Women CEO:
Gender diversity on Boards of Directors.
Some relevant data

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Good morning,

I would like to thank Women CEO for their invitation to this Seminar.

It is a pleasure to be here today with all of you to exchange views on corporate governance and, especially, on the progress made in the composition and diversity of the boards of directors of listed companies.

The title of today's Seminar is "New requirements of Boards of Directors" and, undoubtedly, gender diversity on Boards must be a priority among these new requirements, in line with the report made public by the organizers of this event.

In recent years we have come a long way in the reform and modernization of the boards of directors of Spanish companies. We can rest assured that today they are more efficient and similar to those of the companies of the markets in our sector in many respects.

However, there are still areas where we have not made sufficient progress.

As you know, the debate on the requirements applicable to Boards of Directors is not new; as a result of the 2008 financial crisis, it was again brought to the forefront in the context of the corporate governance reform that was promoted at international level. At that time, certain deficiencies in companies' management practices were identified as one of the determining factors of the crisis.

The premise behind the reforms that were then launched was the belief that an adequate governance framework helps to curb harmful short-term measures, limits excessive risk taking and thus contributes to the sustainability of each company, and economic growth as a whole.

As you know, the Government in Spain decided to include corporate governance as a prominent topic in its National Reform Programme for the financial year 2013.

This led to certain reforms being addressed through Law 31/2014, on 3 December, which amended the Spanish Limited Liability Companies Law for the improvement of corporate governance. The reform, in addition to seeking to revitalize the modus operandi of the Shareholders Meeting, included important developments in the organization of the board.

In addition to these regulatory changes, CNMV reviewed the recommendations that until then were contained in the Unified Good Governance Code of listed companies of 2006.

In February 2015, it published a new Good Governance Code which replaced the previous one and which condensed, in 25 principles and 64 recommendations, all the aspects that were considered essential to promoting the good governance of listed companies.

The crisis made it clear that the composition of the board is a key element for good corporate governance, as it affects their effectiveness and influences the quality of their decisions and their ability to foster social interest.

Although the aspects that were reformed by the new legislation and the Good Governance Code were numerous, I am going to focus on the requirements of the Boards of Directors and, in particular, those related to the promotion of diversity within them.

I am going to begin by recalling that a new Article (529 bis) was included in the Spanish Limited Liability Companies Law, which establishes the duty of the Board to ensure that the procedures used to select its members are conducive to diversity in terms of gender, experience and knowledge, and do not contain implicit biases that may lead to discrimination and, in particular, facilitate the selection of women directors.

This duty to promote diversity was embodied in the reform of the Good Governance Code, through the inclusion of a specific principle (number 10).

This principle establishes that the board must be of the size necessary to foster its effective operation, the participation of all the directors and agility in decision-making, and that the director selection policy must promote diversity in terms of knowledge, experience and gender in its composition.

The first aspect emphasized by the principle is the size of the board, which should be adequate to¬ effectively perform its functions with sufficient depth and contrast of opinions. For this reason, the Code considers it advisable for the size of the board to be between five and fifteen members.

The second significant aspect is the importance of diversity in the composition of the board. It is therefore recommended that companies explain their¬ commitment to a diverse composition from the initial stage of selection of possible candidates.

In addition, given the insufficient presence of women¬ on boards, it is recommended that specific objectives be included to foster this.

In particular, recommendation 14 of the Code introduced the following provisions:

That the Board approve a specific and verifiable director selection policy, to ensure that proposals for appointment or re-election are based on a prior analysis of the needs of the board of directors that promote diversity with respect to knowledge, experience and gender.

That the result of the prior analysis of the board's needs is reflected in the explanatory report of the appointments committee that is published when the board meeting is convened.

That the director selection policy fosters the goal that in 2020 the number of women directors represents at least 30% of the total number of members of the board of directors.

That the appointments committee annually verifies compliance with the director selection policy and that it be reported in the annual corporate governance report.

In addition, in order to promote transparency on the knowledge and experience of directors, recommendation 18 of the new Code establishes that companies must make information public through their website and keep it up-to-date, including information regarding the professional and biographic profile of the Directors and the date of his or her first appointment as director in the company, as well as their subsequent re-appointments.

With this approach, in regard to the composition and diversity of the Board, a dual objective was achieved, that is, of ensuring that directors have the necessary skills and knowledge to perform their duties efficiently and diligently and, at the same time, that their profile is made public and easily accessible to investors.

Here I would like to comment briefly on the importance of gender diversity on Boards of Directors.

Leaving aside fundamental considerations of an ethical or social justice nature, an equally important argument supporting gender diversity in managerial positions is that of increasing market efficiency.

In this respect, promoting the existence of diversity means improving human capital that can be selected on the basis of merit, education and training, without any discrimination based on gender. That is, guaranteeing the best use of human resources.

To do the opposite would lead to the exclusion of a large part of that capital existing in our country and, with it, the appearance of inefficiencies both in the company concerned and in the economy as a whole.

However, although this seems to be reason enough for the market to encourage promotion in the workplace of this very valuable part of human capital, reality tells us that, despite the progress made in recent years in promoting the incorporation of women into the labour market, their presence in positions of responsibility and management is still limited.

Fortunately, it seems that there has been widespread conviction of the need to move towards greater gender balance on boards. Thus, in recent years, we are seeing a multitude of initiatives aimed at achieving this goal, although the avenues chosen to achieve this differ substantially.

In Europe, the increased participation of women in financial decision-making has been marked by different initiatives taken by each Member State.

Thus, while some States have directly established a legally binding gender balance objective, other States have opted for a “comply or explain” model.

Within the European Union, this concern was expressed in the publication in November 2012 of a proposal for a Parliament and Council Directive aimed at improving gender balance between non-executive directors of listed companies.

This regulatory proposal states that “Member States shall ensure that listed companies on whose boards members of the less represented gender hold less than 40% of non-executive director positions, make appointments to those posts on the basis of a comparative analysis of the qualifications of each candidate, through the application of pre-established, clear, criteria formulated in a neutral and unambiguous way".

Although the European Union considered this as a priority, it is true that no significant progress has been made since that year. Regrettably, the proposal for a Directive has reached an impasse in the EU legislative process, mainly because of differing approaches between different countries (legally binding vs. recommendations).

However, it seems that progress is being made in companies. According to the latest data from the European Commission (corresponding to the October 2016-2017 Report on equality between women and men in the EU), the average proportion of women on the boards of the largest companies listed on European stock exchanges reached 23.9%, which is more than twice the figure for October 2010 (11.9%).

As I said earlier, some progress has been made but only in ten EU countries (France, Sweden, Italy, Finland, Holland, Lithuania, Germany, the UK, Denmark and Belgium) do the boards of large companies have more than 25% of women.

This figure currently differs from the 40% included in the 2012 draft legislation. We will see when a consensus is achieved and how the regulatory text is finally embodied.

Although the 2012 legislative proposal is currently at a standstill, in 2014 Directive 2014/95 of the European Parliament and of the Council on the dissemination of non-financial information and information on diversity was adopted.

The recitals of the Directive call for the diversity of powers and points of view of the members of the administrative, management and supervisory bodies. This diversity, according to the recitals, allows members of these bodies to provide constructive criticism on management decisions and to be more receptive to innovative ideas, thus combating the phenomenon of "group thinking", characterized by members' similarity of views. Thus, diversity contributes to the effective supervision of management and to satisfactory corporate governance.

The wording of the new directive obliges the inclusion in a specific section of the management report to be published by listed companies, a description of the diversity policy applied in relation to the company's administrative, management and supervisory bodies with regard to issues such as age, gender and education, training and professional experience, the objectives of that diversity policy, how it has been implemented and the results in the reporting period. If no such policy is applied, an explanation should be given as to why.

The inclusion of this information in the management report through an EU directive is a significant development.

The Directive is being transposed at national level. On 1 September, the Council of Ministers approved the first draft of the draft bill and the text is now pending the report of the Council of State, with a view to its subsequent parliamentary processing.

The future Spanish regulation will entail an amendment to Article 540 of the Spanish Limited Liability Companies Law, relating to the Annual Corporate Governance Report, as set out in the 2014 Directive.

Focusing on Spain, in addition to the transposition work I have just mentioned, CNMV has closely followed the development of this issue.

I shall now give you some illustrative data, taken from the information reported by companies in their Annual Corporate Governance Reports for 2016, which do not differ substantially from those presented in the Women CEO Report.

This year will be the thirteenth consecutive year in which CNMV publishes the corporate governance report of the issuing companies and the second since the implementation of the Good Governance Code.

Through its publication, we intend to offer in aggregate terms the main characteristics of the corporate governance structures of the issuers of securities admitted to trading in Spain and the developments in the main parameters.

Female presence on the boards of listed companies rose by one percentage point to 16.6% in 2016 (15.6% in 2015).

The increase in Ibex companies was even smaller, a mere tenth of a percentage point, reaching 19.7% in 2016. (19.6% in 2015).

As you can see, these figures are below those registered in other EU countries, countries which we should try to emulate and thus take advantage of all the human capital that we have.

Therefore, we must continue making progress so that our companies, our economy and our country make the most of the capabilities and the talent of a significant part of the population.

We must bear in mind that, taking into account the rate at which we have incorporated women into the Boards of Directors, in 2020, the year marked in the Good Governance Code as a benchmark for assessing progress in this field, we would only have 20% of female presence on boards, compared with the 30% forecasted.

There are more relevant data: there has been an increase in the number of listed companies with at least one woman director (81.8% in 2016 compared with 77.4% in 2015). As for the IBEX companies, only one did not have a woman director in 2016, but in 2017 one has been appointed.

By category of women directors, data show that the proportion of independent women directors (24.8% in 2016 compared with 22% in 2015) and executive women directors (4.7% in 2016 compared with 4.2% in 2015), while the percentage of those classified as proprietary and other external women directors has decreased with respect to the previous year.

I would like to refer briefly (and I will be concluding shortly) to one of the latest initiatives adopted by CNMV on corporate governance, which consisted of the publication in June of this year of a Technical Guide on PIC audit committees.

The purpose of this Technical Guide is to disseminate a set of principles, criteria and good practices that CNMV deems appropriate to ensure the proper functioning of these bodies, thereby facilitating compliance by entities and groups with the regulations applicable to them.

As you know, the audit committee of the entities is assigned by law supervision of their financial information, internal control, internal audit and risk management systems, among other functions.

The Audit Committee, also in accordance with the provisions of the Spanish Limited Liability Companies Law, must be composed exclusively of non-executive directors, the majority of whom must be independent directors.

The Technical Guide we published in June emphasizes the need for diversity in the composition of the audit committee, particularly in terms of gender, as well as professional experience, skills and knowledge of the sector.

If I may, I would like to stress that clear efforts are being made to promote women's participation in Boards of Directors, but data show that we are still far from achieving the goal.

I would like to conclude by giving you more general information on the degree of adherence to the new Good Governance Code.

On average, listed companies follow 83.9% of recommendations, which represents an improvement of two percentage points compared with 2015. In addition, there was an increase in the level of compliance in all categories.

A total of 51 companies (37.2% of the total) have complied with more than 90% of the recommendations of the Good Governance Code and more than half of the companies have followed at least 85% of the recommendations, four of which claim to adhere to 100% of them.

I believe that these data are very positive, especially since, as I said, it is the second year the Good Governance Code of listed companies approved in 2015 has been implemented.

And I will end here.

I firmly believe that, little by little, we will all reach the desired goal of greater gender balance in the management bodies of companies.

The promotion of gender diversity has occupied a relevant space in our agenda and we have analyzed in great detail the best way to move towards a more balanced presence of women on boards.

In addition to being fair, experience and what happens in other fields of society, shows that the incorporation of women into management positions and boards of directors is useful and helps drive economic and social progress. It is now a matter of promoting this incorporation and putting it into practice. Without delay and with determination.

Thank you very much.