The Forum believes revision of the Code should be applied to the accounting periods beginning on or after 29 June 2011, i.e. twelve months after the current Code came into effect.