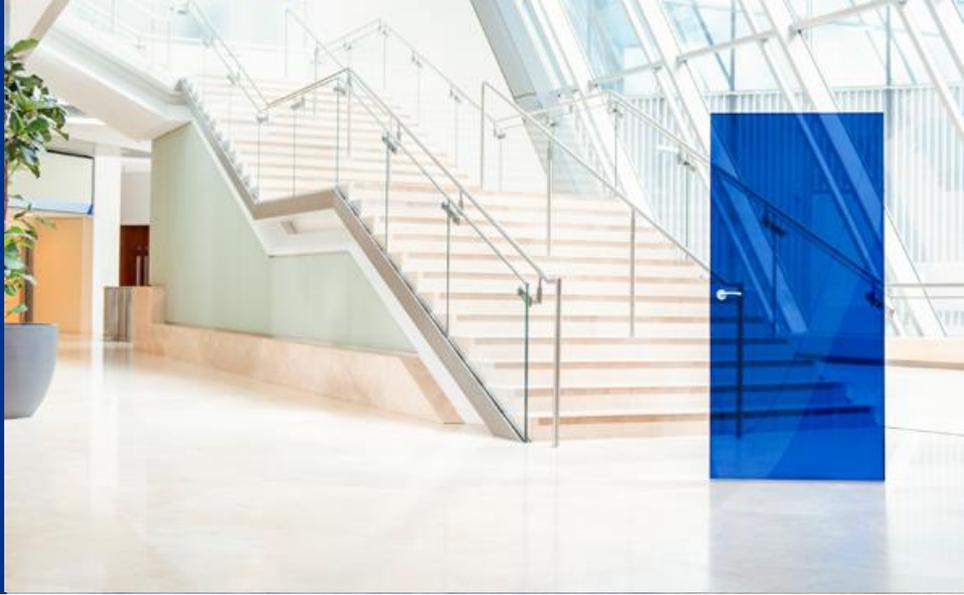




FCA Policy statement: Diversity disclosures

KPMG Board Leadership Centre



The FCA have completed their consultation on proposed changes to encourage listed companies to disclose the diversity of their boards and executive management teams and have introduced new 'Listing Rules', requiring 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.

Following last years consultation on ['Diversity and inclusion on company boards and executive committees'](#) the FCA received broad support their proposals around reporting on progress towards proposed targets for gender and ethnicity, along with broader aspects of diversity within diversity policies and related disclosures (e.g. considerations of ethnicity, sexual orientation, disability, lower socio-economic background and other diversity characteristics).

In April 2022 the FCA published a policy statement, ['Diversity and inclusion on company boards and executive management'](#) which aims to help increase the transparency for investors on the diversity of company boards and executive management - much of which is driven by increased scrutiny by investors of ESG factors and a demand for better data to make investment decisions.

New Listing rules

Following the consultation the FCA are introducing new 'Listing Rules' (LR 9.8.6R(9) and LR 14.3.33R(1)) which require companies in scope, as an ongoing listing obligation, to include:

- A statement in their annual financial report setting out whether they have met specific board diversity targets on a 'comply or explain' basis, as at a chosen reference date within their accounting period and, if they have not met the targets, why not.

This allows companies flexibility to provide relevant context on their approach to board diversity, whether or not these targets are met. The targets are:

- At least 40% of the board are women.
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO)) is a woman.
- At least one member of the board is from a minority ethnic background (defined by reference to categories recommended by the Office for National Statistics (ONS)) excluding those listed, by the ONS, as coming from a White ethnic background).

Companies will also have to set out in their statement:

- The reference date used, and where this is different from the reference date used in respect of the previous accounting period, an explanation of why, and;
- Any changes to the board that have occurred between the reference date and the date on which the annual financial report is approved that have affected the company's ability to meet one or more of the targets.

Alongside the annual narrative comply or explain disclosure, the FCA require companies to publish numerical data taking into consideration local privacy and data protection laws:

- Numerical data on the sex or gender identity and ethnic diversity of their board, senior board positions (Chair, CEO, SID and CFO) and executive management;
- Data is to be reported in a standardised table format (as at the reference date selected for the purposes of the comply-or-explain disclosure);
- There is flexibility in the format of the prescribed table for reporting on sex or gender identity, in order for companies to reflect their approach to data collection.

Approach to collecting data

Companies are also expected to explain their approach to collecting the data, and the FCA have provided guidance on what the explanation should cover, as well as their expectation that companies take a consistent approach to data collection, both:

- Across the individuals being reported on, and
- For reporting against the targets and numerical disclosures.

Further context on policies, procedures and processes

The FCA have provided guidance for businesses who wish to include more information about their key policies, procedures and processes in their annual financial report, which includes:

- A brief summary of any key policies, procedures and processes, and any wider context that it considers contributes to improving the diversity of its board and executive management.
- Any mitigating factors or circumstances which make achieving diversity on its board more challenging (for example, the size of the board or the country where its main operations are located).
- Any risks it foresees in being able to meet or continue to meet the board diversity targets in the next accounting period, or any plans to improve the diversity of its board.

Diversity policy within corporate governance statements

The FCA are also changing DTR 7.2.8AR which requires companies to disclose in their corporate governance statement the diversity policy applied to their board, or to explain where no such diversity policy is applied.

These changes are to expand the reporting requirements to cover the diversity policies of key board committees and to indicate that reporting on board and board committee diversity policies could consider wider diversity characteristics.

Companies are required to make these disclosures in their annual reports for financial years starting on or after 1 April 2022.

As well as increasing transparency for investors, these additional disclosures strengthen incentives for companies to work towards greater diversity, which may in turn improve the quality of corporate governance and their performance.

The 'comply or explain' basis of the targets for the representation of women and people from a minority ethnic background is designed to be a positive reporting benchmark to encourage progress. By doing this the FCA is also encouraging greater scrutiny and consideration of diversity and inclusion more broadly within businesses.

The new listings support the progress made by the FTSE Women Leaders 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.

Further reading:

[FCA Policy statement: Diversity and inclusion on company boards and executive management](#)

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

[FTSE Women Leaders Review \(previously the Hampton-Alexander Review\)](#)

[Parker Review](#)

The KPMG Board Leadership Centre

The KPMG Board Leadership Centre offers support and guidance to non-executive directors, whether managing a portfolio non-executive career or embarking on a first appointment. Membership offers you a place within a community of board-level peers with access to topical and relevant seminars, invaluable resources and thought leadership, as well as lively and engaging networking opportunities. We equip you with the tools you need to be highly effective in your role, enabling you to focus on the issues that really matter to you and your business.

Learn more at www.kpmg.com/uk/blc.

Contact us

Krishna Grenville-Goble
Board Leadership Centre
T: +44 (0)7917 558511
E: krishna.grenvillegoble@kpmg.co.uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2022 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.