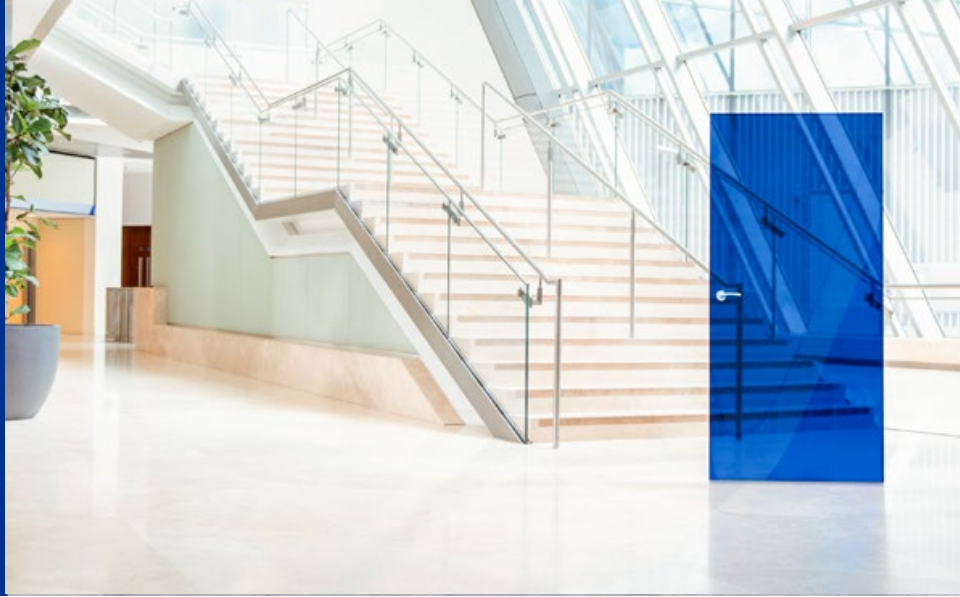


FCA consultation: Boosting diversity disclosures

KPMG Board Leadership Centre



The FCA have recently announced proposed changes to encourage listed companies to disclose the diversity of their boards and executive management teams. The consultation will focus on changes to its Listing Rules to require listed companies to annually publish whether they have achieved proposed targets for gender and ethnic minority representation on boards, and data on the composition of their board and executive management team in relation to gender and ethnicity.

The FCA are undertaking this consultation to increase the transparency for investors on the diversity of company boards and executive management, driven by increased scrutiny by investors of ESG factors and a demand for better data to make investment decisions.

In light of independent research advocating more progress and transparency of diverse characteristics such as the Hampton-Alexander Review examining gender equality and the Parker Review on ethnicity in UK's leadership and boardrooms, the consultation is also considering broader aspects of diversity within diversity policies and related disclosures by companies this could include for example considerations of ethnicity, sexual orientation, disability, lower socio-economic background and other diversity characteristics.

The FCA want to change the Listing Rules to require:

- An annual 'comply or explain statement' on whether they have achieved certain proposed targets for gender and ethnic minority representation on their boards. Targets they are consulting on are:
 - At least 40% of the board should be women (including those self-identifying as women)
 - At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) should be a woman (including those self-identifying as a woman)
 - At least one member of the board should be from a non-White ethnic minority background (as referenced in categories recommended by the Office for National Statistics (ONS)), and;
- Data on the composition of the board and the most senior level of executive management by gender and ethnicity, as of a specified date during the accounting year.

Views are also sought on whether, in future, data on representation by sexual orientation should be disclosed, and / or whether to extend the diversity data reporting to capture one level below executive-level management

Currently under DTR 7.2, companies in-scope must disclose in their corporate governance statement the diversity policy applied to their board with regard to matters such as age, gender, or educational and professional backgrounds, or explain why no such diversity policy is applied. The updates proposed are to:

- a. Extend this disclosure to include how any diversity policies apply to the key committees of the board, specifically the audit, remuneration and nomination committees
- b. Clarify that the aspects of diversity to which the diversity policy may relate could include, for example, ethnicity, sexual orientation, disability and socio-economic background (in addition to the aspects of diversity already referred to in the rule).

Whilst the FCA are not proposing board level targets or specific data disclosures beyond gender and ethnic diversity – they are encouraging businesses to consider diversity more broadly including the intersectionality of different diversity characteristics.

As well as increasing transparency for investors, the FCA considers these additional disclosures as strengthening incentives for companies towards greater diversity which may in turn have wider benefits in terms of the quality of corporate governance and their performance.

The proposed changes will help to build on the recommendations of the Hampton-Alexander and Parker Reviews and reinforce them by making them regulatory requirements, but also provide much needed data where there is currently little information about more broader aspects of diversity.

The consultation ends on 20 October 2021.

Further reading:

[FCA Consultation Paper – Diversity and inclusion on company boards and executive committees](#)

[Hampton-Alexander Review](#)

[Parker Review](#)

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