PGGM

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Subject

Consultation Paper on Board Diversity

Handled by

[redacted]

E-mail

[redacted]

Direct telephone line

[redacted]

Hong Kong Stock Exchange
Attn: Ms. E. Pang
Assistant Vice President, Listing Division
12/F One International Finance Centre
1 Harbour View Street,
Central
Hong Kong

Dear Ms. Pang,

PGGM Investments is a Dutch asset manager acting on behalf of - amongst others - *Pensioenfonds Zorg en Welzijn,* the Dutch pension fund for the healthcare and welfare sector and one of the largest pension funds in Europe. PGGM Investments currently has approximately € 130 billion assets under management, a considerable amount thereof is invested in Hong Kong and Hong Kong listed companies.

We welcome the Hong Kong Exchanges and Clearing Limited (HKEx)'s paper on board diversity ("Consultation Paper on Board Diversity") that you published in September of this year. As global investor we support promoting board diversity. However, we do belief that diversity not only relates to gender, but should be viewed in a broader sense: diversity of perspectives and experience, including – but not limited to – professional experience, psychological type, ethnicity as well as national, cultural and social background etcetera.

Furthermore, we also strongly belief that to be truly effective and sincere, board diversity should be encouraged, but not through mandatory rules and/or regulations. We prefer guidance on (local) best practices for companies, their nomination committee etc. on a comply-or-explain basis.

For this reason we endorse the response submitted by the Asian Corporate Governance Association (ACGA), of which we are a member, to the HKEx last week. We also would like to draw your attention to the response Eumedion, the Dutch corporate governance platform for institutional investors and of which PGGM is a participant, gave on the European Commission's "Consultation on gender imbalance in corporate boards in the EU" earlier this year and the studies listed in this letter. We contributed to both these responses and attached them hereto for your convenience.

Should you have any queries and/or want to discuss any of the issues addressed in more detail, please do not hesitate to contact me.

Yours sincerely,

[redacted]

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ASIAN CORPORATE GOVERNANCE ASSOCIATION (ACGA)

ACGA Response to HKEx "Consultation Paper on Board Diversity"

November 9, 2012

This submission contains ACGA's response to the "Consultation Paper on Board Diversity", published by Hong Kong Exchanges and Clearing Limited (HKEx) in September 2012. We would be pleased to discuss any of these issues further with the Exchange.

We generally support the principles behind the proposed amendments that the Exchange has set out in the Consultation, including:

- Promoting board diversity;
- Introducing new measures in the Corporate Governance Code;
- Encouraging nomination committees or the board to develop a policy on diversity of board members and disclosing the policy, or a summary of it, in the corporate governance report; and
- Introducing a note under the new proposal clarifying what the Exchange means by diversity.

However, we are less convinced that forcing a company with a diversity policy to disclose "any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives" will be effective at this stage. We believe that such a requirement would likely lead to boilerplate language and a box-ticking approach to this issue.

Proposals and Consultation Questions

Q.1: **Do you agree that the Exchange should promote board diversity?**

ACGA: Yes. As the consultation paper notes, exchanges and regulators around the world, including the US, UK, Australia and more recently, Malaysia and Singapore, have been revising their rules and guidelines to incorporate board diversity. Hong Kong, as a major global exchange, needs to join the discussion and take into account an issue that has become increasingly relevant not only for stakeholders but companies around the world. Regulators, companies, non-profit organisations, and professional associations, including the International Corporate Governance Network and the Australian Institute of Company Directors, have either published research on this issue and/or are working with their members and the community at large on it.

While most of the research on board diversity to date has been on gender diversity, which we support since the under-representation of women on boards makes little business sense, we would like to stress that we are not merely advocating gender diversity. Rather we would encourage companies to view diversity in broad terms, including experience, skills, industry/sector background, age and ethnicity as well as gender. The Tyson Report on the Recruitment and Development of Non-Executive Directors (June 2003) stated that, "Experts on corporate governance agree that the best boards are composed of an appropriate mix of individuals with different skills, experiences and knowledge…groups that are more diverse in skill or knowledge-based dimensions have the potential to consider a greater range of perspectives and to generate more high-quality solutions to problems than less diverse groups." (Milliken and Martins 1996)

Diversity should not be pursued for superficial or public relations reasons, however. It will be most effective when linked to a company's longer term business strategies and decision-making needs. We believe that a company with, for example, a complex, international business and, at the same time, a one-dimensional, insider board is putting itself at considerable risk.

Q.2: If your answer to Q.1 is "yes", do you agree that our Corporate Governance Code and Corporate Governance Report is the appropriate place for the new measures on board diversity?

ACGA: Yes. We believe the measures should be on a comply-or-explain basis rather than being made mandatory. Forcing companies to diversify their boards through rules or by introducing a quota system will almost certainly ensure that they comply in form rather than spirit. Indeed, it would not be surprising to see some family companies simply appointing inexperienced female members to their boards, or appointing trophy directors, community leaders and others without thinking sufficiently about the range of skills needed.

We are aware that the danger of boilerplate disclosure and box-ticking may well occur even with a comply-or-explain provision, since many issuers will find it easier to comply than to explain. Yet companies still have the option of explaining and should be encouraged to give meaningful thought to their decisions.

Q.3: Do you agree with our proposal to introduce CP A.5.6 (*the nomination committee or the board should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report)?*

ACGA: Yes. We believe this proposal would help an issuer's nomination committee or board focus on the value of diversity for their company and provide them with a direction and strategy to help choose candidates. A policy would also establish a baseline for each company on diversity, the changes it needed to make and the priorities that should be given to those changes. It is, therefore, important that the Exchange encourages companies to formulate such a policy. Providing case studies of how companies in Hong Kong have done this successfully would be a useful tool for issuers.

In the event that a company already has such a policy, stakeholders should be informed so as to understand the company's thinking on this issue and its strategy.

Q.4: Do you agree with our proposal to introduce a note under CP A.5.6 to clarify what we mean by diversity and do you agree with the content of the note?

ACGA: Yes. As we have already mentioned, we believe that diversity should not be narrowly defined or a quota system introduced, since this would be counterproductive. The note the Exchange proposes, and the content of the note, is one that we endorse since it would help clarify the scope of diversity for companies.

Q.5: Do you agree with our proposal to introduce a new mandatory disclosure provision in the Code stating that if the issuer has a policy concerning diversity, it should disclose details of the board's policy or a summary of the policy on board diversity, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives?

ACGA: We doubt that introducing a mandatory disclosure provision in the Code would prove to be of great benefit. CP A.5.6 already states that the company "should disclose the policy or a summary of the policy in the corporate governance report". While we understand the reason the Exchange has provided for this proposal, we believe it would likely encourage companies to set artificial and/or low-bar targets that make little difference to their boards. Or they could claim to already have sufficiently diverse boards and set targets that reinforce the status quo.

Companies should be allowed to decide for themselves how to formulate policies on diversity and the manner in which they inform their stakeholders. Investors are best served with meaningful information and will be better able to differentiate companies with genuine policies on diversity from those without if companies are given some degree of choice as to how to present this information.

Q.6: Which of the following would you prefer as the implementation date of the amendments set out in this paper?

(i) 1 January 2013

(ii) 1 April 2013

(iii) 1 June 2013

(iv) 1 September 2013

(v) Other (please specify)

ACGA: We do not have any preference on the implementation date.

Next steps
While we applaud the Exchange's initiative in raising the diversity issue, we also believe it needs to play an active part in promoting the value of its proposals to issuers. It could, for example, collaborate with educational institutions and professional associations such as the Institute of Directors, the Institute of Chartered Secretaries and the Women's Foundation to hold workshops and seminars for companies and directors.

End.

European Commission
DG Justice / D1
LX 46 - 1/101
'Consultation gender balance'
B-1049 Brussels
BELGIUM

Submitted by e-mail

Subject:	Eumedion's response to the Consultation on Gender imbalance in corporate boards in the EU
Ref:	B2012.44
Register ID number:	**65641341034-11**

Amsterdam, May 25, 2012

Dear Sir, Madam,

Eumedion welcomes the opportunity to comment the consultation on gender imbalance in corporate boards in the EU. Our foundation is the dedicated representative of the interests of 69 institutional investors – all with a long term investor horizon – and aims to promote good corporate governance and sustainability of Dutch public-listed companies. Together Eumedion participants have more than € 1 trillion assets under management. Through the provision of equity and non equity, long term institutional investors are a major source of the capital that is used by listed companies to grow, create wealth and provide employment, which is vital to the long term interests of the European economy.

Before we answer your seven questions directly, we would like to make two comments.
First, we think that the focus of the consultation on only gender imbalance in corporate boards is too limited. We would have liked the Commission to have taken a broader approach to diversity of perspectives and experience, including – and in addition to gender – professional experience, psychological type, ethnicity as well as national, cultural and social background.
Secondly, Eumedion believes that a process driven by companies and investors, rather than purely by regulation, is more likely to be effective in addressing both the symptoms and causes of company-specific diversity challenges. Mandatory measures, such as gender quotas, may in certain circumstances, be effective in jump-starting behavioural change, for example by bringing higher numbers of target population groups into certain educational fields. But we are concerned that an overly compliance-driven approach at board recruitment level may result in poor choices that compromise board quality, effectiveness and cohesion.

Questions and answers

1. How effective is self-regulation by businesses to address the issue of gender imbalance in corporate boards in the EU?

Looking at the overall figure we could say low. According to *The Davies Review, Women on Boards, 2011*[1] published by the UK Department of Business Innovation and Skills, female representation on European boards is 9.6%, compared to 11.4% in North America. But self-regulation can be a success as well when we take Sweden as an example. Sweden has no recommendations or legislation on board diversity in place but still commands an impressive 28.7% female representation rate on boards.

2. What additional action (self-regulatory/regulatory) should be taken to address the issue of gender imbalance in corporate boards in the EU?

As we said earlier, Eumedion is not in favour of mandatory quota as an end result and we are not in favour of only focussing on gender. We would recommend a broader attitude towards diversity and in that context suggest that there could be a quota system in the selection and proposition of candidates. For example if a listed company is looking for a new board member or a senior executive, the executive search company should support a range of candidates who add to the broader diversity of the board without compromising board quality, effectiveness and cohesion.
It would help if listed companies would be encouraged through, for example, non financial reporting guidelines, to report on different diversity aspects, not only on gender (im)balances.

1 *The Davies Report*, February 2011, http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf

3. In your view, would an increased presence of women on company boards bring economic benefits, and which ones?

Gender balance in top positions has shown to contribute to better business performance, improved competitiveness and economic gains, as academic and consultant firm research has shown[2]. But it is not only the gender factor, it is diversity as whole. For example, a report by McKinsey[3] shows that companies with diverse executive boards enjoy significantly higher earnings and returns on equity.

4. Which objectives (e.g. 20%, 30%, 40%, 60%) should be defined for the share of the underrepresented sex on company boards and for which timeframe? Should these objectives be binding or a recommendation? Why?

We would rather not give a specific percentage. But the broadly supported insight[4] is that if at least 30% of the board are women, the "groupthink" – a tendency of board members to yield to group consensus at the cost of considering alternative courses of action – will decrease and also the recruiting process will be more open to select other people on the board. In the UK the so called 30% club (www.30percentclub.org.uk) is an advocate for 30% women on boards. But Eumedion would favour a more flexible approach, where desired diversity outcomes are framed in terms of aims, not quotas, and recruitment priorities and practices are re-designed to value non-traditional attributes alongside traditional ones, would, in our view, enable boards and management to seek out and develop the best available talent within the time-frame deemed appropriate for their companies. We do recognise, however, that failure to demonstrate genuine progress through these softer measures will cause frustration to build up, and fuel ever-growing calls for quotas and other forms of regulatory compulsion. But before we fall back on regulation we should give a greater role to shareholders. In Australia and Finland diversity on boards has improved considerably by making it part of the corporate governance code and through the focus on transparency in the form of "comply or explain".

5. Which companies (e.g. publicly listed / from a certain size) should be covered by such an initiative?

As we are a representative of institutional investors who can through their engagement policies try to influence the behaviour of listed companies we would favour listed companies to be covered by a voluntary system.

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[2] Catalyst, *The bottom line corporate performance and womens representation on boards,* October 2007, http://www.catalyst.org/publication/200/the-bottom-line-corporate-performance-and-womens-representation-on-boards%20%3Cwww.catalyst.org/publication/200/the-bottom-line-corporate-performance-and-womens-representation-on-boards

[3] Thomas Barta, Markus Kleiner and Tilo Neumann, *Is there a payoff from top-team diversity?*, McKinsey Quarterly, April 2012.

[4] Catalyst, *Why Diversity Matters,* August 2011, http://www.catalyst.org/publication/508/why-diversity-matters

6. Which boards/board members (executive / non-executive) should be covered by such an initiative? We would recommend applying a voluntary system to senior management, executive and non-executive members.

7. Should there be any sanctions applied to companies which do not meet the objectives? Should there be any exception for not reaching the objectives?
No, we would recommend looking from a more positive point of view and try to reward the companies and countries that succeed in reaching more board diversity that takes into account gender, professional experience, personality type, and ethnicity as well as national, cultural and social background.

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is [redacted]

Yours sincerely,

[redacted]

[redacted]

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