# Investor-Issuer Roundtable on Board Diversity

## June 23, 2015

## Meeting Summary

### Background and Purpose of the Roundtable

In 2014 most Canadian provincial securities commissions passed regulations requiring public companies to disclose their policies and approach to gender diversity on their boards of directors and in senior management. The purposes of the roundtable were to bring together investors and issuers to review the disclosure under the new regulations, and to discuss how issuers and investors, through their different roles, can advance diversity at the senior management and board level in publicly-traded Canadian companies. This report summarizes what was discussed on a non-attribution basis and does not necessarily represent conclusions agreed to by the participants.

### Value and Definitions of Diversity

Participants stated that diversity enhances decision making by giving the board the benefit of different perspectives and experiences. Some participants observed what while arguments for including women on boards have been well established, the same case had not yet been made for other kinds of diversity, including First Nations, cultural/ethnic, age, and skills/expertise. The point was made that cultural diversity, for example, is highly relevant for BC-based companies in order to reflect and benefit from the diversity of the province. Particular reference was made to the importance of diversity at resource companies. Engaging with First Nations is essential for resource project development, particularly since the Tsiloqut'in court decision, and companies should reflect this reality by having First Nations representation on their board. Diversity can also include diverse competencies beyond financial, legal and direct industry experience. For example, resource companies should have directors with social and environmental expertise to oversee management's performance in these material areas. A number of participants expressed the view that while having diverse individuals on boards is important, it is equally important to ensure that all voices around the table can be heard so that the board benefits from diversity of opinion and the quality of discussion improves.

### Current State of Diversity and Regulatory Environment in Canada

The Ontario Securities Commission (OSC) provided an overview of the new regulations requiring TSX-listed and other non-venture issuers to disclose, on a comply-or-explain basis, information relating to the representation of women on boards and in senior management. The objectives of the regulations are to increase transparency for investors and other stakeholders to assist in voting and investment decisions and to encourage more effective boards and better corporate decision making. The regulations require non-venture issuers to provide annual disclosure regarding the following items in their proxy circular or annual information form:

- director term limits and other mechanisms of renewal of the board,
- policies regarding the representation of women on the board,
- the board's or nominating committee's consideration of the representation of women in the director identification and selection process,
- the issuer's consideration of the representation of women in executive officer positions when making executive officer appointments,
- targets regarding the representation of women on the board and in executive officer positions, and
- the number of women on the board and in executive officer positions.

The OSC is presently conducting a full review of how issuers are responding to the regulations, and in connection with participating CSA jurisdictions, will produce a report which will be available this fall.

The Canadian Board Diversity Council (CBDC) presentation[1] provided an overview of the current state of board diversity in Canada. Its 2014 Annual Report Card results indicate that 91% of board directors of FP500 companies[2] see diversity as either very important or somewhat important. However, this support is not translating into greater numbers of diverse candidates being recruited. Visible minorities hold only 2% of FP500 board seats, Aboriginal peoples hold just 0.8% and persons with disabilities 1.4%. Together, these three groups make up more than a third of the Canadian population, representing 19.1%, 4.3% & 13.7% respectively. Women currently hold 17.1% of FP500 seats overall, although the picture differs according to industry. The finance/insurance and utilities industries have the highest representation of women on their boards, at 24% and 27.1% respectively. Women hold only 9.7% of board seats in mining and oil and gas sectors.

The CBDC also reviewed its Diversity 50 program, a list of diverse board-ready candidates designed to help corporate directors identify candidates outside their own networks. As of June 2015, the pool has 150 candidates, which will increase to 200 in the fall. There have been 20 FP500 appointments and 3 Fortune 500 appointments from the Diversity 50 list.

## Research on 2015 Diversity Policies

Researchers at Simon Fraser University shared preliminary findings from a review that is examining diversity policies in the 2015 proxy circulars of TSX-listed companies. So far the policies at 1000 companies have been examined. Preliminary findings include:

[1] Due to technical difficulties, the CBDC representative was unable to deliver her presentation and a summary was provided by SHARE using the slides CBDC had prepared.
[2] FP500 refers to the 500 largest Canadian companies by revenue.

- 56% of companies reviewed so far have a diversity policy, and 13% have established targets
- Of the companies that have adopted a diversity policy, approximately half or more include diversity criteria that extends beyond gender
- Some companies' diversity policies are limited to anti-discrimination provisions that do not recognize the positive benefits of diversity
- Companies with imposed term limits are more likely to adopt a stringent diversity policy
- Sectors with a greater percentage of women on boards are more likely to adopt a diversity policy
- Most policies adopted have been adopted over the past year. There are very few examples of companies adopting policies in early 2014, an indication that the regulations initiated the change.
- Meritocracy is the primary reason for not adopting a policy across sectors.
- The resource sector has fewer diversity policies than other sectors

These findings will be confirmed and presented as part of a larger research project.

## Addressing Barriers to Diversity

A number of issuers shared their experiences of advancing diversity within their organizations. The importance of the "pipeline" of qualified candidates was discussed. Many participants felt that it is important to find ways to support diverse candidates throughout their career so that they can be recruited for senior management and board positions. In the case of women, young women are graduating in large numbers in every field, including in the scientific and technical fields (although in engineering the numbers remain low), but this has not yet resulted in a commensurate representation on corporate boards. There are business programs which are specifically targeted for First Nations students to support the pipeline of aboriginal business leaders while First Nations representation on boards is very low. Some companies are actively promoting diverse candidates at all levels of their organizations; senior managers in particular will be an important pool for future directors. Women on boards are role models for women in management and throughout company organizations, which will help build the pipeline of future women directors.

Issuers also discussed the importance of board recruitment and development practices. Some issuers felt that diversity should be considered more than the removal of barriers, and that boards need to actively seek out diverse candidates by, for example, using specialised consultants with broad networks and databases. In some cases, consultants are specifically asked to find women candidates. Some participants observed that companies need to re-think the traditional, linear career path when recruiting board members. For example, traditionally board members have been CEOs or CFOs of public companies, which can eliminate many talented people from being considered, including women and First Nations who may have followed a different career path. Another common requirement has been to require directors to purchase a significant amount of shares (e.g., $500,000 worth), which may be difficult for some prospective board members; boards can meet this goal in other ways, such as granting deferred share units. One participant noted that recruiting relatively young directors with needed skills or attributes can add another layer of diversity. A number of participants observed that being the only diverse board member can be a difficult experience and suggested that boards should support education and development of their directors, so that all directors are empowered to participate in decision making.

## Investor-Issuer Dialogues on Diversity

The participants discussed ways issuers and investors can have an effective dialogue on diversity. Some investor participants reported that they view diversity on the board as an indicator of good governance. Some issuer participants questioned this, saying that diversity itself was not an indication of how well the board conducts its oversight of management and decision making. Investors noted that many of the disclosures on diversity in the 2015 proxy circulars were disappointing, particularly when “meritocracy”, or the company’s commitment to hiring qualified directors, was given as the reason for not instituting a diversity policy. The need to hire qualified directors is understood; investors want information about the company’s approach and commitment to diversity. The participants discussed ways that investors could obtain the information they need to make voting and other investment decisions. The utility of the skills matrix was discussed, with some investors noting that it can be helpful if companies disclose accurately the skills the board needs and currently possesses. Direct dialogue between the company and investors can be helpful in order for the companies to further describe the experience and qualifications of their directors, which may not be fully disclosed in the proxy circular. The possibility of seeking disclosure on board evaluation results in order to provide investors with information on the effectiveness of board decision making was raised.

Investors questioned how they could push the “diversity laggards” to do better. Some participants felt that shareholder proposals were an effective way to get companies’ attention, although the high ownership threshold for shareholder proposals in Alberta was noted as a reason why this was difficult in the oil and gas sector. Some issuers thought that proxy votes against the nominating committees of non-diverse boards were also effective. Some issuer participants noted that they prefer direct dialogue with investors to attempting to interpret proxy vote results. Some issuers expressed frustration with the influence of proxy advisory firms, although some investor participants said that they use these firms for background information only and conduct their own analysis prior to making voting decisions. Some participants thought it would be more productive for investors to focus on the “fast followers” rather than the “laggards”: these are companies that may need a push and some guidance to follow the leading companies but understand the benefits of diversity and would be open to improving their practices.  Once enough boards move in this direction, the “laggards” are more likely to follow suit. Proxy access, whereby shareholders can directly propose director nominees, was raised as a possible way for investors who right now have quite limited means to promoting diversity to more directly advocate for diverse candidates. It was also suggested that investors could consider ways to push companies to develop a strong pipeline of diverse professionals.

## Conclusions and Ways Forward

There are currently both regulatory and voluntary approaches to diversity in Canada, and this will likely continue in the future. The most recent federal budget speech announced that changes to the Canada Business Corporations Act will include a comply-or-explain disclosure regime on gender diversity. The 30% club, a voluntary company-led organization which advocates for 30% of women on corporate boards, is set to be formally launched in Canada in the fall.

As more companies develop and disclose diversity policies and related information, more research will likely be done. Both the OSC and SFU research will be formally released in the upcoming months, providing investors and others with valuable data and insights.

Issues meriting further conversation and examination include: best practice for diversity policies from the investor perspective; if and how investors can contribute to improving the pipeline of diverse candidates; diversity beyond gender and in the context of overall governance including skills and expertise and board decision making. Further conversations between investors and issuers about diversity would be useful.

# Participant List

## Organizers

Shareholder Association for Research and Education (SHARE)
Simon Fraser University Beedie School of Business, Centre for Corporate Governance and Risk Management

## Investors

Alberta Investment Management Corporation
British Columbia Investment Management Corporation
British Columbia Teachers Federation
NEI Investments
RBC Global Asset Management
VanCity Investment Management

## Issuers

Bank of Montreal
BCE
Capstone Mining
Goldcorp
Superior Plus Corp
Teck Resources Limited
Westport Innovations Inc.

## Expert Institutions and Individuals

Canadian Board Diversity Council
Ontario Securities Commission
Craig Ford, Corporate Responsibility Solutions
Cliff Fregin, New Relationship Trust
David Fushtey, Governance Counsel
Carol Liao, University of Victoria
Christie Stephenson, Purpose Capital
Coro Strandberg, Strandberg Consulting