

Diversity at the top of UK companies – good progress, much more to do?

Recent diversity reports bring some good news. The latest update from the Parker Review on Ethnic Diversity reports that as at December 2022 96% of FTSE 100 companies had at least one minority ethnic director on its board. Similarly the FTSE Women Leaders Review has reported that the FTSE 350 has met its target of 40 per cent women on boards by 2025 three years early. The latest annual review of the Women in Finance Charter also highlights good progress overall. However, it is important to look beyond the headlines as much remains to be done, including on the boards of the largest privately owned companies in the UK.

Diversity reporting

The Parker Review

In 2017, the Parker Review recommended that there should be at least one ethnic minority director on the board of each FTSE 100 company by 2021 and one on the board of each FTSE 250 company by 2024. The recent December 2022 report found that 96 per cent of FTSE 100 companies met the target and that, 60 per cent of FTSE 250 companies had already met the 2024 target. Noting that, according to the 2021 census, 17 per cent of the UK population is now from an ethnic minority, the Review is now asking FTSE 350 companies to set ethnic minority targets for senior management and also asking the largest 50 private companies to have one ethnic minority on their boards by December 2027.

In relation to senior management, the Review states that a “one size fits all” approach would not make sense and is instead asking FTSE 350 companies to set their own targets by December 2023 which will enable them to report by December 2027. In setting their targets, companies are asked to consider a number of factors, including the most recent census data on ethnic diversity in the regions and countries in which the senior management is located and the ethnic diversity of the company’s sector. Companies are asked to set

out their targets, with relevant background context, in their annual reports published during 2024. Companies will need to provide details of their targets and progress to the Parker Review annually as well as reporting these figures in their annual reports. Senior management is defined as members of the Executive Committee (or equivalent) and those senior members who report directly to them.

For large private companies, the Review is requesting that they have at least one director who is from an ethnic minority by December 2027 and that they set an ethnic minority target for senior management and report in the same way as for FTSE 350 companies as set out above. The requirements relate to the 50 of the largest private companies in the UK as defined in the FTSE Women Leaders Review meaning companies that have an annual turnover of at least £1bn and an employee workforce in excess of 4000 employees which are headquartered in the UK and are not listed (nor have a parent company that is listed) on a UK or overseas stock exchange. The full list is set out on page 28 of the Report.

“We need to retain a real focus on whether our next generation of leaders are representative of the world we live in and not the world that some of us came from. Our people, clients and wider society are looking to us to reflect a more diverse, and one might argue, realistic, vision and we will only do that by broadening our leadership.”

- Hywel Ball, EY UK Chair, page 7 of the Parker Review report

The Review also makes recommendations in terms of employee ethnicity self-identification data. In order to meet the approach set out in the Review, companies need to obtain sufficient and specific ethnicity data on their workforces. The Review proposes that companies aim for a target of 80 per cent ethnicity self-identification reporting and encourages companies to record in their annual reports the percentage of their employees who have self-identified and shared their ethnicity data with the company. The challenges of obtaining this data are acknowledged by the Review and some recommendations as to how to do this and case studies are included.

FTSE Women Leaders Review

The second FTSE Women Leaders Review (the successor to the Hampton-Alexander and Davies Reviews) has reported that FTSE 350 companies have met the target set by the previous Review of 40 per cent of all board directors being women three years early. This is a welcome achievement bearing in mind that the equivalent figure in 2011 was 9.5 per cent. The aim for the next three years is for more women to be appointed to the key roles of Chair, SiD, CEO and CFO in order to achieve the target of 40 per cent of leadership teams being women by 2025. In relation to FTSE 100 companies, 41 per cent of available leadership roles went to women. The Review has also reported for the first time in relation to some of the largest private companies in the UK. The Review notes, as might be expected, that there is greater divergence on progress when compared to boards in the FTSE 350, with the representation of women on the boards of these private companies standing on average at 31.8 per cent and more polarisation between the best and the worst performers.

Reporting less positively, around half of FTSE 250 companies still have some way to go to achieve the 40 per cent target of women in leadership positions in the next three years. In addition, only a quarter of FTSE 100 companies have met the current 40 per cent target and just under half of FTSE 100 companies have some way to go. 77 FTSE 350 companies have gone backwards in terms of women performing leadership positions at board level and many

FTSE 350 companies still have a long way to go to achieve the 40 per cent board target at an individual company level by 2025.

Women in Finance Charter: Annual Review 2022

The UK government launched the HM Treasury Women in Finance Charter in 2016 to encourage an improvement in gender balance in senior management in the financial services sector. The charter recognises the different starting points of different organisations and therefore encourages signatories to set their own diversity targets that are appropriate for their organisation. There are now more than 400 signatories and the review analyses 235 signatories that meet certain criteria.

The sixth annual review has recently been published and highlights that there has been good progress overall after a plateau in 2022. 79 of the 235 signatories in the analysis have met or exceeded their targets for female representation in senior management positions. However, signatories have a wide range of targets, from as low as 20% up to 50%. Whilst the charter aims to recognise the different starting positions, allowing organisations to set different targets makes comparison difficult. HM Treasury has reported that it would like to see all signatories set targets of at least 40% in order to align Charter targets with the FTSE Women Leaders review. The other challenge in comparing the progress of signatories is that signatories can define their own senior management population for the purpose of the targets. The most common is exco-1 (being the executive committee and the reporting level below it).

Whilst there are positives, the trajectory for improvement of female representation remains at 1% per year. The review notes that at this pace, parity is 15 years away. It also notes that the gap between the top quartile and the bottom quartile is getting bigger and it is hard for an organisation to get back on track once it has fallen behind.

Diversity compliance

Premium and standard listed issuers of equity shares including open-ended investment companies are now required to report on a comply or explain basis in their annual reports in relation to certain diversity metrics, including whether at least 40 per cent of individuals on the board are women and whether at least one individual on the board is from a minority ethnic background. The rules apply for accounting periods beginning on or after 1 April 2022. The Financial Conduct Authority (FCA) has recently published Primary Markets Bulletin 44 setting out guidance in relation to the new requirements. Key points include the following:

- the FCA will view non-compliance with the new rules seriously and will enforce breaches with their full suite of powers, including sanctions;
- as well as non-compliance, the FCA will consider potentially false or misleading disclosures, including the omission of material facts and those which are likely to cause investor harm or which may breach other relevant FCA rules relating to ESG matters ;
- Listing Principle 1 (requirement to establish and maintain adequate procedures, systems and controls) extends to establishing D&I reporting procedures and as part of that requirement listed companies will be expected to maintain records to support the data disclosed in their annual financial reports; and
- the FCA suggests a number of steps it would expect listed companies to have considered in its preparation for the new disclosure requirements, including reviewing existing governance arrangements for oversight of diversity and inclusion targets and establishing or enhancing procedures, systems and controls over data collection.

Conclusion

Whilst encouraging progress has been made, the various recent diversity reports emphasise that companies must continue to keep the momentum going and that they should continue to have diversity (both in relation to gender and ethnicity) at the forefront when making appointments to leadership and board positions. The Parker Review and the FTSE Women Leaders Review stress the importance of succession planning and appointments at

senior management level in order to meet targets. In addition, the largest private companies who are some years behind listed companies in reporting on these issues should be encouraged to start their diversity journey to the extent that they haven't done so already.

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