



Trust Associates newsletter November 2011

	Page
Contents: Women on Boards	1
Trends in Investment Company Non-Executive Directors' fees	4

Women on Boards

The recent Davies report has put the spotlight on the subject of women on boards. Our experience of recruiting non-executive directors for the boards of Investment Companies gives us a valuable insight into the changes that are happening.

The numbers

The Davies report identifies that, currently, 12.5% of FTSE 100 directors and 7.8% of FTSE 250 directors are women. The figure for FTSE 100 women **executive** directors is much lower at 5.5%, and the figure for FTSE 100 women **non-executive** directors is 15.5%.

Relative to the FTSE 100, the figure for women non-executive directors on Investment Company boards is lower at 9%.

Since 2004, over 20% of candidates appointed through Trust Associates have been women.

Pressure for change

The Davies report was couched in very strong terms: (<http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf>)

All Chairmen of FTSE 350 companies should set out the percentage of women they aim to have on their boards in 2013 and 2015. FTSE 100 boards should aim for a minimum of 25% female representation by 2015 and we expect that many will achieve a higher figure. Chairmen should announce their aspirational goals within the next six months (by September 2011).

The report itself has no legal standing and Lord Davies seeks to influence Boards in his introduction by writing that:

On balance the decision has been made not to recommend quotas. Government must reserve the right to introduce more prescriptive alternatives if the recommended business-led approach does not achieve significant change.

The Prime Minister has followed this up with a letter to many Chairmen endorsing the report.

The report recommended that the FRC should change the Combined Code on Corporate Governance. The Code was amended in 2010 to include reference to diversity on Boards, including gender. Following the Davies Report it published a consultation paper and in October 2011 made two changes to take effect from October 2012:

*B.2.4: A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments. **This section should include a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.***

An explanation should be given if neither an external search consultancy nor open advertising has been used in the appointment of a chairman or a non - executive director.

*B.6: Evaluation of the board should consider the balance of skills, experience, independence and knowledge of the company on the board, **its diversity, including gender**, how the board works together as a unit, and other factors relevant to its effectiveness.*

The FRC report explains the delayed implementation by stating: *An implementation date of 1 October 2012 should also mean that the new requirements apply from the same date as the Government's proposed regulations requiring companies to disclose information about the percentage of women at different levels of the organisation.*

In September 2010, the European Commission Justice Commissioner, Viviane Reding, asked all companies to pledge to have at least 30% female board members by 2015 and 40% by 2020, and has said that the Commission will review progress in March 2012 to decide whether further action is needed.

Board reactions

We observe that the larger the company, the greater is the desire to conform to the Report's recommendations, especially where the government has particular influence, as this is an issue which politicians are very concerned with currently.

We also note that among those Boards with which we work, many do feel that one of their priorities in setting search criteria is to seek diversity where it is recognised to be useful and that gender is one of those issues. Several Boards have declined to make any statement requested by Davies (especially those outside the FTSE 350) and several of those that have put out a statement refer to their aim to appoint "on merit".

Conclusion

There is considerable pressure currently to increase female representation on Boards which is resulting in a discernable increase in the percentage of women being appointed. This is especially so of Boards which had been male only.

The percentage of female candidates on long lists for searches that we have conducted has been consistent at about 25%. After the Higgs report (whose recommendations were included in the Combined Code in July 2003), the figure for the percentage of female candidates actually appointed through Trust Associates stood at 33% for two years and then fell back. We would expect the percentage to return to a level of at least 33% in the coming years.

Trust Associates sees hundreds of potential candidates every year. Recent publicity on the issue has resulted in many more women putting themselves forward so that the percentage of interviewees who are women, which has always been significant, has accounted for more than half of our interviews over recent months.

We therefore do know of a considerable number of talented women candidates. Some people fear that the imposition of something near to a quota will jeopardise the quality of new appointees. Our experience gives us confidence that the percentage of women on Boards can rise significantly without jeopardising quality.

The report recommends that the FRC should change the Combined Code on Corporate Governance. The Code was amended in 2010 to include reference to diversity on Boards, including gender. The FRC has published a consultation paper requesting responses by 29th July 2011 and we await the outcome of that consultation.

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Trends in Investment Company Non-Executive Directors' fees

In our last survey of Investment Company Non-Executive Directors' fees which we published in June, we highlighted that, although average fees had only shown modest growth (+2.6%) over the previous year, over a quarter of companies surveyed had pre-announced higher fees for 2011. These showed an average increase over 2010 of around 15%.

We stressed that this was only based on a quarter of the companies in our database and so, when we publish our 2012 survey, the average figure is likely to be lower as not all companies will increase their 2011 fees. However, we did consider that these figures gave an indication of the possible trend in fees being paid over the next year.

Although we have not yet updated our whole database, we have compared the figures of those companies for which we have collated the data so far. This, when combined with the data for the companies which pre-announced their 2011 fees, represents a little under half the companies in our database, and shows an average increase for 2011 fees over 2010 of around 11%.

The median figures (2010 in brackets) for these companies are:

Chairman	£30,000 (£27,000)	Range £100,000 to £20,000
Audit Chair	£23,000 (£21,000)	Range £45,000 to £14,500
Director	£20,000 (£18,000)	Range £40,000 to £14,000

As this data is based on a little under half the companies in our database, we must again stress that when we come to publish our 2012 survey, the average figure is likely to be lower. However, there has been little change for many companies over the last two years or so and we therefore expect to see many companies reporting higher fees, either starting in 2011 or to start in their next financial year.

Also there are other factors that we highlighted in our last survey (see <http://www.trustassociates.co.uk/articles/97.html?page=4>) which are influencing fee increases. This leads us to predict that the average increase in fees paid which we will report in our 2012 Survey next June, is likely to be around 10%. It is important that each board ensures that its remuneration is at the appropriate level or at least identifies what that level should be for its size and type of company, even if you do not think that in current conditions you can move the fees up in a single step.

An independent review, which Trust Associates offers, could help with this and would also meet the highest standards of corporate governance.

Trust Associates.
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