

United States



GLASS LEWIS

Approach to
Diversity Disclosure Ratings

An Overview of the Glass Lewis Methodology for Assessing
Proxy Statement Disclosures Related to Board Diversity

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Preface

Because company disclosure is a critical aspect of assessing the mix of diverse attributes and skills of directors, Glass Lewis will begin tracking the quality of board diversity disclosures in company proxy statements.

This document provides insight into our approach to assessing proxy statement disclosures relating to board diversity, skills and the director nomination process. The information in this document serves as supplemental, supporting information relating to how Glass Lewis applies its published [proxy voting guidelines](#).

This document does not replace our existing voting policies relating to board composition or proxy disclosure, and does not guarantee how Glass Lewis may apply our voting policies.

Background

Beginning with the 2021 proxy season, our Proxy Paper reports for companies in the S&P 500 index will include an assessment of company proxy statement disclosures relating to board diversity, skills and the director nomination process. Specifically, we will reflect how a company's proxy statement presents: (i) the board's current percentage of racial/ethnic diversity; (ii) whether the board's definition of diversity explicitly includes gender and/or race/ethnicity; (iii) whether the board has adopted a policy requiring women and minorities to be included in the initial pool of candidates when selecting new director nominees (aka "Rooney Rule"¹); and (iv) board skills disclosure. We will not be making voting recommendations solely on the basis of this assessment in 2021; however, such ratings will help inform our assessment of a company's overall governance and may be a contributing factor in our recommendations when additional board-related concerns have been identified.

Please find more details below concerning our assessment of each category.

Update: February 8, 2021. We have revised the Race and Ethnicity Disclosure section to delineate the two scenarios previously captured under "Aggregate" disclosure, by adding a fifth option - "Combo/Individual". This captures scenarios where diversity disclosure is provided on an individual basis, but it is not clear what measures of diversity are represented. Previously, this scenario would have been reflected in our reports as "Aggregate" disclosure.

¹ The Rooney Rule is a National Football League policy that requires league teams to interview ethnic-minority candidates for head coaching and senior football operation jobs.

Race and Ethnicity Disclosure

There has been a growing demand for additional disclosure concerning director attributes, particularly those related to the racial and ethnic background of directors. Recent regulatory developments, such as boardroom diversity laws passed in California², require shareholders to assess the diversity of boards. However, without sufficient disclosure on a board's self-identified racial and ethnic composition, shareholders are unable to accurately ascertain how boards are performing in this important area. Through engagements with companies and with recent initiatives like Illinois' Russell 3000 Board Diversity Disclosure Initiative³, shareholders are seeking to bridge this gap in disclosure. Glass Lewis believes that such disclosure provides a basis for shareholders to make these crucial determinations. Our assessment of race and ethnicity disclosure will consider the following:

- Individual – Racial/ethnic diversity of directors is disclosed on an individual basis.
- Aggregate – Racial/ethnic diversity of directors is disclosed on an aggregate basis but does not identify specific directors.
- Combo/Individual – Diversity disclosure is provided on an individual basis but it is not clear what measures of diversity are represented.
- Combination – Diversity disclosure is provided on an aggregate basis and it is not clear what measures of diversity are represented.
- None – No data is provided in the proxy statement regarding racial/ethnic backgrounds of directors.

Diversity Considerations for Director Candidates

Item 407(c)(2)(vi) of the U.S. Securities and Exchange Commission's Regulation S-K requires a description of how a board implements any policies that it follows regarding the consideration of diversity in identifying director nominees. In part because many boards of U.S. public companies do not have formal diversity policies and no regulatory requirement compels boards to adopt such a policy, compliance with this disclosure requirement has for years been achieved by many issuers with a small amount of relatively boiler-plate disclosure in the proxy statement. However, companies have begun including more specific disclosure about what measures of diversity and background characteristics are considered. We believe that gender and race/ethnicity are important diversity considerations in the director nomination process.

- Gender and Race/Ethnicity – Both are expressly included in the definition of diversity that is considered in the director search process.
- Gender – Gender, but not race/ethnicity, is included in the definition of diversity that is considered in the director search process.
- None – Neither gender nor race/ethnicity are expressly included in the definition of diversity that is considered in the director search process.

² [California Senate Bill 826](#), [California Assembly Bill 979](#)

³ [Illinois State Treasurer Russell 3000 Board Diversity Disclosure Initiative](#)

Rooney Rule

Some of the largest U.S. public companies have begun to include proxy statement disclosure highlighting the considerations they employ to ensure that women and racial/ethnic minorities are included in the initial pool of director candidates when nominating new directors, also known as the Rooney Rule. We will generally note that a company has adopted such a rule where a formal commitment is included in the proxy statement or otherwise enshrined in the charter of a board's nominating committee. This may take the form of an official Rooney Rule or equivalent policy that ensures women and minorities are included in the initial pool of director candidates considered when nominating new directors.

- Yes – The company discloses in its proxy statement that it utilizes a formal Rooney Rule in its director search process, or otherwise, the nominating committee is bound by a committee charter which expressly states a commitment to include diverse candidates in its director search pool.
- Not disclosed – No such disclosure is provided in the proxy statement or relevant committee charter.

Director Skills Disclosure

A growing priority for many investors in recent years has been standardized disclosure of director skills. Shareholder campaigns and initiatives like the Boardroom Accountability Project⁴ have pushed companies to provide clear, concise representations of key knowledge and expertise that individual directors exemplify. These efforts have had an impact on proxy statement disclosure as it has become increasingly commonplace for many U.S. public companies to now disclose a director skills matrix. Our categorization for a skills disclosure assessment will consider the following:

- Skills Matrix – A single table which identifies each director's knowledge and proficiency in specified skills.
- Individual – Individual director biographies contain standardized skills disclosure which could be tabulated into a single table.
- Aggregate – Aggregated information that indicates how many directors have a particular skill but does not identify which directors have those skills.
- None – No standardized, tabulatable skills data is provided in the proxy statement.

⁴ [New York City Comptroller - Boardroom Accountability Project Overview](#)

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