

## Cabinet News and Views

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### Diversity on Boards of UK-Listed Companies and Large Private Companies



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Substantial efforts are underway in the UK to promote board diversity and inclusion among both UK-listed companies and large private companies, with the UK's Financial Conduct Authority ("FCA") introducing new Listing Rules aimed at increasing disclosure obligations for in-scope listed companies as well as the Parker Review Committee setting new targets for all FTSE 350 companies and the 50 largest private companies in the UK.

#### What this means for UK-listed companies

The new Listing Rules apply to UK and overseas issuers with equity shares, or certificates representing equity shares, admitted to the premium or standard segment of the FCA's Official List, excluding open-ended investment companies and shell companies, but including closed-ended investment funds and sovereign-controlled companies.

The new Listing Rules are designed to encourage a broader consideration of diversity at board level and provide investors with improved, comparable information to assess progress in this area. In particular, the new Listing Rules will require in-scope listed companies to provide the following information in the company's annual financial report (as at a chosen reference date within its accounting period):

- a statement on a "comply or explain" basis setting out whether (i) its board comprises at least 40% women, (ii) at least one senior position on its board (*i.e.*, chair, chief executive, senior independent director or chief financial officer) is held by a woman, and (iii) at least one individual on its board is from a minority ethnic background. In cases where the company has not met some or all of these targets, the company is required to explain that the targets have not been met and provide reasons for not meeting those targets; and

- numerical data on the ethnic background and gender identity or sex of the individuals on the listed company's board and its executive management.

The FCA's disclosure guidance and transparency rules ("DTRs") have also been amended to require in-scope listed companies to consider wider diversity characteristics, including ethnicity, sexual orientation, disability, and socio-economic background, in reporting their board diversity policies.

In addition to the FCA's changes to the Listing Rules, the Parker Review Committee has made a series of voluntary targets on ethnic diversity of FTSE 350 company boards. The Parker Review Committee encourages companies to take a more active approach to ensure equal opportunities in senior management levels and will require FTSE 350 companies to set a percentage target by December 2023 for ethnic minorities in their senior management teams to be achieved by December 2027 and report this target to the Committee. This is in addition to the previous targets set for ethnic minority directors over the last few years.

The target date of 2027 will give companies nearly five years to implement a strategy and associated initiatives that will help them to increase opportunities for ethnic minority executives within their executive pipeline, ensuring they are fully in line with those for other executives.

### **What this means for large private companies**

To date, the Parker Review Committee has only focused on listed companies in the FTSE 350. However, the latest report published by the Parker Review Committee has asked 50 of the UK's largest private companies with reference to turnover and to number of employees (listed within the report) to provide the Committee with information about their ethnic diversity each year from December 2023 onwards. The Committee asks that the largest 50 private companies:

- have at least one director on their main board who self-identifies as being from an ethnic minority by December 2027;
- set an ethnicity target by December 2024 for their senior management team that is designed to be met by December 2027; and
- report progress against their targets annually in their company reports and to the Parker Review Committee.

It is worth noting that while the Parker Review Committee's requests remain a series of "recommendations" and "voluntary targets," there has been significant uptake over recent years with regards to the Committee's target on FTSE 100 and FTSE 250 companies having at least one ethnic minority director on the board, with 324 listed companies (all of the FTSE 100 and 224 of the FTSE 250) responding to the Committee's latest census. The Committee noted that 96 out of the FTSE 100 companies met their targets, with 49 of these companies exceeding the target by having more than one ethnic minority director on its board. With regards to FTSE 250 companies, 149 out of the 224 companies that submitted data (representing 60% of all FTSE 250 companies) currently meet the December 2024 target, with 28 of these companies already exceeding the target by having more than one ethnic minority director.

*(The author wishes to thank paralegal Queenie Je for her important contributions to this news item.)*

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