For many years, and through various avenues, CCGG has publicly supported increased gender diversity on boards. CCGG has decided to summarize our views in one document at this time and accordingly this policy sets out CCGG’s current position on gender diversity on boards.

Need for enhanced gender diversity on boards

The level of board gender diversity at Canadian public companies remains stubbornly low. According to a 2014 study by Catalyst\(^1\), only 20.8% of board seats at S&P/TSX 60 companies are filled by women. Gender diversity is lower at Canadian companies below the TSX 60: only 17.1% of board seats among Canada’s 500 largest companies\(^2\) and 12.3% of the board seats of all Canadian public companies are filled by women\(^3\). CCGG views the underrepresentation of women on boards to be a governance issue and therefore an appropriate policy focus for CCGG.

The Governance Case for Board Gender Diversity

It is CCGG’s view that board quality is paramount. It also is CCGG’s view that diversity improves board quality. By ‘diversity’ we mean not only gender but all forms of diversity. As stated in CCGG’s Building High Performance Boards: “While the quality of individual directors is paramount, we also expect boards as a whole to be diverse. A high performance board is comprised of directors with a wide variety of experiences, views and backgrounds which, to the extent practicable, reflects the gender, ethnic, cultural and other personal characteristics of the communities in which the corporation operates and sells its goods or services.” CCGG’s adoption of a board gender diversity policy should not be interpreted as a sign that the lack of other forms of diversity is less deserving of remediation. Since women comprise half the population and remain persistently under-represented on boards, however, gender is an appropriate focus.

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\(^1\) 2014 Catalyst Census: Women Board Directors
\(^2\) Canadian Board Diversity Council 2014 Annual Report Card
\(^3\) Davies Insights: Women on Boards, Davies LLP 2014
Research has shown that diverse boards generally have numerous tangible benefits, such as the following:

- They are more likely to avoid ‘group think’, that is, where the desire for group consensus circumscribes the ability to present differing perspectives. Diversity improves board decision making, independence and the oversight and mitigation of risk.
- Diversity leads to more effective monitoring of CEO performance.
- Evidence shows that diverse groups outperform homogeneous groups when performing complex tasks.

Research also has shown a correlation between board gender diversity and corporate performance.

Further, companies that do not consider women as director candidates (i) are drawing corporate leadership from a subset of the available talent pool, with the result that the quality of leadership will necessarily be less than optimal, and (ii) are at a competitive disadvantage compared to those that choose to access the whole pool.

**Increasing gender diversity**

In recent years, regulators in Canada as well as around the world have considered the problem of board gender disparity and proposed various solutions. In Canada, the Canadian Securities Administrators (CSA) in 2014 released ‘comply or explain’ disclosure rules (the “CSA Rules”) that require TSX listed companies to disclose annually prescribed information about gender diversity policies and practices at the board and executive officer levels. On September 28, 2015, the CSA released Multilateral Staff Notice 58-307 on the results of its review of the first year of disclosure under the CSA Rules. The Ontario Securities Commission (“OSC”) held a roundtable to discuss the results of the review the following day. Those results showed that there remains much room for improvement: 65% of the 722 companies reviewed disclosed that they had decided not to adopt a written policy on board gender diversity while only 14% clearly disclosed that they had adopted such a policy. The OSC indicated at the roundtable that it is not satisfied with the results to date and that it will continue to monitor trends in board gender diversity and disclosure going forward.

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5 Women on Boards” February 2011, U.K., pages 7-9 (the “Davies Report”)


7 Diversity and Work Group Performance, November 1, 1999, Graduate School of Stanford Business

Other jurisdictions use different methods than ‘comply or explain’ to increase board gender diversity. Some countries have legislated quotas\(^9\) while others rely on voluntary private sector-led initiatives\(^10\). Given Canada’s wide acceptance and generally successful use of a ‘comply and explain’ methodology to enhance corporate governance practices, CCGG supports a similar regulatory regime at this time for encouraging gender diversity, such as the one adopted by the CSA referred to above.

CCGG believes, however, that the current regulations should go beyond simply requiring disclosure of gender diversity policies and should recommend the adoption of such policies in corporate governance ‘best practices’ guidelines\(^11\). The CSA Rules are not truly “comply or explain” in that they do not recommend the adoption of gender diversity policies and then require an explanation if there is non-compliance with the guidelines; rather they are simply requirements to disclose whether policies are in place. Without the moral suasion of prescribed best practices for gender diversity, CCGG is concerned that the CSA Rules may not be effective.

CCGG does not believe that any CSA guidelines that are adopted in the future should prescribe the content of company gender diversity policies, for example, by stipulating a certain percentage of women on boards for all companies. Instead, it should be a recommended best practice for a company to adopt a written board gender diversity policy suitable to the company’s specific circumstances. This will help to ensure that the issue is at least considered at the highest levels of a corporation.

CCGG recognizes that a ‘comply and explain’ approach is not always sufficient. For example, there was insufficient progress made under a ‘comply or explain’ rule for majority voting, which then led to a TSX requirement for companies listed on the exchange to adopt a prescribed form of majority voting policy. If the CSA Rules do not lead to real progress, it may be necessary to revisit the use of a ‘comply or explain’ methodology in the case of gender diversity as well. CCGG will continue to engage with companies on this issue, as it does on other policy matters, to discuss developments in companies’ gender diversity practices.

**Director recruitment**

Professionalizing the director recruitment process\(^12\), rather than relying on the existing board’s (and, in some cases, the CEO’s) circle of business and social relationships to find candidates can be an effective way to increase board diversity. A professional recruitment process makes it less likely that nominees will have backgrounds, experiences, views, genders and ethnicities similar to current directors and is more likely to identify new directors who will bring different or unique perspectives to the

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\(^9\) For example, Belgium, France, Germany, Iceland, Italy and Norway have adopted legislation stipulating that a mandated percentage of directors must be women. See Women in Leadership Roles at TSX-Listed Companies: Diversity Disclosure Practices, July 2015, Andrew MacDougall et al, Osler.

\(^10\) Women on Boards Davies Review Annual Report 2015 (UK)

\(^11\) National Policy 58-201 Corporate Governance Guidelines

\(^12\) As stated in CCGG’s Brief to Senate Committee on Banking, Trade and Commerce, January 31, 2011
boardroom.\textsuperscript{13} Requiring more disclosure about the board recruitment processes of public companies would likely go some distance towards strengthening those processes.

**Board refreshment**

A robust method of board refreshment is also key to increasing gender diversity: change in board composition is harder when directors are seldom replaced. Simply expanding the size of the board to accommodate more women is not a viable, long-term solution to increasing the percentage of women on boards. Moreover, board renewal is important not only to make positions available for women, but also to help ensure an appropriate balance between the experienced perspective of long term directors and new perspectives that bring fresh insights to the board. Rather than having director term limits or a retirement age, CCGG’s preferred method of board renewal is through a strong annual evaluation process of the full board, board committees and individual directors. Because long term directors can continue to meet individual assessment expectations, a robust board evaluation process should incorporate a consideration of the balance between experienced and fresh insights in board composition.

**Increasing gender diversity in senior management**

Given that directors are traditionally chosen from among those with senior management experience (with many boards still thinking that a CEO background is essential) it is imperative that senior management become more gender diverse if there is to be an adequate pool of female board candidates. There is some evidence that the lack of women in executive positions is a more intractable problem than board diversity.\textsuperscript{14} Accordingly, CCGG supports the requirements in the CSA Rules that companies disclose their policies with respect to increasing women in executive officer positions. Again, we would go further and suggest that the CSA corporate governance guidelines be amended to recommend the adoption of policies that consider gender in management succession planning as a ‘best practice’. 

\textsuperscript{13} We do not mean to suggest that the director recruitment process will be sufficient simply by outsourcing the search to an external executive search consultant but rather that it is essential that the pool of board candidates be comprehensive and extend beyond the current board’s and management’s circle.

\textsuperscript{14} “Women on boards” April 2013, U.K., pages 6-7; “Women on Boards”, February 2011 U.K. page 26