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Hamish Macdonald  
Head of Policy  
NZX Limited  
PO Box 2959  
Wellington

**By Email to:** [consultation@nzx.com](mailto:consultation@nzx.com)

**Review of Corporate Governance Reporting Requirements within NZX Main Board Listing Rules**

Submission from Global Women

Declaration: Global Women has no objection to the release of information contained in this submission.

Global Women is pleased to make a submission on the NZX Review of Corporate Governance Reporting Requirements within NZX Main Board Listing Rules.

Global Women would like a minimum target of 30 percent female board composition as a best-practice standard benchmarked globally by 2020. We believe greater transparency in reporting is an important stepping stone to bring about the cultural change that is needed to achieve greater gender diversity on boards.

Global Women believes mandatory reporting on board composition and transparency of diversity policies in NZX's member companies is an effective way of delivering the considerable financial and non-financial benefits of diversity to New Zealand. Shareholders have a right to transparency in order to make fully informed investment decisions.

Global Women strongly believes that, consistent with ASX requirements and The New Zealand Corporate Governance Forum guidelines, it should be mandatory for issuers to adopt a diversity policy, establish measurable objectives for achieving appropriate diversity and report on progress against objectives.

Furthermore, Global Women believes that NZX has an opportunity to demonstrate leadership by requiring objectives and reporting beyond senior management and board gender diversity to include: pay equity; other types of diversity, particularly ethnicity. It is acknowledged that best-practice across these wider metrics would need to evolve over time, so a degree of flexibility on the part of NZX and issuers would be required initially.

Ethnic diversity is also a rapidly growing area of consideration as New Zealand moves closer to Asia in economic and trade terms and as the Māori economy continues to grow as a major political and economic force. The rapidly growing Asian population and the largest Pacific Island population in the world are additional drivers in this changing make-up of our

New Zealand society. Yet these areas of ethnic diversity are yet to be reflected in the composition of our senior leadership.

Global Women is supportive of a tiered approach to reporting and a 'comply or explain' requirement as not all best-practice principles would be appropriate for certain industries or issuers. This approach allows other areas to be reported on where positive achievements may be of significant interest to shareholders and issuers.

A mix of both genders at board level generates better market and consumer responsiveness, improved governance and more robust company performance. It unleashes wider talent pools, diverse thinking, greater innovation, better decision-making and ultimately better returns for shareholders. Capturing the value from these advantages will become incrementally more important as New Zealand's marketplace globalises.

### **Gender & diversity in New Zealand and comparative markets**

According to NZX's gender diversity statistics, women make up 16 percent of board members and 28 percent of senior management officers (December 2015).

Latest State Services Commission figures show the number of females in public sector senior leadership roles has grown from 40 percent in 2011 to 44 percent in 2015<sup>1</sup>. However, the overall gender pay gap remains real across the public and private sectors at 11.8 percent - up from 9.9 percent in 2014<sup>2</sup>.

Comparatively, the percentage of women on ASX 200 boards is 21.5 percent (November 2015). Women comprised 34 percent of new appointments to ASX 200 boards in 2015 up from 22 percent in 2013<sup>3</sup>.

In the UK, women made up only 12.5 percent of FTSE 100 company boards in 2011<sup>4</sup>. The Government aimed for at least 25 percent female representation by 2015. Today, that number is 26 percent and there are no longer any all-male boards in the FTSE 100. The Davies review attributes a "profound culture change" to the setting of clear objectives for businesses and an increased appetite for and recognition of women's contribution at the top table (*Women on Boards Davies Review, September 2015*). This demonstrates that committing to measurable objectives and reporting on progress can effect positive change in a relative short period of time.

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<sup>1</sup> State Services Commission, November 2015.

<sup>2</sup> Equal Employment Opportunities Trust, 22 January 2016

<sup>3</sup> Australian Institute of Company of Directors

<sup>4</sup> Women on Boards Davies Review, September 2015

## **The clear business case for diverse & inclusive leadership**

There are strong incentives to lift current levels of diversity. Goldman Sachs predicted New Zealand's GDP would increase by 10 percent by closing the gap between men and women<sup>5</sup>.

Results from the Credit Suisse Gender 3000 study showed that since the beginning of 2012 until June 2014, "large companies with a market capitalization exceeding 10 billion US dollars and with at least one woman on the board have outperformed by 5 percent on a sector neutral basis"<sup>6</sup>.

Research from McKinsey<sup>7</sup> highlights companies that rank in the top quartile for gender diversity are 15 percent more likely to have financial returns above their respective national industry medians. Additionally, companies in the top quartile for racial and ethnic diversity are 35 percent more likely to have financial returns above their respective national industry medians.

In an increasingly competitive global market place the business case for greater diversity is clear.

## **The role of gender targets, diversity policy and quotas**

Global Women unequivocally supports the value of gender targets and diversity policy as a significant means of driving gender and diverse parity. Without visible and clear targets, supported by appropriate interim milestones and founded on concrete and time-bounded actions to meet such targets, progress to parity simply will not be achieved.

Global Women is confident that the abundance of talented, experienced, diverse female leaders in the New Zealand market ensures suitable and diverse appointment to private and public Boards and Executive leadership will be able to be made. It is within environments where merit is actually considered seriously that women's and diverse leadership appointments will flourish at board and Executive levels.

Global Women believes that past practices have relied too much on vague criteria, traditional networks and broad exceptions or, at best, a gendered view of merit. It is only when a non-gendered view of merit, together with a thoughtful enunciation of the appropriate mix of identified skills and experience required for a particular Executive leadership or Board appointment is applied that women and diverse leaders will naturally be appointed in equal numbers.

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<sup>5</sup> Goldman Sachs *Closing the Gender Gap: Plenty of Potential Economic Upside*, August 2011

<sup>6</sup> Credit Suisse Research Institute, September 2014

<sup>7</sup> McKinsey *Diversity Matters*, re-released February 2015

The clarification gained in the February 2015 NZX Regulation Decision in relation to Listing Rule 10.4.5(j), which prescribed that listed companies (as a minimum) must report numerically the quantitative breakdown of board members by gender and include comparative figures for previous years, was a positive step forward. However, does not address issues of diversity in relation to areas other than gender.

It is our position that best practice commentary should include the recommendation that issuers adopt a diversity policy with measureable objectives for achieving appropriate diversity and report on progress. In addition, we believe there is positive scope to include a guideline for metrics to stretch beyond senior management and board gender diversity to include: Gender diversity across all layers; pay equity; other types of diversity, particularly ethnicity. However, Global Women accepts a degree of flexibility is required in this area as best practice principles would need to evolve over time.

The current requirement of the Listing Rules and the Footnote 1 to rule 10.4 intend to encourage issuers to consider disclosing information around diversity ("An issuer may choose to disclose in its annual report any diversity policy or any other matter relating to its diversity practices or position (including in particular in relation to diversity other than gender))<sup>8</sup>, but it is the position of Global Women that companies listed on the NZX should be required to adopt a diversity policy

Global Women holds the position that quotas around both gender and diversity should not be mandatory, but believes reporting against measurable targets is essential to achieving positive change around diversity and inclusion. However, our position is that all appointments made to boards are, first and foremost, merit and excellence based. Directors should be selected on the basis of their core skills and competencies and the process should then take into account targeted gender balance.

In addition, we would suggest NZX's statement that it does not support the use of quotas could be seen as inconsistent with its Guidance Note on Diversity Policies and Disclosure<sup>[2]</sup> (NZX Guidance Note) in which NZX states the following:

*While NZX is not prescribing quotas, issuers may wish to adopt numerical targets if they consider that it is in their best interests. If an issuer does commit to a particular target, NZX would expect it to report against that target in its annual report in compliance with rule 10.4.5(k). However, NZX is not mandating the adoption of targets.*

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<sup>8</sup> NZX Limited Main Board / Debt Market Listing Rules, April 2015

## **Enabling corporate governance best-practice via a NZX Corporate Governance Council**

Global Women encourages NZX to consider establishing a NZX Corporate Governance Council to take a further leadership role to enhance governance and reporting practices.

The ASX Corporate Governance Council established in August 2002 sought to bring together business, shareholder and industry groups, each offering valuable insights and expertise on governance issues from the perspective of their particular stakeholders.

The Council has since developed and released recommendations on the corporate governance practices to be adopted by ASX listed entities designed to promote investor confidence and to assist listed entities to meet stakeholder expectations.

Under Listing Rule 4.10.3, ASX listed entities are required to benchmark their corporate governance practices against the Council's recommendations and, where they do not conform, to disclose that fact and the reasons why<sup>9</sup>. The rule effectively encourages listed entities to adopt the Council's recommended practices but does not force them to do so. It gives a listed entity the flexibility to adopt alternative corporate governance practices, if its board considers those to be more suitable to its particular circumstances, subject to the requirement for the board to explain its reasons for adopting those alternative practices.

### **In conclusion**

Global Women welcomes this review and the opportunity to provide feedback. As an organisation whose purpose is to champion diversity for societal and economic growth, Global Women is supportive of change that drives greater transparency of diversity measures. Accessing and monitoring data in relation to diversity (more broadly than gender) is just as important as having financial information, if we are going to make ourselves accountable for effecting change.

Global Women supports the adoption of FMA principles as the basis for reporting, and is in agreement with a 'comply or explain' approach.

We believe Corporate NZ needs to operate with mandatory reporting on board composition, and are seeking for NZX to mandate the adoption of a diversity policy establishing measurable objectives for achieving appropriate diversity.

Global Women believes now is the opportunity for NZX to demonstrate bold leadership with the establishment of a NZX Corporate Governance Council to further the enhancement of New Zealand's governance and reporting practices.

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<sup>9</sup> ASX Listing Rules Chapter 4: Periodic Disclosure, July 2014

We believe these initiatives are driving positive change and take New Zealand a small step closer to eradicating diversity as an issue for our future generations.

We would welcome the opportunity to discuss these matters further with NZX and can provide support in building a framework to encourage positive diversity practices within Corporate New Zealand.

Sincerely,



Faye Langdon,

Managing Director, New Zealand Global Women