NEW FINANCIAL
Rethinking capital markets

Summary of October 23rd diversity breakfast series: Disclosure

New Financial believes that diversity in its broadest sense is not only an essential part of running a sustainable business but a fundamental part of addressing cultural change in capital markets. This event in our breakfast series looked at public disclosure on diversity, referring to New Financial's research *Diversity Disclosure*, published in September. Please download a PDF by clicking here. The highlights of the discussion are below.

1) Disclosure is a sore spot across the board
Lack of disclosure isn't just a problem when it comes to diversity. The capital markets industry is (and always has been) reluctant to disclose data and information about its inner workings if it doesn't have to. The majority of the legislative work since the financial crisis has been focused on improving transparency, with the view that external scrutiny drives change. Fierce resistance to exposure is often the industry's default position and provides the context for any disclosure initiative, be it voluntary or regulatory.

2) Just the tip of the iceberg
Companies do plenty more to improve diversity than they are willing to talk about in a public forum, so we can't assume just because disclosure is so variable that little is being done to achieve a better balance among staff. Market participants have a real opportunity now to change the mindset around disclosure. External pressure is building to disclose at least a basic level of diversity data and information, with more detailed numbers being gathered and analysed internally.

3) Chicken and egg
What comes first, diversity disclosure or embracing diversity? Disclosure triggers discussions that otherwise wouldn't take place – for example, Columbia Threadneedle's gender diversity data announcement has challenged rivals to look at their own numbers and ask themselves serious questions. Once the numbers are in the public domain, more senior executives will be asked about them by shareholders, the media and other stakeholders. Leaders will have to be briefed on the main diversity issues and over time diversity will become an integral part of everyday business.

4) Encouraging useful disclosure
It is early days for diversity disclosure as a part of strategic reporting under the UK corporate governance code and there is still work to be done to improve the amount and quality of disclosure. More education about what good disclosure looks like would be very welcome. Market participants could do with a generic set of minimum standards as a starting point to get used to diversity data as just another business metric. New Financial's research shows there are companies leading the way, and we are working on a standardised model for diversity disclosure.

5) Where should disclosures sit?
New Financial's research found diversity disclosure across annual reports, CSR reports, diversity reports and corporate websites. Some firms bury information, others make it clear and accessible. One measure of how seriously a company takes diversity is the proximity of diversity reporting to the main body of results in annual reports. Although they are often criticised for their unwieldiness, lack of "materiality" and poor quality of HR reporting, diversity disclosure should be clearly signposted within annual reports to signal its importance to the running of the business.

6) Taking a holistic approach
A handful of numbers don't tell much of a story - the numbers need to be addressed in context. Just as different aspects of risk are analysed throughout an organisation's structure, leaders need to ask how diversity fits into the business as a whole. That business case then informs disclosures. And the fact that improving diversity is a long term game doesn't mean that interim progress cannot be measured and disclosed.

7) Disclosure of outcomes not just activity
New Financial's research found few firms set targets with deadlines or provide any analysis of their track record in meeting those targets. It is essential that diversity is measured in terms of what a company is trying to achieve and disclosing dynamic data. While requirements to disclose on a lot of targets may encourage a box-ticking approach, the data has to be granular enough to offer insight into business lines as group level numbers hide an all-female HR department and an all-male trading floor. It will be hard to work out what to measure and how, but difficulty is not a reason to not do it.

8) Lack of internal visibility on diversity numbers
Diversity numbers are often available to HR, but often only HR. They cannot be factored into the running of business lines let alone disclosed publicly, often because the legal team fears the data could be used in discrimination or equal pay suits (particularly in the US). Giving managers a clear view of how their teams measure up on diversity metrics compared to others could prompt some important internal conversations and be a potent force for improving diversity.

9) What will be the catalyst?
The disclosure movement is not going away. Momentum has grown as lobby groups, governments and regulators at national and EU level ask more and more detailed questions about diversity. Shareholders are beginning to actively engage on diversity themes. Clients are increasingly including diversity criteria in their procurement processes, and are asking the big financial services companies to share best practice around diversity and inclusion. The biggest US pension funds are including diversity questions in their due diligence processes when appointing intermediaries. No company can ignore its stakeholders for long.

10) The role of the regulator
Is there a role for the regulator in encouraging diversity? Prescriptive disclosure requirements foster a compliance culture, but that could be a platform from which to build. Regulated companies already disclose reams of sensitive data on a confidential basis, so diversity data could easily be added to the list. In Australia, listed companies are required to report their progress against targets, and the UK Government's review of women in financial services is floating a similar proposal. Nothing sends shivers up the spine of capital markets participants like the threat of regulatory intervention – voluntary disclosure could be a way to avoid it.

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