

May 16, 2016

Item Name: House Resolution 4718 (Maloney-NY): Gender Diversity Advisory Group

Program: Global Governance

Item Type: Action

Recommendation

Approve support of House Resolution (HR) 4718 (Maloney), and suggest amendments to extend definition of diversity beyond gender.

Executive Summary

HR 4718 would require the Securities and Exchange Commission (SEC) to establish a Gender Diversity Advisory Group comprised of representatives from government, academia, and the private sector.

The **Support** recommendation is consistent with the California Public Employees' Retirement System (CalPERS) Board's Legislative and Policy Engagement Guidelines II E 2: Support proposals that encourage corporate boards to establish and disclose a diverse mix of director attributes, experiences, perspectives, and skill sets that are most appropriate for effectively overseeing management's execution of the company's long-term business strategy. CalPERS would also support a more inclusive definition of diversity, and would support broadening the scope of the advisory group created by this legislation to study and make recommendations for improvements in more than gender diversity.

Strategic Plan

This item supports Strategic Plan Goal C to engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs.

Investment Beliefs

This item supports CalPERS Investment Belief 10: Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives, and the sub-belief that diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important.

Background

The Securities and Exchange Commission

The SEC holds primary responsibility for enforcing the federal securities laws, proposing securities rules, and regulating the securities industry, the nation's stock and options exchanges, and other activities and organizations, including the electronic securities markets in the United States.

Board Quality and Diversity

CalPERS Global Principles state that diversity includes “skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership” (March 2016).

The Global Principles also highlight the importance of board quality and diversity as an important step toward challenging “group think” in corporate boardrooms, which can have a devastating impact on the ability to question assumptions.

CalPERS has commended the SEC for developing enhanced disclosure requirements on diversity, which will result in greater transparency around the qualifications of board nominees.

Diverse Director DataSource

In 2009, CalPERS and the California State Teachers’ Retirement System collaborated with more than 150 industry leaders to create the Diverse Director DataSource (3D). 3D is a resource for shareowners, company nominating committees, and executive search firms seeking skilled individuals who can bring a fresh perspective to a boardroom, advance a company’s business strategy, and help investors achieve long-term, risk-adjusted returns.

3D was officially launched in July 2012 at the New York Stock Exchange, and as of April 2014, it includes profiles of more than 700 individuals. The database is composed of two-thirds women, nearly a quarter of individuals have international experience, a third have board certification training, and combined they speak 41 different languages. 3D allows users to select a range of search criteria to identify candidates with the right background and experience. We will continue to build 3D by attracting candidates, search committees, and executive recruiters. Our goal is for 3D to become a catalyst for improving board diversity across the globe.

SEC Petition on Diversity

In March 2015, CalPERS and a number of other retirement funds put forth a petition for amendment of the SEC proxy rule regarding board nominee disclosures through a chart or matrix approach. The petition focused on the importance of diversity and asked the SEC to make a simple amendment to include disclosures around each nominee’s gender, race, and ethnicity. We believe better disclosure about the board’s skills, experiences, gender, race, and ethnic diversity can help investors determine whether the board has the appropriate mix to manage risks and avoid ‘group think.’

Analysis

Specifically, HR 4718 would:

- Require the SEC to establish a Gender Diversity Advisory Group comprised of representatives from government, academia, and the private sector;
- Direct the Advisory Group to study strategies to increase gender diversity among members of the board of directors of issuers and, not later than nine months after the establishment of the Advisory Group, report to the SEC and Congress on its findings and make recommendations to increase gender diversity on corporate boards;
- Require the SEC, not later than 1 year after receiving the Advisory Group’s report, to begin reporting to Congress annually on the status of gender diversity on corporate boards;
- Require the SEC to make the Advisory Group’s reports available to the public; and
- Require the SEC to write rules to require issuers to disclose to shareholders the gender composition of their boards of directors and nominees for their boards of directors.



2. Author's Intent

The author hopes to promote more gender diversity on corporate boards. Representative Maloney's staff said she also hoped that the bill would spur coalitions and other stakeholders that are concerned about areas beyond gender to become involved in a push for a more comprehensive effort.

3. Costs

Benefit Costs:

None

Administrative Costs:

None

Budget and Fiscal Impacts

No direct budget or fiscal impact.

Benefits and Risks

1. Benefits

- By empowering this advisory group and requiring recommendations and regular, ongoing reports, HR 4718 will enable the SEC to encourage corporate boards to diversify. CalPERS believes that diverse boards create better corporate governance, and that this shows on the bottom line. As an institutional investor, CalPERS portfolios would benefit from this.

2. Risks

- No risks perceived.

Attachments

Attachment 1 – House Resolution 4718 (Maloney), As Amended March 7, 2016

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