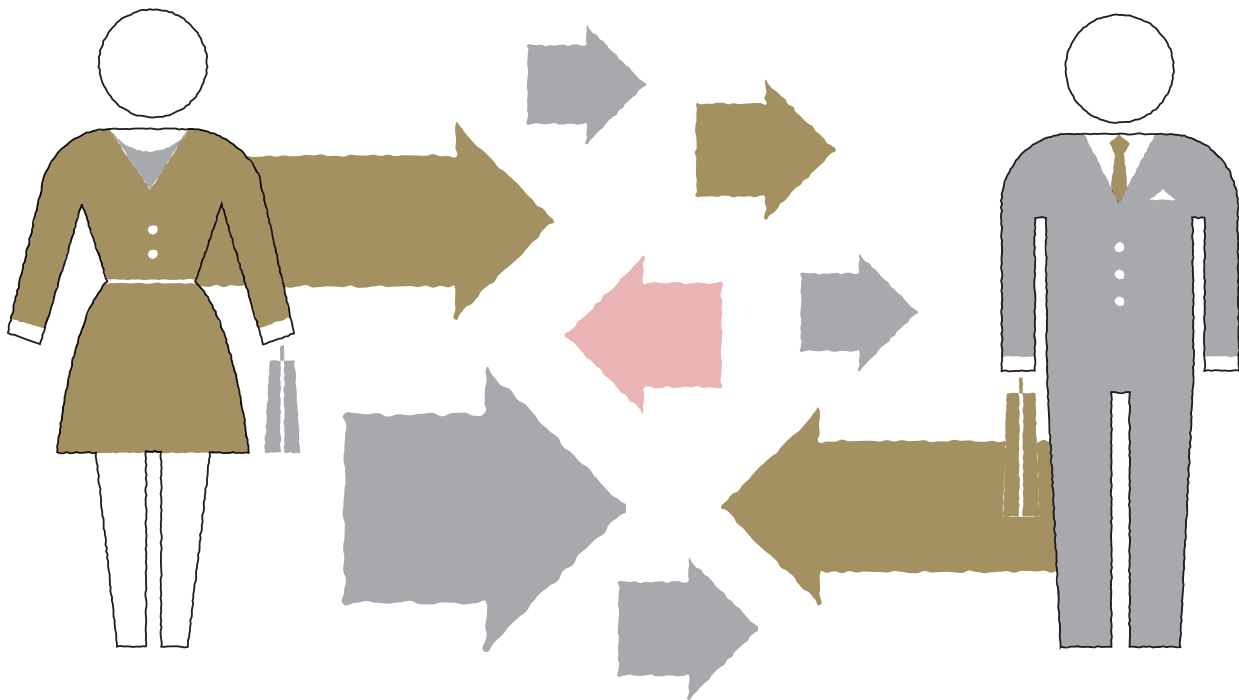




PROMOTING GENDER EQUITY THROUGH TRANSPARENCY

**PRINCIPLES FOR REPORTING ON GENDER COMPOSITION
WITHIN AUSTRALIA'S FINANCIAL SERVICES INDUSTRY**



First published: May 2011

Published by: Finsia – Financial Services Institute of Australasia, Level 16, One Margaret Street, Sydney NSW 2000 Australia ACN 066 027 389 ABN 96 066 027 389

Finsia

Finsia is the only professional association representing the entire spectrum of the Australasian financial services industry – including the wealth management, banking & finance, and capital markets sectors.

We connect more than 16,000 members – not only with each other, but with the latest thinking and information from across the industry and around the globe. Finsia’s core purpose is to help our members succeed in their careers, and to support the growth and development of the financial services industry. This is achieved by providing members with relevant and high quality professional development and networking programs, a comprehensive suite of career support services and a range of industry-leading information resources and publications. Our research and policy initiatives ensure Finsia plays a critical role in promoting industry growth both regionally and around the world.

About CAER

Corporate Analysis. Enhanced Responsibility (CAER) is an independent, not-for-profit research organisation that assists investors by providing independent environmental social governance (ESG) data on companies operating in Australia and the Asia-Pacific region.

Additional copies

Further copies of this exposition paper are available on Finsia’s website (www.finsia.com)

Disclaimer

The material in this exposition paper does not constitute legal, accounting or other professional advice. While all reasonable care has been taken in its preparation, Finsia does not make any express or implied representations or warranties as to the completeness, reliability or accuracy of any and all material in this exposition paper. The exposition paper should not be used or relied upon as a substitute for professional advice or as a basis for formulating business decisions. To the extent permitted by law, Finsia excludes all liability for any loss or damage arising out of the use of the material in the exposition paper. Any links to third party websites are provided for convenience only and do not represent endorsement, sponsorship or approval of those third parties or any products and services offered.

Copyright

Finsia has endeavoured to appropriately acknowledge the use of all copyright material contained in this exposition paper. However, there may be instances where Finsia has provided insufficient acknowledgement. If notified, Finsia will ensure full acknowledgement of the use of copyright material.

© Financial Services Institute of Australasia (Finsia) 2011.

Further information and comments

Contact Finsia’s policy team:

T > 61 2 9275 7900

E > policyteam@finsia.com

INTRODUCTION

Last year, Finsia received an overwhelming response from senior industry members to its survey dealing with the gender divide in employment in the financial services industry, indicating a desire for greater focus and thought leadership on this topic.

As part of its *Bridging the gender divide in financial services* campaign, Finsia commissioned renowned journalist and author, Catherine Fox, to examine seven of the most pervasive misconceptions and assumptions that have played a significant role in perpetuating the scarcity of women in senior business roles in Australia's financial services industry, while also presenting research data to debunk these myths.

In this latest paper, Finsia's research reveals there is a lack of meaningful publicly reported data on gender diversity in the financial services sector. Public reporting of data is on a voluntary basis with individual organizations using different measures that best suit their purposes.

Recent announcements regarding gender diversity targets highlight the difficulties in comparing performance from one organisation to another. Greater consistency in reporting is required to effectively leverage market competitive pressures in financial services and to achieve the necessary improvement in gender diversity across the sector.

Finsia has developed a set of draft principles and measures, which could form the basis of a set of consistent principles and measures for reporting. Finsia proposes to seek feedback from the industry to validate and refine these principles and measures, before publishing final guidelines for the industry.

Following this industry consultation process, Finsia will seek support from a wide range of financial services organizations to voluntarily report against these principles and measures. We would anticipate seeking support from unlisted and listed organisations.

In further developing the guidelines and seeking industry input, Finsia will investigate mechanisms to aggregate industry data to develop industry benchmarks against each of the guidelines.

Through this reporting, Finsia intends to track the rate of progress on gender diversity in the sector year-on-year, which will enable organizations to measure their performance against the new industry benchmarks.

FINSIA'S DRAFT PRINCIPLES ON *gender diversity reporting*

The following key principles and metrics have been identified by Finsia and on which industry feedback is sought.

Comments should be made before 30 June 2011.

Correspondence should be directed to Finsia's policy team: policyteam@finsia.com

Principle 1 – Companies should report on the proportion of Senior Executive Positions held by women at the following levels:

- > % of women on main board
- > % of women on subsidiary boards
- > % of women at CEO level
- > % of women at CEO-1 level (% women in line roles)
- > % of women at CEO-2 level (% women in line roles)
- > % of women at CEO-3 level (% women in line roles)

Given the varied levels of pay and job grades, transparency around the proportion of women at each of the above levels would enable direct comparisons between companies and their gender composition at Senior Executive level, as distinct from the number of women occupying middle management and operational level roles.

The adoption of a transparent and consistent approach to the reporting of women at Senior Executive level will also provide a clear indication of the progress with regard to achieving gender equity on an annual basis.

Principle 2 – Companies should report on their recruitment practices

Disclosure regarding the number of women involved in the recruitment process would provide a clear indication of those companies who have a genuine desire to address the gender divide at Senior Executive level. For example disclosure with regard to the following:

- > % women on interview panels
- > % women applicants for all positions
- > % women applicants considered for CEO to CEO-2 positions
- > % women applicants included in shortlist
- > % women graduates entering workplace

Principle 3 – Companies should report on their career progression and development practices

Greater transparency and commitment around career progression and development would reveal any bias at Senior Executive level toward men.

Reporting on the budget allocation for professional development for men and women as well as the uptake of professional development programs for both sexes, would prevent any preferential treatment towards men.

Tracking and reporting the average number of years between promotions for both males and females would also highlight any bias.

Principle 4 – Companies should report on pay equity

Reporting on the percentage of total remuneration package increases (including bonuses) year-to-year between male and female employees would reveal pay inequity at all levels.

Given that the rate of promotions (and their value) and career trajectory is difficult to compare, total remuneration increases can be used as a proxy, capturing both promotions as well as performance measurements in current roles.

The disclosure of the average salary range and bonus data for each staff and function level from graduate level through to CEO level would assist in addressing the pay gap.

Principle 5 – Companies should report on flexible work arrangements and parental leave

While many organisations claim to have flexible work arrangements, employees at Senior Executive level are often faced with greater time restraints such that the demands of their role prevents them from accessing the flexible work practices on offer. Through reporting the uptake of these policies (for example: parental leave) and return-to-work statistics, we can begin to see whether this has had a notable impact on career trajectories and career prospects (ie: fewer opportunities and less pay). This could be measured through reporting on the average percentage remuneration package increase after taking leave as compared to before taking leave.

Reporting on the following would set apart those companies who have simply adopted policies to tick boxes rather than with accessibility in mind:

- > % staff on flexible work arrangements (male v female)
- > % staff on flexible work arrangements (male v female) at CEO to CEO-2 level
- > % staff who have returned and (remained) in permanent employment more than one year after taking parental leave
- > % of staff promoted before, during or after taking maternity/paternity leave.

Principle 6 – Companies should report on ability to demonstrate a workplace culture supportive of gender diversity

Perhaps the greatest prejudices women encounter throughout their career cycle (and the hardest to address), are the residual cultural beliefs and behaviours in the workplace. Equally, it is difficult to measure real change in organisational culture, yet it undoubtedly has a huge impact on the success of any initiatives in making genuine change.

An annual staff perception survey on gender diversity and the effectiveness of initiatives could provide insight into the level of progress on this. For example: the percentage improvement in cultural measures supporting achievement of gender diversity goals or the percentage improvement in the alignment of the 'gap' perspectives of men and women.

THE REPRESENTATION OF WOMEN IN AUSTRALIA'S *financial services industry*

An examination of the pipeline of females within the financial services industry reveals a striking contrast between the number of women entering the industry and the number reaching senior executive level.

The rising proportion of females studying finance related disciplines at tertiary level is evident. In 2009, more women than men completed university at 56 per cent. More specifically, just over half of all management and commerce graduates were women at 50.14 per cent.¹

With women now making up more than half of the financial services industry in aggregate and approximately 31 per cent of managers,³ the financial services industry presents as an attractive industry to women overall. However, despite the strong representation of women at entry-level, the representation of females further up the hierarchy is distinctly different.

While the percentage of women on ASX 200 boards remains low, there has been an increase to 11.7 per cent in April 2011 (up from 8.4 per cent in 2010).⁴ However, the absence of women becomes most apparent at the senior executive management level, particularly within Australia's financial services industry.

Given that 22 years ago women made up 32 per cent of the cohort obtaining professional qualifications and around the same time anti-discrimination legislation was introduced and equal employment opportunity (EEO) initiatives commenced, this begs the question – why do women hold just 8 per cent of executive key management roles of ASX 200 companies today?⁵ Most of the incumbent senior leaders in financial services were undertaking tertiary study in the 1980s and 1990s – so why are so few women part of this group?

Back in 2008, Finsia's examination of the Australian workforce over a 10 year period between 1997 and 2007, highlighted that the proportion of women working in the financial services industry declines sharply after age 45 as compared to the overall workforce, suggesting a structural impediment within this sector.

More recently, a Finsia member opinion poll of over 800 male and female finance industry professionals undertaken in 2010 supported this trend. It revealed that despite entering the finance sector at similar levels to men, many women are overlooked for promotion, underpaid and severely underutilised, which has stymied their career development and has hastened the trend towards part time roles.

In this paper, Finsia highlights the fundamental gender gap which exists at senior executive level. In partnership with Corporate Analysis. Enhanced Responsibility (CAER), Finsia brings to light the current lack of published data on the diversity policies and EEO initiatives, looking specifically at the ASX100 and how this has influenced the gender balance at senior executive level to date.

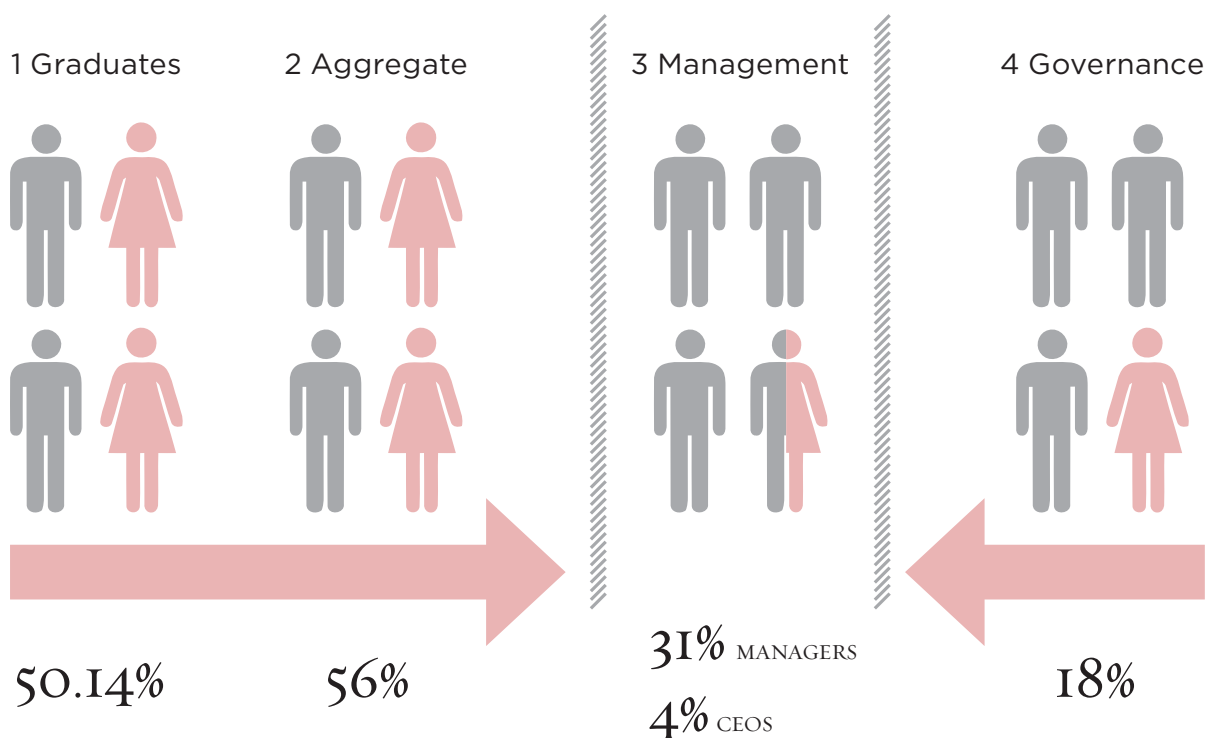
1 Department of Education, Employment and Workplace Relations Award Course Completions for all students by Level of Course, Broad Field of Education and Gender, 2009

3 EOWA Industry Verticals – Finance and Insurance, 2011

4 Australian Institute of Company Directors real-time figures, April 2011

5 EOWA Australian Census of Women in Leadership 2010

The representation of women in Australia's financial services industry



Australia's financial services industry at entry-level

Between 1989 and 1999, the financial services industry was already emerging as an appealing industry for women, with the number of banking and finance university enrolments held by women growing from approximately 32 per cent to 42 per cent respectively.⁶

Furthermore, in 2002 women made up approximately half of all post-graduate students in Australian universities. More specifically, women made up nearly 40 per cent of postgraduate research students in management and commerce.⁷

In 2004, there were 267,006 students in business programs in Australia, representing 28.3 per cent of all higher degree students enrolled. Women represented 49 per cent of total business enrolments, and 14 per cent of total higher education enrolments.⁸

More recently, the Department of Education, Employment and Workplace Relations reported that in 2009, women made up just over half of all management and commerce graduates at 50.14 per cent.⁹

With regard to salary levels, the median starting salary for male graduates in 2010 was (\$50,000) slightly higher than that for female graduates (\$48,000). It's suggested that some of the salary differences between males and females are due to different course selection and employment choices between the sexes.

Among the overall Australian working population, those with a bachelor degree earned a median annual salary of \$57,700 (\$68,700 for males and \$50,600 for females).¹⁰ Interestingly, females earned markedly less than males in the fields of architecture and building and earth sciences (both \$5,000 less) and economics and business (\$4,700 less).

6 Statistical Note on Australian Banking and Finance Enrolments, Student Load and Composition, 1989-1999

7 How Far Have We Come? Gender Disparities in the Australian Higher Education System men (2003)

8 A Global Guide to Management Education 2006

9 Department of Education, Employment and Workplace Relations Award Course Completions for all students by Level of Course, Broad Field of Education and Gender, 2009

10 Employee Earnings, Benefits and Trade Union Membership, August 2009 (Australian Bureau of Statistics, May 2010)

Australia's financial services industry in aggregate

Perhaps not surprising given the growing number of women undertaking tertiary study in finance related disciplines, women now make up more than half of Australia's financial services industry workforce at 56 per cent, compared to 47.2 per cent in all other reporting organisations according to the Equal Opportunity for Women in the Workplace Agency (EOWA).¹¹

In 2006, the finance and insurance industry was considered one of Australia's most important providers of skilled clerical, service and sales employment for women and was recognised as a leader in equal opportunity initiatives and providing some of the best employment conditions for its predominantly female workforce.¹²

Australia's financial services industry at management level

Despite women dominating the financial services workforce in aggregate, according to EOWA, this female-dominated workforce is predominantly managed by a male executive.

On first impressions, women appear to have attained a relatively high presence in management at 31 per cent, placing the industry fifth amongst other large private-sector industries after the traditional female sectors of education, retail, hospitality and health and community services, and ahead of manufacturing and property and business services. However, when we consider the proportion of women within the finance and insurance workforce in aggregate, the number of women in management (31 per cent) could actually be considered relatively low. This is because the majority of women are employed in middle management and front-line service roles and are significantly under-represented in executive management, business line roles and non-traditional technical fields.

This was reflected in the EOWA 2010 Australian Census of Women in Leadership which revealed that just 8.4 per cent of board directorships and 8 per cent of Executive Key Management Personnel positions in Australia's top 200 companies were held by women.

Perhaps more concerning is that there are just six female Chief Executive Officers and five female chairs in the top 200 Australian companies. Furthermore, the number of women key executive managers and board directors in the ASX 200 had barely changed in the eight years prior to 2010. Just over four per cent of line roles are occupied by women, those which are largely considered to be the pipeline to the Executive Key Management Personnel and Chief Executive Officers roles.

In 2010, just four per cent of Chief Executive Officers in Australia's finance and insurance industry were women, compared to the workforce average of 11 per cent.

Australia's financial services industry at governance level

On a positive note, after many years of little or no movement, we are starting to see development on gender equity within the financial services industry at governance level.

As depicted in Table 1 below, the lack of women in leadership has featured on the global agenda in recent years with various initiatives adopted to address this. This global response, combined with increased media scrutiny and public debate, as well as the introduction of the ASX diversity revisions to its Corporate Governance Principles and Guidelines, has pressed Australian companies to begin addressing the gender composition of their boards. As a result, by December last year, 56 women had secured board positions in ASX top 200 companies compared with just 10 the year before. In consideration of the typical yearly turnover rate of most boards this progress is encouraging; albeit the same cannot be said at senior executive level.

11 EOWA Industry Verticals – Finance and Insurance, 2011

12 EOWA Industry Verticals – Finance and Insurance, 2006

Table 1 : Women in leadership – global response status table

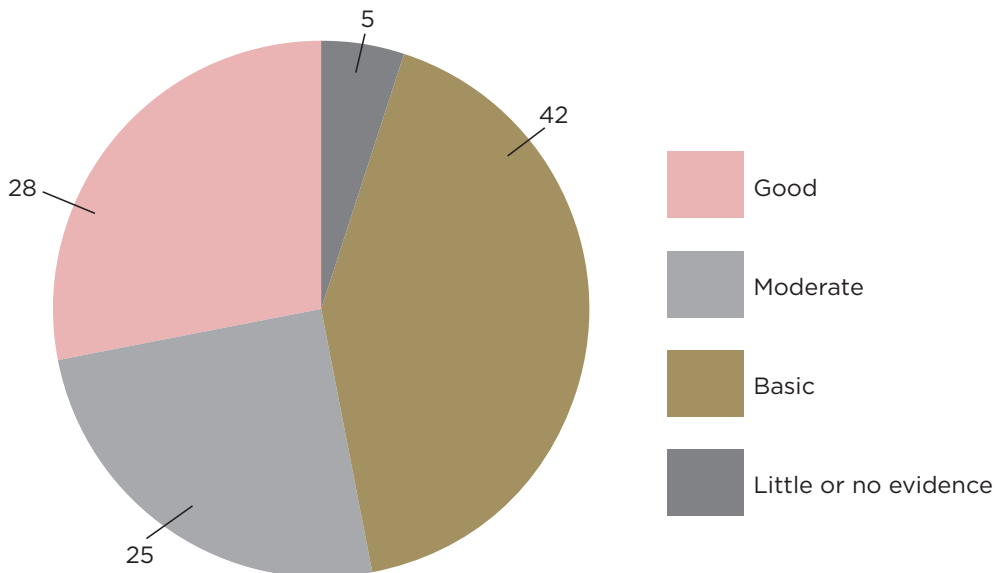
Country	Status	Quota	Requirements
UK	Women hold 12.5% of UK director roles in FTSE 100 companies	No legislated quotas	The Financial Reporting Council's new UK corporate governance code insists that 'due regard' must be given to the benefits of diversity on the board. Ten recommendations were put forward following the Lord Davies independent review into Women on Boards in February 2011.
Norway	40.3% of directors are women in Norway	Legislated quota – 40%	Norway has required 40% of directors on boards to be women since 2003. Under this legislation, state-owned enterprises were given until 2006 to comply with the mandate, while public companies had until 2008.
France	Women Board Directors 14.4% of CAC40 in June 2010	Legislated quota – 40% In January 2011, France passed legislation relating to the balanced representation of women and men to boards of Directors and supervisory and equality, which requires 40% of corporate board members to be women by 2016.	The quotas are for 20% within three years and 40% within six years for listed companies and 40% within nine years for non-listed companies. The sanctions for non-compliance are that nominations would be void and fees suspended for all board members.
Iceland	Women held 8% of Board Directors roles back in 2009	Legislated quota – 40%	Passed by Parliament in March 2010, with 50 or more employees to have at least 40% of both genders by September 2013.
Spain	Women made up 6.2% of boards in 2006. This proportion has risen to 11.2% in early 2011.	Moving to legislated quota – 40%	Companies with 250+ employees have until 2015 to achieve 4 out of 10 seats. Companies reaching this quota will be given priority status in the allocation of government contracts. However, there are no formal sanctions.
US	Of the Fortune 500 Women Executive Officers and Top Earners, women held 15.7% of board seats in 2010	No legislated quotas	As of February 2010, the SEC has required public companies and mutual funds to disclose their efforts to diversify their boards in their proxy statements. They are also required to indicate whether or not diversity is a consideration when directors are named.
Australia	8.4% of board directorships and 8% of Executive Key Management Personnel positions in Australia's top 200 companies were held by women in 2010.	No legislated quotas	Under the ASX Corporate Governance Principles and Recommendations, as of January 2011, ASX listed companies will be required to either adopt the new recommendations or explain in their annual report why they have not done so on an "if not, why not?" basis.

MEASURING UP – AUSTRALIAN LISTED COMPANIES’ AND DIVERSITY REPORTS

Benchmarking data provided by CAER has revealed considerable gaps in the diversity policies and EEO initiatives of ASX100 companies.¹³

Figure 1 measures whether a company has an equal opportunities policy and how detailed the policy is. This includes looking at the areas of non-discrimination that it explicitly identifies/covers and whether a company is also part of a business initiative enhancing equal opportunities.

Figure 1: Equal Opportunity Policy of ASX100 Companies



As illustrated in Figure 1, just 28 of Australia’s top 100 listed companies have an EEO policy in place that could be considered ‘good.’

A ‘good’ EEO policy means the company’s policy covers explicit non-discrimination areas including gender, ethnic origin, and at least two other equal opportunity areas (for example: disability or age), and whether the company participates in business related initiatives that support equal opportunities. Conversely, a basic policy shows that the company has made a general commitment, but has not disclosed details to demonstrate how it provides equal opportunities.

Fifteen of the top 100 listed companies are classified as financial services firms, with seven of those 15 organisations having EEO policies that are considered ‘good’. While this suggests that the financial services industry is performing better than the ASX100 overall, over 50 per cent of the financial services companies are considered to have a moderate or basic policy.

In the global context, Australia is not considered progressive in its attitude toward gender diversity. While a ‘good’ rating is positive, there are a number of companies lagging in this respect, suggesting that there is scope to develop better practices.

¹³ The CAER benchmarking data is a snapshot of companies taken in August 2010.

Figure 2: Equal Opportunity Systems in ASX100

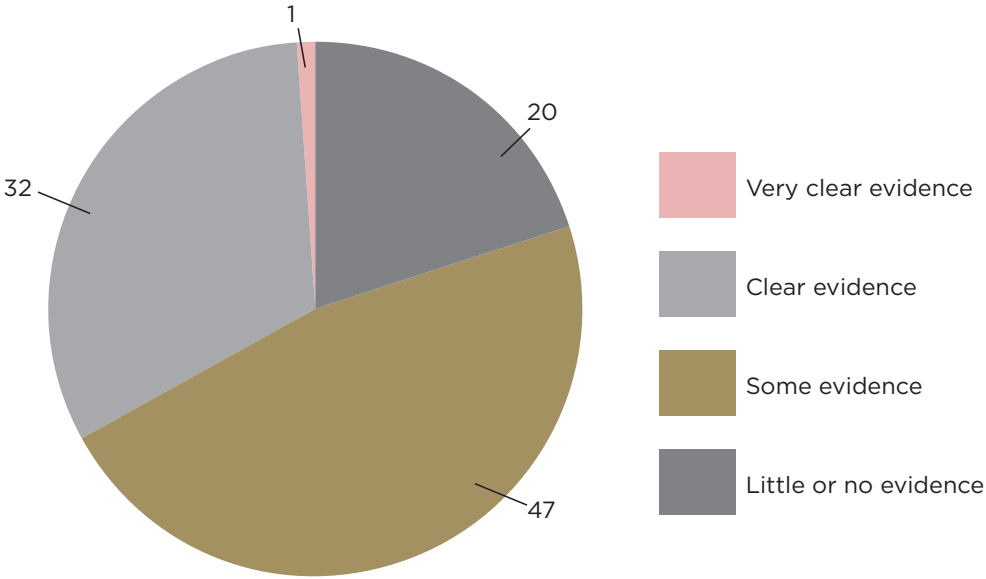


Figure 2 measures how companies manage the challenge of providing equal opportunities in their workplace. Companies are given a grade based on how well they respond to a number of indicators. This includes looking at whether companies monitor their workforce composition and report on it and whether initiatives have resulted in a significant proportion of management being made up of women or of ethnic minorities. It also looks at the company’s provision of equal opportunities related work arrangements such as job sharing, parental leave schemes, child care provision, flexible working hours or career breaks.

As indicated in Figure 2, 20 per cent of Australia’s top 100 companies have ‘little or no evidence’ of equal opportunity systems, while close to half have only ‘some evidence’ of having equal opportunity systems in place.

Figure 3: EEO System Subsets

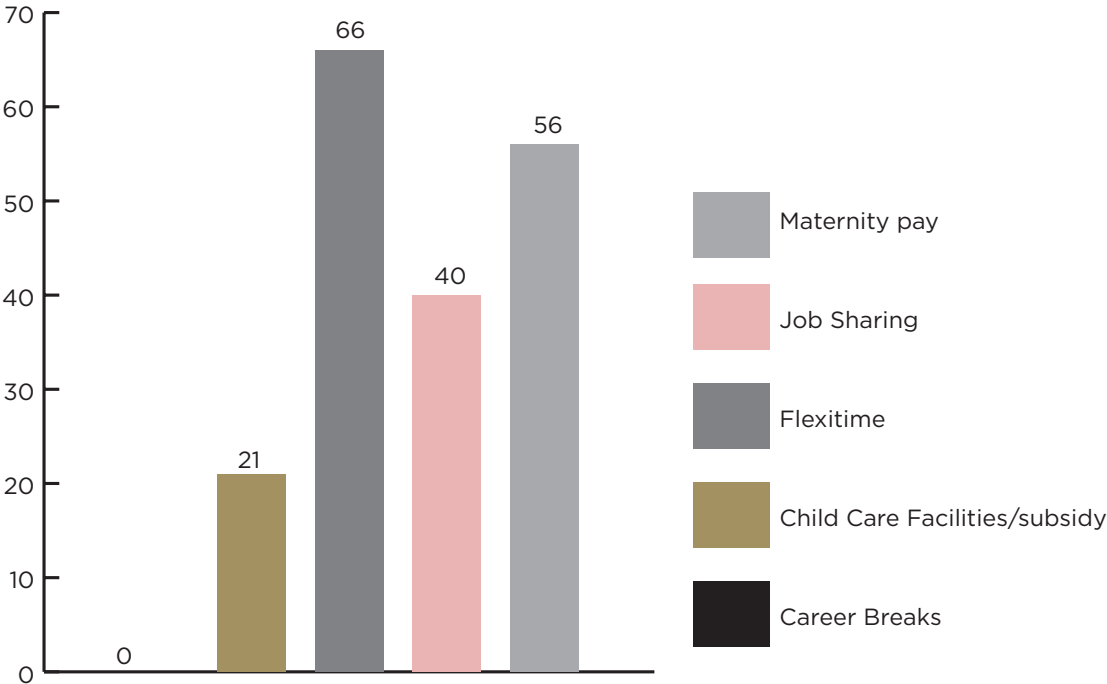


Figure 3 shows a breakdown of one of the indicators measured in equal opportunities systems. It shows the types of flexible work arrangements that are provided by companies (i.e. what are the typical offerings top publicly listed Australian companies have implemented to respond to the needs of women/families in the workplace), and how many companies offer these.

As depicted in Figure 3, a number of companies have been quick to adopt relatively 'soft touch' EEO responses, as reflected in the number of companies offering flexi-time. With the exception of maternity pay, there appears to be a direct correlation between the cost of a policy and its adoption. This is clear with respect to child care facilities, which are expensive to maintain.

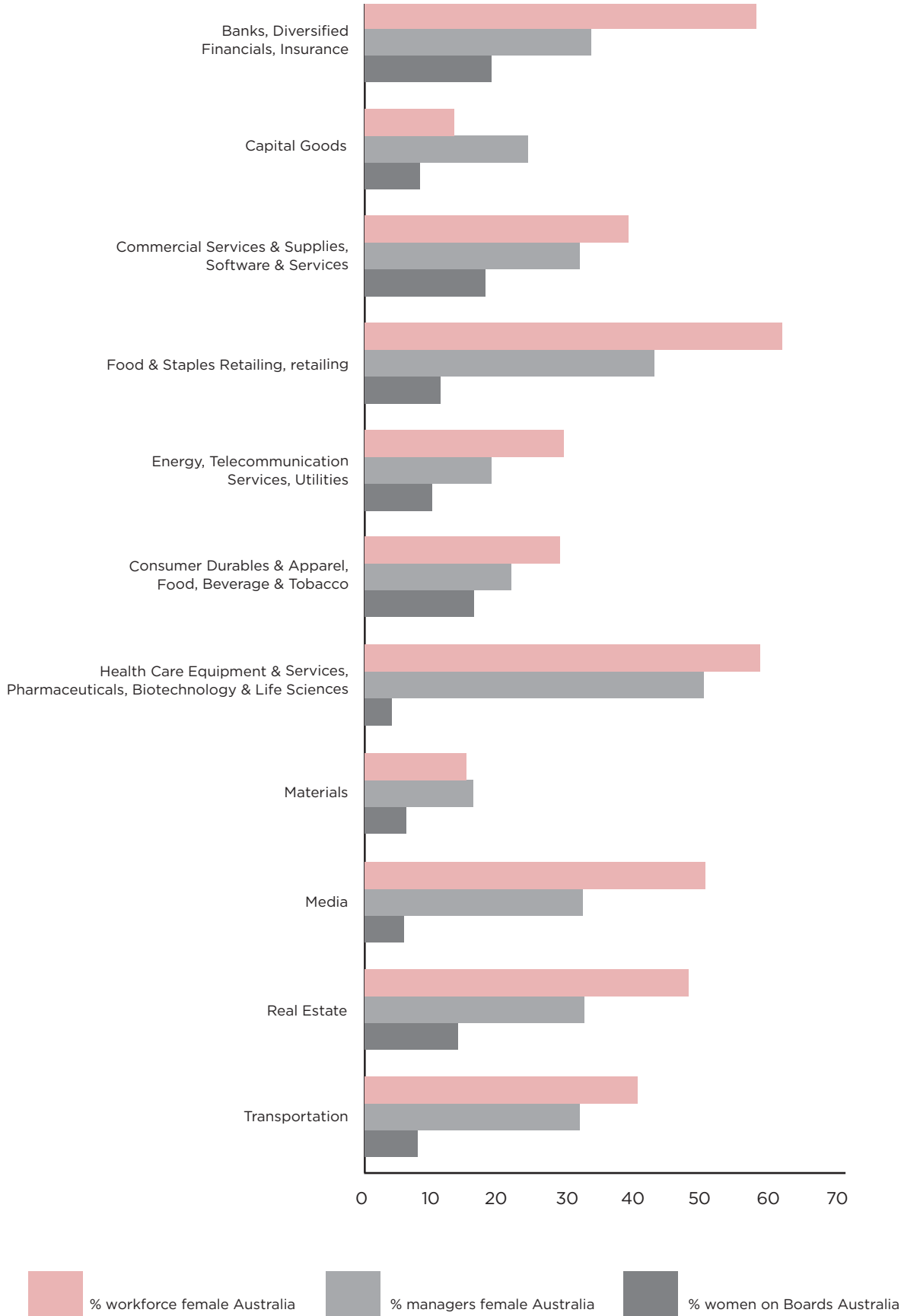
Career break policies also have low uptake, which may reflect the reluctance of companies to release employees due to the cost of having to replace them with temporary staff.

The uptake of flexi-time and job sharing also reflects the concentration of women at lower levels of organisations. This works on the premise that women at more senior levels are facing greater time demands and are expected to carry a greater workload. This is somewhat misleading, as despite the existence of these policies, the nature of these senior roles would simply not allow them to access the flexible work practices on offer.

It is important to note that this data was compiled before the Paid Parental Leave scheme was implemented in Australia this year. As such, the Maternity Pay category has historically only reflected those companies which offered maternity leave on a voluntary basis.

Given companies are only just starting to communicate their maternity leave policies since the mandatory leave was implemented, it will be interesting to see how companies adjust their voluntary offerings in response. For example, some companies may now offer the government payments in addition to their current scheme, while others are likely to use the government payments to subsidise current schemes. Obviously, in the later case this would result in no additional benefit for employees.

Figure 4: Comparison of board female and total female employment select industry groups ASX100



The average percentage of female representation at board level and management level, as compared to the total representation of women within the industry is reflected above. It is important to note that some companies may not report on total workforce composition or the percentage of women in management, so averages are based on the data available either through public reports or communication of companies to CAER.¹⁴

The poor conversion rate from the percentage of females in the workforce, and the number of women on boards of ASX 100 companies is shown in Figure 4.

Based on this, the best performing industry for placing women on boards is the *consumer durables & apparel, food, beverage & tobacco* industry. According to the data, this industry accepted female employees much earlier than most and consequently, now has a large pool of senior, highly skilled women. Interestingly, while the healthcare sector employs a large percentage of females (even at the management level), unfortunately, this has not translated into board positions.

Although the financial services industry (banks, diversified financials and insurance) was found to be performing better than most industries, there is still significant work required to achieve equity at both board and senior executive level. With less than 20 per cent of board positions in financial services held by women, there is a strong opportunity to develop talent to take up such positions.

While much of the focus in recent years has been on the lack of women at board level, there is still significant scope in every industry to increase the percentage of women in management (particularly at senior executive level) as this is the pool of future female board representatives.

RAISING THE BAR ON *gender diversity*

In June 2010, the ASX Corporate Governance Council¹⁵ made changes to the *ASX Corporate Governance Principles and Recommendations* with regard to gender diversity, which came into effect on 1 January this year. With these changes in place, ASX listed companies are now required to either adopt the new recommendations or explain in their annual report why they have not done so on an 'if not, why not?' basis. Please see Appendix 1.

In recognition of the gender divide in employment, organisations have begun implementing their own initiatives in recent years. In 2009, the Commonwealth Bank committed to increasing the number of women in senior management to 35 per cent by 2014, from just over 28 per cent today. To achieve this target, the Commonwealth Bank has acknowledged that at least 65 per cent of new executive appointments will have to be female.

Westpac has also set a goal to improve the representation of women in senior leadership roles from 33 per cent to 40 per cent by 2014 and ANZ plans to increase the number of women in management to 40 per cent by September this year - their current levels sits at 38.4 per cent.

More recently, National Australia Bank announced a series of gender targets as part of a commitment to further increase the number of women in senior roles by 2015. The targets include: 30 per cent of subsidiary board positions and at least 33 per cent of Executive Management roles to be held by females; and a pipeline target of 50/50 gender balance from 2011 in the graduate program and then ongoing.

While the implementation of such individual organisation initiatives is positive, Australia's financial services industry is still a long way from achieving gender equality, particularly at senior executive level.

As reflected in table 2 below, Australia's leading four banking institutions have a significant way to go before achieving gender parity at both senior executive and board level.

Although Westpac is leading the way at 30 per cent female representation at board level (with three female directors out of 10) this is not reflected within its executive team which has just 8 per cent female representation.

On the other hand, Australia's leading independent funds are making greater progress on this front, with both AMP and Perpetual currently holding 25 per cent female representation at board level and 22 per cent at executive level.

¹⁴ Data for board representation is publicly available, however, may have changed slightly since the snapshot was taken in August 2010).

¹⁵ Finsia is a founding member of the ASX Corporate Governance Council

Table 2: Leadership composition of major four domestic banks

Institution	Board	% of women	Executive team	% of women
Westpac	10 in total (3 women)	30%	13 in total (1 woman)	8%
Commonwealth Bank	10 in total (2 women)	20%	12 in total (2 women)	17%
ANZ	8 in total (1 woman)	12%	12 in total (3 women)	25%
NAB	13 in total (2 women)	15%	13 in total (3 women)	23%

Leadership composition of regional and tier 2 domestic banks

Institution	Board	% of women	Executive team	% of women
Bank of Queensland	9 in total (2 women)	22%	8 in total (no women)	N/A
Suncorp	9 in total (2 women)	22%	10 in total (1 woman)	10%
Bankwest	6 in total (1 woman)	17%	8 in total (3 woman)	38%
Bendigo and Adelaide Bank	9 in total (2 women)	22%	9 in total (2 women)	22%
Macquarie Group	9 in total (2 women)	22%	12 in total (1 woman)	8%
ME Bank	8 in total (3 women)	37%	N/A	-

Leadership composition of major domestic bank owned funds arms

Institution	Board	% of women	Executive team	% of women
BT Financial Group	N/A	-	11 in total (3 women)	27%
Colonial First State	N/A	-	12 in total (3 women)	25%
MLC	N/A	-	11 in total (2 women)	18%

Leadership composition of major domestic independent funds

Institution	Board	% of women	Executive team	% of women
AMP	12 in total (3 women)	25%	9 in total (2 women)	22%
Perpetual	10 in total (2 women)	25%	9 in total (2 women)	22%

As at March 2011

APPENDIX I

ASX Corporate Governance Principles and Recommendations – 2010 Amendments

Recommendation 3.2:

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.

Commentary

Diversity includes, but is not limited to, gender, age, ethnicity and cultural background.

The measurable objectives should identify ways in which the achievement of gender diversity is measured, for example, the proportion of women employed by (or consultants to) the company, in senior executive positions and on the board.

Where companies establish a diversity policy, they should also introduce appropriate procedures to ensure that the policy is implemented properly, which may include additional measurable objectives in relation to other aspects of diversity as identified in the policy. There also should be an internal review mechanism to assess the effectiveness of the policy.

Suggestions for the content of a diversity policy are set out in Box 3.2

Box 3.2 Suggestions for the content of a diversity policy

Companies may find it useful to consider the following matters when formulating a diversity policy:

1. Commitment to diversity and articulation of the corporate benefits arising from employee and board diversity and the importance of benefiting from all available talent. This should promote an environment conducive to the appointment of well qualified employee, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.
2. Commitment to and identification of ways to promote a corporate culture which embraces diversity when determining the composition of employees, senior management and the board, including recruitment of employees and directors from a diverse pool of qualified candidates.
3. Identification of factors that should be taken into account in the selection processes and whether professional intermediaries should be used to identify or assess candidates.
4. Identification of programs that assist in the development of a broader pool of skilled and experienced board candidates including initiatives focused on skills development such as executive mentoring programs or more targeted practices relating to career advancement such as those that develop skills and experience that prepare employees for senior management and board positions.
5. Articulation of a corporate culture which not only supports workplace diversity but also recognises that employees at all levels of the company may have domestic responsibilities.
6. Transparency of board processes, review and appointments.
7. The extent to which the achievement of measurable objectives should be tied to Key Performance Indicators for the board, the CEO and senior executives.

Recommendation 3.3:

Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.

Commentary

The ASX Corporate Governance Council encourages companies in Australia to foster a governance culture that embraces diversity in the composition of corporate boards, with a focus on the participation of women. The shareholder role is enhanced if shareholders are fully informed of the policy and the measurable objectives which facilitate tracking and monitoring of the company's performance against those objectives.

Recommendation 3.4:

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.

Commentary

Diversity is an economic driver of competitiveness for companies. Research13 has shown that increased gender diversity on boards is associated with better financial performance, and that improved workforce participation at all levels positively impacts on the economy. The promotion of gender diversity broadens the pool for recruitment of high quality employees, enhances employee retention, encourages greater innovation, and improves corporate image and reputation. Reporting on the diversity profile of the company facilitates greater transparency and accountability in relation to the policy that has been put in place, together with the objectives to be achieved by the company.

Companies should consider, in the context of the economic group controlled by the company, how best to report to achieve an accurate and not misleading impression of the relative participation of women and men in the workplace and the roles in which they are employed: for instance, whether a full-time equivalent measure is appropriate in all or some circumstances as opposed to clear categorisation of full-time, part-time and contracted services, and whether the participation is in a leadership, management, professional speciality or supporting role, or by relative participation of men and women at different remuneration bands.

The board, or an appropriate board committee, for instance the nomination or remuneration committee, should be charged with the duty, at least annually, to review and report on the relative proportion of women and men in the workforce at all levels of the economic group controlled by the company. This obligation should be included in the charter of the board or the relevant board committee.

Recommendation 3.5:

Companies should provide the information indicated in the Guide to reporting on Principle 3.

Guide to reporting on Principle 3

An explanation of any departure from Recommendations 3.1, 3.2, 3.3, 3.4 or 3.5 should be included in the corporate governance statement in the annual report.

The following material should be made publicly available, ideally by posting it to the company's website in a clearly marked corporate governance section:

- > any applicable code of conduct or summary
- > any diversity policy or a summary.

APPENDIX 2

International response to gender diversity

United Kingdom

Although ahead of Australia, the level of female representation on UK boards has increased only slightly over the past year, with women holding just 12.5% of UK director roles in FTSE 100 companies. This slow improvement prompted Lord Davies, the former trade minister and ex-chief executive of Standard Chartered, to carry out a six-month-long review regarding women on boards. Upon extensive consultation, the decision was made not to recommend quotas based on the view that board appointments should be made on the basis of business needs, skills and ability. Instead, ten recommendations were put forward.

The report recommends that UK listed companies in the FTSE 100 should be aiming for a minimum of 25% female board member representation by 2015. It also recommends that FTSE 350 companies should be setting their own, challenging targets and expects that many will achieve a much higher figure than this minimum.¹⁶

In addition, the report recommends that quoted companies should be required to disclose the proportion of women on the board, women in Senior Executive positions and female employees in the whole organisation each year.

The report also proposes that the Financial Reporting Council 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 the progress made in achieving the objectives.

The report also recommends:

- > Investors should pay close attention to the recommendations from the report when considering re-appointments to a company board
- > Companies should periodically advertise non-executive board positions to encourage greater diversity in applications
- > Headhunting firms should draw up a voluntary code of practice addressing gender diversity in relation to board level appointments to FTSE 350 companies.

This review, along with the new *Equality Act 2010* which was implemented late last year, is likely to promote change with regard to the current reporting requirements for listed companies.

Encouragingly, some voluntary targets have already been set. For example, the 30% Club which is made up of a group of Chairmen and organisations committed to bringing more women onto UK Corporate boards is focused on achieving at least 30% women on UK plc boards within five years and influencing change from senior leaders.

More specifically, the percentage of female representation in the UK's financial services sector has improved. While the percentage of women on the boards of the FTSE 100 banks had decreased significantly from 12.8% in 2004 to just 9.3%, in 2009 this recovered.¹⁷ This was most likely as a result of the increased focus on the financial services sector following the Treasury Select Committee's report on gender which was published in March 2010 and various government-led research projects.

The Financial Reporting Council's new UK corporate governance code also insists that 'due regard' must be given to the benefits of diversity on the board, when searching for and appointing directors. However, the Financial Services Authority's new guidelines regarding non-executive director appointments to the banking boards may be hampering an increase in boardroom diversity, with the guidelines insisting upon substantial banking experience for everyone.¹⁸

¹⁶ Lord Davies independent review into Women on Boards , 2011

¹⁷ Female FTSE board report 2010

¹⁸ Vinnicombe, Susan, Sealy, Ruth, Jacey, Graham & Doldor, Elena, 'The Female FTSE Board Report 2010,' International Centre for Women Leaders, Cranfield School of Management

Europe

With the European Union yet to implement formal targets to raise the level of women in leadership, E.U. Fundamental Rights Commissioner Viviane Reding has indicated that unless companies improve their numbers, the Commission will create legislation mandating that women must become 20% of board members.¹⁹

However, quotas for boards are currently already operating in Norway and France following little progress with other attempts to boost the number of women at board level.

Leading the way, Norway has required 40% of directors on boards to be women since 2003. Under this legislation, state-owned enterprises were given until 2006 to comply with the mandate, while public companies had until 2008.²⁰ After this deadline, companies who failed to meet the requirements potentially faced fines or even closure. Full compliance was achieved by 2009.

From the 27 January 2011, France passed legislation relating to the balanced representation of women and men to boards of Directors and supervisory and equality, which requires 40% of corporate board members to be women by 2016.²¹

Furthermore, with women holding just 8% of Board Directors roles back in 2009, Iceland passed legislation in March 2010 which requires companies with 50 or more employees to have at least 40% of both genders by September 2013.²²

In 2007, Spain implemented a requirement whereby 4 out of 10 seats must go to women. Companies have until 2015 to fully implement this.²³ However, this is a recommendation rather than an obligation and there are currently no punitive measures for non-compliance. This raises some concerns around the impact this will have.

United States of America

Gender diversity has historically been a low priority in the US. It's estimated that the representation of women on the top US corporate boards, such as the Fortune 500, has plateaued at 15% for the past five years. In fact, a recently published study by Corporate Women Directors International showed that the US lags a number of countries including Bulgaria, Latvia and South Africa in board representation by women.

Furthermore, according to the 2010 Catalyst Census: Fortune 500 Women Board Directors and the 2010 Catalyst Census: Fortune 500 Women Executive Officers and Top Earners, women held 15.7% of board seats in 2010—only a 0.5 percentage point gain over the 15.2% they held in 2009.

In both 2009 and 2010, more than 50% of companies had at least two women board directors, yet more than 10% had no women serving on their boards. The percentage of companies with three or more women board directors also remained flat.

In 2010, women held only 14.4% of Executive Officer positions in the US, up from 13.5% in 2009 and held only 7.6% of the top earner positions, as compared with 6.3% in 2009. In 2009, more than two-thirds of companies had at least one woman Executive Officer; this number did not change in 2010. The same held true for companies with no women Executive Officers.

While there are currently no quotas in place in the US, as of February 2010, the U.S. Securities and Exchange Commission (SEC) has required public companies and mutual funds to disclose their efforts to diversify their boards in their proxy statements. They are also required to indicate whether or not diversity is a consideration when directors are named. In those cases where companies consider diversity during appointment proceedings, the SEC also requires disclosure of how this policy is implemented, and how the board (or nominating committees) evaluates the effectiveness of this diversity policy.²⁴

However, this is somewhat problematic given companies are allowed to make these decisions based on their own interpretation of the term diversity. This is particularly concerning considering a recent survey of U.S. directors, by PricewaterhouseCoopers revealed that the majority of directors did not believe that the diversity disclosure requirements were valuable and rated the diversity disclosures as the least valuable of the newly required disclosures.²⁵

19 Oxford Analytica, "Europe May Impose Quotas For Women," Forbes, (August 24, 2010)

20 Ministry of Children, Equality, and Social Inclusion, "Rules on Gender Representation on Company Boards." See website: <http://www.regjeringen.no>

21 Mary Ellen Egan, "Areva CEO Anne Lauergeron On Why Companies Should Hire Women," Forbes (June 28, 2010). See: <http://blogs.forbes.com> and Nicola Clark, "The Female Factor: Getting Women Into Boardrooms, By Law," The New York Times (January 27, 2010)

22 Nordic Gender Institute, "Iceland introduces gender quotas on corporate boards" (March 10, 2010).

23 "Jobs for the girls," The Economist (May 1, 2008).

24 U.S. Securities and Exchange Commission, "SEC Approves Enhanced Disclosure About Risk, Compensation and Corporate Governance: 2009-268" (December 16, 2009). <http://www.sec.gov/news/press/2009/2009-268.htm>

25 PricewaterhouseCoopers 2010 Annual Corporate Directors Survey (2010)



FINANCIAL
SERVICES
INSTITUTE
of Australasia