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January 29, 2016

Marlice Johnson  
International Corporate Governance Network  
6-10, Saffron House, Kirby Street  
London EC1N 8TS  
United Kingdom

Re: ICGN Member Consultation: Guidance on Diversity on Boards

Dear Ms. Johnson:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs (AICPA).

The CAQ welcomes the opportunity to comment on the International Corporate Governance Network's (ICGN) Member Consultation, *Guidance on Diversity on Boards* (the Consultation). This letter represents the observations of the CAQ, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

**I. General Views**

The CAQ supports and shares the ICGN's view that diversity is a key component of effective board governance. We commend the ICGN for recognizing that diversity is a concept that has evolved beyond gender, and encompasses skills, experience, ethnicity, age, geography, and other socio-economic factors. We encourage the ICGN to more directly establish the clear business case for board diversity related to enhanced performance, improved effectiveness, and broader perspectives and solutions. As noted in the Consultation, changing market expectations and studies have shown that such diversity is important to effective corporate governance. For example, investors are increasingly focused on the ability of boards to address new risks including cybersecurity, climate, and a constantly changing financial and regulatory environment. It is therefore critical that the composition of corporate boards include diverse skill sets to enable a multi-disciplinary approach to overseeing how companies are assessing and addressing these risks. We support

the concept that such a multi-disciplinary approach can most effectively be achieved through the inclusion of a diverse array of skills, experience, and perspectives. To that end, we encourage the ICGN to update its existing “ICGN Guidance on Gender Diversity on Boards” to incorporate the broader board diversity concepts included in the Consultation.

The U.S. public company auditing profession and other capital markets participants have shown increasing commitment to advancing diverse candidates to leadership positions, recognizing the competitive advantage diversity brings. Examples of entities taking advantage of diverse skills, experience, and background include the Commissioners of the Securities and Exchange Commission, Board Members of the Public Company Accounting Oversight Board, and the CAQ’s own Governing Board. The latter includes the CEOs of the largest U.S. public company accounting firms, as well as public board members from outside of the profession who bring a diversity of skills and experience to our organization.

## **II. Benefits of a Principles-Based Approach on Board Diversity**

The CAQ supports a principles-based approach for companies and boards to follow to achieve the right “mix of relevant skills, competence, and diversity of perspectives within the board to generate the appropriate challenge and discussion....”<sup>1</sup>

The board, chair, and nominating committee all have roles in achieving the right composition of the board and senior leadership team of the company. Directional policies, processes, and reporting assist in effectively executing these responsibilities. The expansion of the concepts in the ICGN guidance to incorporate broader diversity factors can provide a useful framework as boards strive to implement good governance practices that support a culture of diversity. We believe such good governance practices include an annual self-assessment by the board *and* an evaluation of individual board member performance. This assessment process provides the chair the opportunity to include an evaluation of whether the composition of the board is appropriate and whether there are opportunities for refreshment of certain roles. A robust board member evaluation process can provide regular opportunities for the board to assess the relevance of and consider refreshing its composition in a continually changing business environment. The chair should also focus the nominating committee’s replacement efforts on identifying candidates that will provide the board with both the requisite level and diversity of skills, experiences, and other factors to most effectively govern the company.

As a stakeholder to the activities of the board, shareholders have an important role to play in reinforcing that boards understand that diversity is a competitive issue for a company and an important dimension of governance, and that boards incorporate those themes in the key principles they follow to ensure effective corporate governance. Corporate disclosure of diversity information related to board composition and member selection would provide context for discussion and engagement between shareholders and boards on diversity, and provide a platform for shareholders to communicate their expectations to boards.

## **III. Conclusion**

The CAQ supports the concepts embodied in the Consultation to expand the definition of diversity beyond gender and continue to evolve the guidance on board diversity as market expectations change. We believe that a principles-based approach with associated guidelines, rather than prescriptive mandates, can provide a helpful framework for boards and companies to achieve appropriate board composition. Disclosure of

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<sup>1</sup> ICGN Global Governance Principles (2014) Principle 3.2(c).

certain policies around board diversity may facilitate a dialogue between investors, corporate boards, and management, and, in turn, reinforce accountability and good governance practices.

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The CAQ would be pleased to discuss our comments or answer any questions that the ICGN may have regarding the views expressed in this letter.

Sincerely,

A handwritten signature in black ink that reads "Cynthia M. Fornelli". The signature is written in a cursive, flowing style.

Cynthia M. Fornelli  
Executive Director  
Center for Audit Quality