



The Investor Relations Society
5th Floor, 30 Coleman Street
London, EC2R 5AL

Capital Markets Policy Team
Financial Conduct Authority
12 Endeavour Square
London
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20 October 2021

Dear Sir or Madam,

Response to CP21/24 'Diversity and inclusion on company boards and executive committees'

Thank you for giving us the opportunity to comment on the FCA consultation: 'Diversity and inclusion on company boards and executive committees' ('the Consultation'). This response represents the views of the UK's Investor Relations Society ('the IR Society').

The IR Society's mission is to promote best practice in investor relations; to support the professional development of its members; to represent their views to regulatory bodies, the investment community and Government; and to act as a forum for issuers and the investment community. The IR Society represents members working for public companies and consultancies to assist them in the development of effective two-way communication with the markets and to create a level playing field for all investors. It has approximately 800 members drawn both from the UK and overseas, including the majority of the FTSE 100 and much of the FTSE 250.

We have considered and set out below our thoughts on a number of the issues raised in the consultation paper. In doing so, we have focused on those that we believe are most relevant to the Society's members and on areas where we believe our views are of the greatest interest.

- Overall, the IR Society is supportive of the thrust of the recommendations and proposals made in the Consultation. We favour initiatives intended to establish better and more comparable information on the composition of companies' boards and executive management, since we agree this should lead to improved shareholder understanding and engagement, as well as provide valuable input to investment decisions.
- We agree that enhanced transparency is conducive to promoting greater diversity on corporate boards through informing both companies and investors of practice across the whole market. In turn, since effective corporate governance includes having the right mix of people with relevant skills and experience at board and executive management level making decisions that affect the long-term value and resilience of companies, the IR

Society supports moves that encourage greater diversity and inclusion in their composition. Clearly, greater diversity is also an important aspiration in its own right.

- We are sympathetic to the proposed adoption of disclosure requirements on whether diversity targets relating to gender and ethnicity have been met, on a 'comply or explain' basis, as this would raise the profile of the issue, whilst offering potential leeway to those companies who have legitimate reasons for currently deviating from them. Given that the 'comply or explain' regime is a fundamental element of corporate governance and is embedded in the UK Corporate Governance Code, then where corporates are unable to 'comply', but instead 'explain' what their challenges are and, importantly, what they are doing to address them, the IR Society would hope third-party advisers and investors take proper account of these explanations.
- We expect the proposed disclosure obligation to set out numerical data on the gender and ethnic diversity on a company's board and its most senior level of executive management to be well received, since there is already growing pressure from investors and other parties for this information. Indeed, it supports and builds on the work of recent reviews such as Hampton Alexander, as well as existing voluntary initiatives. Nevertheless, it will of course be important that companies continue to choose strong candidates for roles regardless of gender and ethnicity. With regard to the related data requirements, we would also like to have clarity over what is meant by 'most senior level of executive management'.
- We support giving companies a framework for reporting diversity-related data, such as that proposed in Annex 2 of the Consultation, since this will help to ensure that companies report their data in a consistent fashion that should maximise its usefulness for all users. As a general position, we favour relatively straightforward forms of reporting.

The IR Society encourages all companies to pursue best practice at board and governance level. We are aware that some additional reporting burden may be placed on companies as a result of some of the changes proposed in the Consultation. For the most part though, it is likely that the data will be available at a well-run company, even at the lower end of the quoted size spectrum.

However, there are a few points we suggest need careful consideration:

- While the IR Society supports the principle of reporting ethnicity, as well as more transparency in this area, there are differences in company size, sector, location and stakeholders to consider. We therefore suspect the practicalities of reporting ethnicity may be a challenge for some companies, which will need to be taken into account.
- Our general view is that additional disclosures should be encouraged but we do not feel companies should be compelled to follow targets relating to gender and ethnicity, at least not in the short term. If enhanced targets were to be introduced, we would reiterate our support for the 'comply or explain' regime around board gender and ethnicity diversity objectives. We believe the focus in the short term should be on improved disclosure and transparency rather than mandating target setting by companies.
- We are not experts, but nevertheless we have some concerns about the legal issues of defining gender and ethnicity, as well as around the rights of board and executive

committee members to choose how they wish to self-identify, which might be a constraint on the information provided. Accordingly, we support a gradual roll-out combined with extensive consultation as a means to build a robust framework.

- While not the main focus of the Consultation, we recognise that diversity reporting could extend beyond gender and ethnicity, to include for example LGBTQ+, those with disabilities, and those from lower socio-economic backgrounds. In addition, we agree there is scope to disclose gender and ethnic composition in respect of key committees of the board. However, we agree these should be voluntary at this stage in order to provide time for companies to assemble robust data.
- In respect of the above, we assume that GDPR principles will need to be carefully observed in any disclosure.

We hope you find these comments useful. Please do not hesitate to contact me if you have any further questions.

Yours sincerely,

Laura Hayter
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