

# FCA steps up D&I reporting for listed companies and sets first targets

## AT A GLANCE

April 2022

### What's new?

- The FCA issued a [policy statement](#) on 20 April 2022, confirming it is introducing diversity and inclusion (D&I) rules requiring UK listed companies to report information and disclose against targets on the representation of women and ethnic minorities on their boards and executive management teams.
- The rules will apply to companies with premium or standard listings of equity (with some exceptions), for financial accounting periods starting from 1 April 2022.
- In response to industry feedback to its proposals consulted on in July 2021, the FCA is giving firms more flexibility in how they collect and report the data.

### What does this mean?

- Listed companies will be required to disclose against the following diversity targets, on a comply or explain basis:
  - at least 40% of the board should be women
  - at least one senior board position (Chair, CEO, CFO or Senior Independent Director) should be a woman
  - at least one member of the board should be from an ethnic minority background, excluding white ethnic groups (using ONS categories).
- The two targets for gender diversity are consistent with the FTSE Women Leaders Review targets for 2025, and the ethnic diversity target reflects the Parker Review.
- Companies will also have to publish in their annual report numerical information on the diversity of their board and executive management by gender and ethnicity, and to explain their approach to collecting the data
- The FCA provides guidance on its expectations of what this explanation should cover, but is giving companies flexibility in how they collect and report data. This includes allowing companies to decide whether to report gender data on the basis of sex or gender identity.
- In addition, the regulator is requiring companies to disclose the diversity policy for their key board committees (in addition to the policy for their board), and to encourage them to consider wider diversity characteristics within these policies.

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## What do firms need to do?

- Firms need to ensure that appropriate processes are in place to meet the requirements, including choosing a reference date for data collection.
- It is highly likely that, at least in initial years, a number of organisations will be unable to meet all of the targets set by the FCA. As such, many may need to explain non compliance with the targets at least in some years. In this context, it will be key to demonstrate plans towards compliance, and a wider commitment to a practical and stretching D&I strategy.
- Some companies may determine that the targets set by the FCA do not appropriately reflect their current demographics, or the geographies they operate in. They may decide to set targets and/or disclosures of equivalent or more stretch, taking into account their unique circumstances and the preferences of their investors. People analytics can assist companies with succession planning and creating meaningful, robust targets at any level.
- Firms will need to think carefully about their approach to data collection. This includes how they maintain the privacy of individuals, in particular where the firm is subject to multiple reporting requirements.
- The flexibility provided by the FCA will require firms to develop their own approach to data collection and categorisation. This may be challenging for firms wanting prescriptive guidance in the first instance, but in the long run may allow companies to reflect what categories and targets are right for them. This should include consideration of the legal permissibility and culture of the key jurisdictions in which they operate.
- Organisations can use this change as a catalyst for making meaningful and sustainable progress on D&I more broadly. In many cases, this will require a concerted effort to recruit more board members with diverse backgrounds or experiences, and a more strategic approach to developing a diverse pipeline of talent. Firms should also consider their operating model, including succession planning and the role of remuneration committees.
- Firms will need to consider any legal discrimination risk in the way they approach compliance, ensuring their actions do not amount to positive discrimination, which is unlawful in the UK.

## Next steps

In-scope companies are required to make the disclosures in their annual reports for financial years starting from 1 April 2022 – so they will start to appear in reports from Q2 2023 onwards. Separately, the FCA, PRA and Bank of England are due to consult on broader measures to improve D&I for all financial services firms, following a [discussion paper in July 2021](#). The consultation is due this autumn (delayed from Q2 2022).

[www.pwc.co.uk/regdevelopments](http://www.pwc.co.uk/regdevelopments)

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