



# Guidance note

Diversity Policies and Disclosure

February 2015



The purpose of this guidance note is to provide guidance to issuers in relation to NZX’s interpretation of NZX Main Board Listing Rules (“rules”) 10.4.5(j) and 10.4.5(k) that require certain information in relation to diversity to be included in an issuer’s annual report.

This guidance note replaces the previous Guidance Note issued on 17 December 2012.

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Issuers should note that this guidance note is not intended to be a definitive statement of the application of the rules in every situation and is only a guide to NZX’s policy and practice. This guidance note does not limit NZXR’s discretion under the rules. This guidance note reflects the rules as at 25 February 2015, which are subject to change. NZX takes no responsibility for any error contained in the guidance note. NZXR may replace guidance notes at any time and issuers should ensure that they have the most recent version of this guidance note by checking NZX’s website at [www.nzx.com](http://www.nzx.com).



# Introduction

The guidance is intended to provide issuers with assistance in determining how to report the quantitative breakdown of the gender composition of their board of directors and its officers for the purposes of rule 10.4.5(j).

This guidance is also designed to assist issuers which wish to develop and implement their own gender diversity policies and related measures, for the purposes of rule 10.4.5(k). It sets out some suggestions as to the content of a diversity policy and examples of measurable objectives that issuers may wish to set for themselves to measure their progress against their diversity policy.

This guidance note focuses on gender diversity. Issuers are encouraged to consider diversity in all its forms when formulating a diversity policy.

## Structure of this Guidance Note

This guidance note is divided into two parts. Section 1 provides guidance as to how issuers should report under rule 10.4.5(j). Section 2 sets out suggested content for a diversity policy and sets out examples of measurable objectives that an issuer may choose to set in order to enable the issuer to measure performance against a diversity policy.

## 1. Reporting gender composition

Rule 10.4.5(j) requires an issuer to include in its annual report a quantitative breakdown of the gender composition of the issuer's board of directors and its officers as at the issuer's balance date (including comparative figures for the prior balance date).

The quantitative breakdown must be reported numerically rather than proportionately. NZX has issued a class ruling to clarify that issuers should disclose numbers of male and female directors and officers. Reporting in this way is required in order to ensure that gender diversity reporting is transparent and readily comparable. Issuers may choose to include a proportionate breakdown in addition if they so wish, for convenience of presentation and interpretation. NZX encourages issuers to report gender composition information in a tabular format.

The breakdown relates to directors and officers. Issuers will need to consider who falls within the category of "officer"<sup>1</sup>.

An **officer** means a person, however designated, who is concerned or takes part in the management of the issuer's business, but excludes a person who does not:

- (a) report directly to the Board; or
- (b) report directly to a person who reports to the Board.

Issuers are encouraged to explain how the definition of "officer" applies to their organisation, by reference to the issuer's organisational structure, for the purpose of the gender composition

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<sup>1</sup> The definition of "officer" in this rule replicates the test that was contained in the Securities Markets Act 1988. This is to ensure that gender composition reporting is comparable for periods prior to the introduction of the Financial Markets Conduct Act 2013.

reporting in the annual report. An issuer may wish to do so either by reference to reporting lines to the CEO or by describing the nature of the roles included.

## 2. Diversity Policies

### 2.1 Why adopt a diversity policy?

There is credible research based evidence which suggests that diversity in a variety of forms, and gender diversity in particular, contributes to improved performance at both Board and senior management level<sup>2</sup>, through promoting additional and broader perspectives in approach, leadership, problem-solving and thought.

Issuers are encouraged to adopt and implement a diversity policy, with measurable objectives, to provide clarity as to both the terms and extent of their commitment to diversity, and as a potential tool in improving performance at both Board and senior management level.

### 2.2 Rule requirements in relation to diversity policies

The rules do not *require* an issuer to adopt a diversity policy. However, if an issuer chooses to adopt a diversity policy, rule 10.4.5(k) requires the issuer to include a statement from the Board providing an evaluation of its performance with respect to its diversity policy in the issuer's annual report. The objective of rule 10.4.5(k) is to ensure that where an issuer has chosen to adopt a diversity policy, shareholders and other stakeholders are provided with information to assess the issuer's performance against that diversity policy. This is consistent with the requirement that issuers provide all relevant information to enable the market to make an informed view of an issuer's value and prospects.

Similarly, Footnote 1 to rule 10.4 is intended to encourage issuers to consider disclosing other information relating to diversity policies or practices and that may relate to forms of diversity other than gender.

Issuers should note that rule 10.4.5(k) and the footnotes to that rule apply to Main Board Listed issuers which have Equity Securities Quoted and do not apply to 'Debt-only' issuers which do not have Equity Securities Quoted. However, all issuers are free to adopt a diversity policy and to report against that policy in their annual reports if they wish to do so.

### 2.3 Content of Diversity Policy

There is considerable variability in the content and format of corporate diversity policies.

Issuers are advised to consider what diversity means to them, and their own specific needs when formulating a diversity policy. This will vary depending on factors such as the size and nature of the issuer's business, the nature of its product or service offering, its customer base, the geographies in which it operates and its strategy. 'Boilerplate' language that offers little or no insight into a company's approach to diversity should be avoided<sup>3</sup>.

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<sup>2</sup> Deloitte LLP and Bersin by Deloitte (2014) *Global Human Capital Trends 2014 Engaging the 21<sup>st</sup> century workplace*

McKinsey and Company (2007) *Women matter: Gender diversity, a corporate performance driver*

McKinsey and Company (2013) *Women matter: Gender diversity in top management: moving corporate culture, moving boundaries*

<sup>3</sup> KPMG (July 2012) *ASX Diversity Report: Analysis of 31 December 2011 year end disclosures*

International practice indicates that gender should be an explicit component of any diversity policy. Where gender diversity is prioritised, it is not uncommon to have a stand-alone gender diversity policy.

Some companies commence with a gender diversity policy and broaden this to encompass other forms of diversity over time, while others may opt for policies that acknowledge the benefits of diversity, express a commitment to general inclusivity and an absence of any form of discrimination, and encompass named attributes relevant to or particularly valued by the organisation, such as culture, nationality, gender, age, and background.

Issuers may need to collect certain data so that they have an accurate picture as to existing diversity levels on which they can then base the formulation of a diversity policy.

The following are examples of what a diversity policy might contain:

- a statement of the issuer's commitment to diversity and an outline of the perceived benefits of diversity to the issuer. The nature of an issuer's commitment to diversity, and the benefits of diversity to an issuer, will vary from issuer to issuer, and should be formulated based on the specific needs of the issuer;
- a requirement for the Board to set measurable objectives against which to measure the issuer's performance against its diversity policy. The measurable objectives themselves may either be included in the content of the diversity policy or may be contained in a separate stand-alone document (see section 2.4 below);
- provision for the establishment of a senior management team or officer with authority and in each case accountability to lead the implementation of the issuer's diversity policy. The policy may allow for performance against the diversity policy to be built into key performance indicators, with consideration given to related performance bonuses;
- a requirement for the Board to conduct a review of its skills mix on a regular basis to identify areas in which diversity may be improved and to identify opportunities to improve diversity through succession planning;
- provision for a regular review of diversity metrics at all levels of the organisation in order to identify levels at which diversity may be improved;
- provision for regular training of Board and management in recruitment and selection, with an emphasis on assessing merit and avoiding discrimination;
- provision for the establishment of programmes which encourage diversity. For example, a flexible working program that permits work/life balance and enables valued staff to maintain/resume their employment resulting in optimal use of talent, minimum impact on career progression and flow on effects for diversity at senior management levels;
- a summary of the issuer's participation in wider diversity programmes and support or membership of organisations that promote diversity;
- a statement of the types of behaviour that will not be tolerated, including harassment and victimisation and a reference to any associated whistleblower policy; and
- the establishment of a process for the Board to be provided with regular reports on the implementation of the issuer's diversity policy and its performance against that policy.

## 2.4 Monitoring and evaluating performance

Rule 10.4.5(k) states that if an issuer has chosen to adopt a diversity policy, the issuer must include in its annual report a statement from the Board providing its evaluation of the issuer's performance with respect to its diversity policy.

### Setting measurable objectives

When adopting a diversity policy, issuers should also set themselves measurable objectives so that they are able to measure their performance against their policy and report that performance against their policy in accordance with rule 10.4.5(k).

Performance against loosely defined targets cannot be objectively measured, evaluated or reported against and will therefore be of limited value to the issuer, its shareholders and other stakeholders.

Measurable objectives may either be included in the diversity policy or they may be contained in a separate stand-alone document. Whichever form they take, measurable objectives should be formally documented and approved by the Board.

### Types of measurable objectives

There are two main types of measurable objectives that issuers may wish to consider in order to measure their performance against their policy:

- numerical; and
- non-numerical.

### Numerical objectives

Numerical objectives in relation to gender diversity include Board, officer, senior management and broader organizational composition and the number and proportion of new Board, officer or senior executive appointments that have been women, or are targeted to be women in a defined period, and may include other related indicators such as pay equity.

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.

Issuers which wish to commit to targets should clearly define how those targets apply to positions within their organisation, to ensure maximum transparency and usefulness to shareholders and other stakeholders. Where appropriate, the manner in which performance against targets is measured should be kept the same over time to enable changes in diversity to be monitored.

The following are examples of targets that an issuer may choose to set:

- the issuer's Board will include X number or proportion of women directors by a specified date;
- X percentage of new Board appointments will be women for a specified period of time;
- X percentage of the issuer's senior managers/officers will be women by a specified date.

As described in section 1 above, the rules require issuers to provide in their annual report a quantitative breakdown as to the gender composition of the issuer's Directors and Officers as

the balance date of the issuer. This requirement focuses on the actual make-up of an issuer's board and officers as at the issuer's balance date, and is different to the setting of and reporting against numerical targets.

Where an issuer has elected to adopt numerical targets, the issuer should ensure that reporting against that target is clear. In particular where an issuer sets a proportionate or percentage target NZX would expect the issuer to report its performance on both a numerical and proportionate basis.

### **Non-numerical objectives**

The non-numerical measurable objectives an issuer chooses to set for itself will depend upon the specific aims of that issuer's diversity policy, and may include the following:

- establishing a diversity working group or committee to monitor diversity and to regularly report to the Board on diversity-related matters;
- establishing training programmes for employees on the benefits of diversity, or conducting an employee survey or programme of surveys on diversity to obtain employees views as to diversity;
- establishing recruitment procedures which ensure that a wide range of potential candidates are considered at all levels of the issuer's structure, including at both Board and senior manager level and that a minimum prescribed percentage of shortlisted candidates are (for example) female;
- conducting regular reviews to ensure that there is pay equity at all levels of the organisation to minimise inadvertent discrimination that may affect retention and career progression, which in turn may affect diversity at senior management levels; and
- establishing a diversity scorecard.

Issuers should carefully consider the nature of non-numerical targets to ensure that they will be able to provide a meaningful report of the issuer's performance against the target, at year end. In particular, qualitative objectives may be more difficult to report against.

Issuers will need to consider how best to monitor and report on performance against the measurable objectives they set themselves so that they can provide an annual statement on performance in accordance with rule 10.4.5(k).





## Appendix 1: Relevant Listing rules

### **NZX Main Board Listing Rule 10.4.5(j)**

- 10.5.5(j) a quantitative breakdown, as to the gender composition of the issuer's Directors and Officers as at the issuer's balance date and including comparative figures for the prior balance date of the issuer. Comparative figures are not required to be provided in respect of balance dates falling in periods before the effective date of this rule.

### **NZX Main Board Listing Rule 10.4.5(k)**

- 10.5.5(k) a statement from the Board of the issuer providing its evaluation of the issuer's performance with respect to its diversity policy (if applicable);...

### **Footnote 1 to Main Board Listing Rule 10.4.5**

1. 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).

