

United States



GLASS LEWIS

Diversity Disclosure Assessments

2021 Findings

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Background

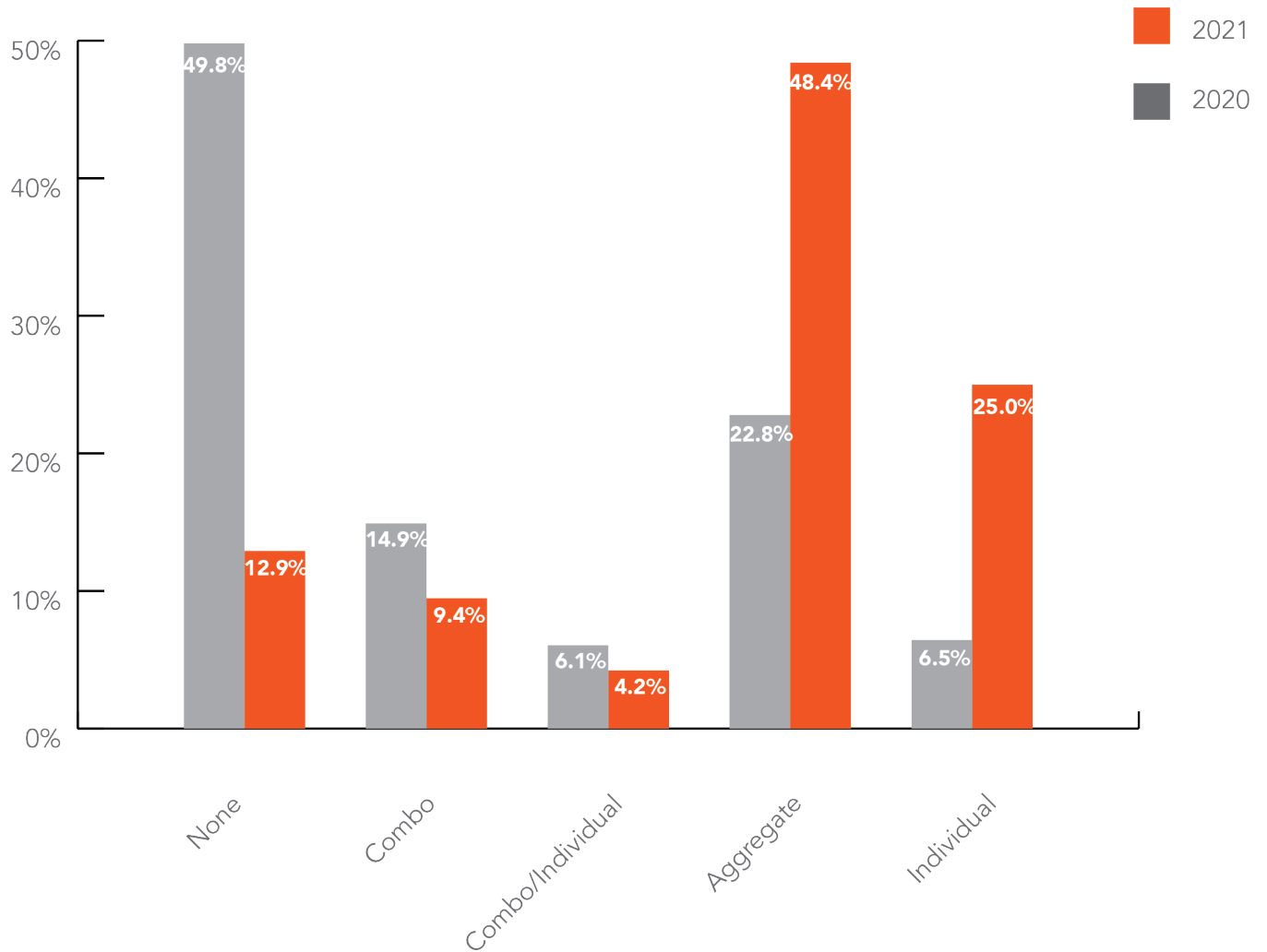
Because company disclosure is a critical aspect of assessing the mix of diverse attributes and skills of directors, Glass Lewis tracks the quality of board diversity disclosures in company proxy statements.

Our 2021 Proxy Paper reports for companies in the S&P 500 index included an assessment of company proxy statement disclosures relating to board diversity, skills, and the director nominating process. Specifically, we reflected how a company's proxy statement presented the following features:

- Director Race and Ethnicity Disclosure: the board's current percentage of racial/ethnic diversity;
- Diversity Considerations for Director Candidates: whether the board's definition of diversity explicitly includes gender and/or race/ethnicity;
- Rooney Rule or Equivalent: 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;
- Director Skills Disclosure (Tabular): board skills disclosure.

This document provides insight into our findings for 2021 from these assessments of S&P 500 companies' proxy disclosures.

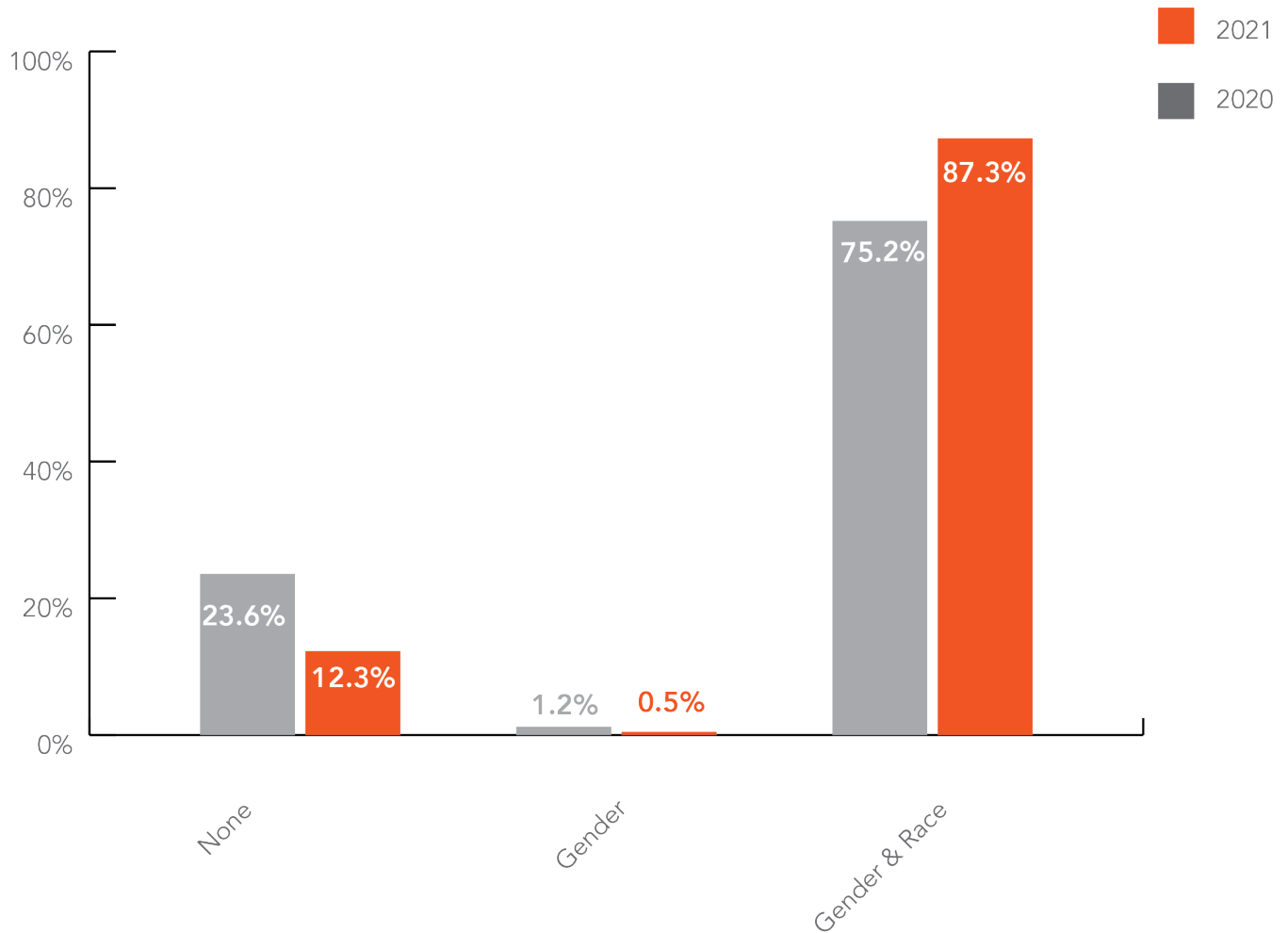
Director Race and Ethnicity Disclosure



- 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.

Approximately 74% of the S&P 500 disclosed board racial/ethnic diversity on an individual or aggregate level. This represents an extremely fast shift in the index. “None” was the dominant category in 2020, as companies did not provide this data.

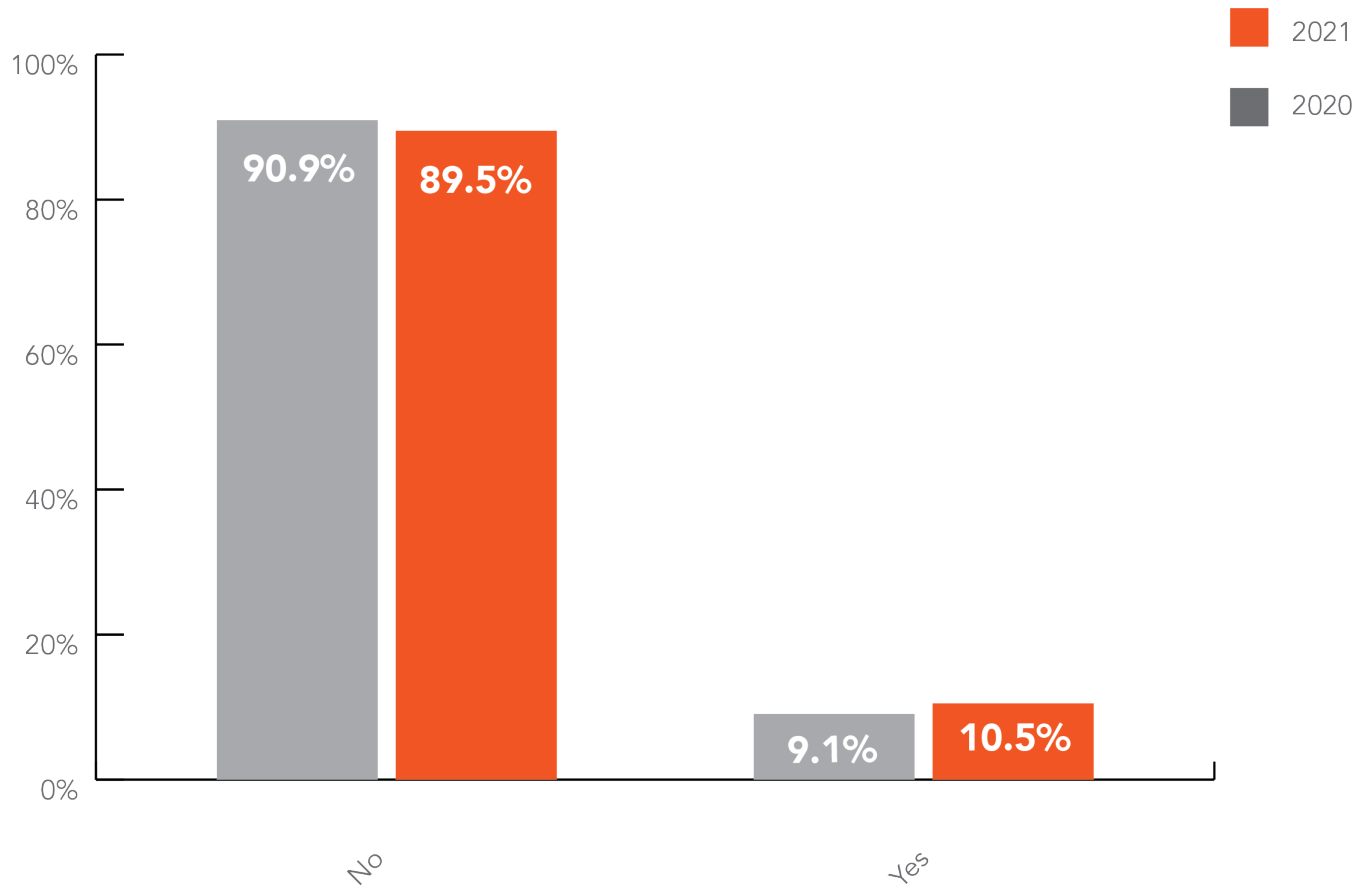
Diversity Considerations for Director Candidates



- 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.

Approximately 12% more companies provided a definition/explanation of how diversity is considered for the director search process in 2021 compared to last year, allowing shareholders to understand the factors the board considers when selecting director candidates.

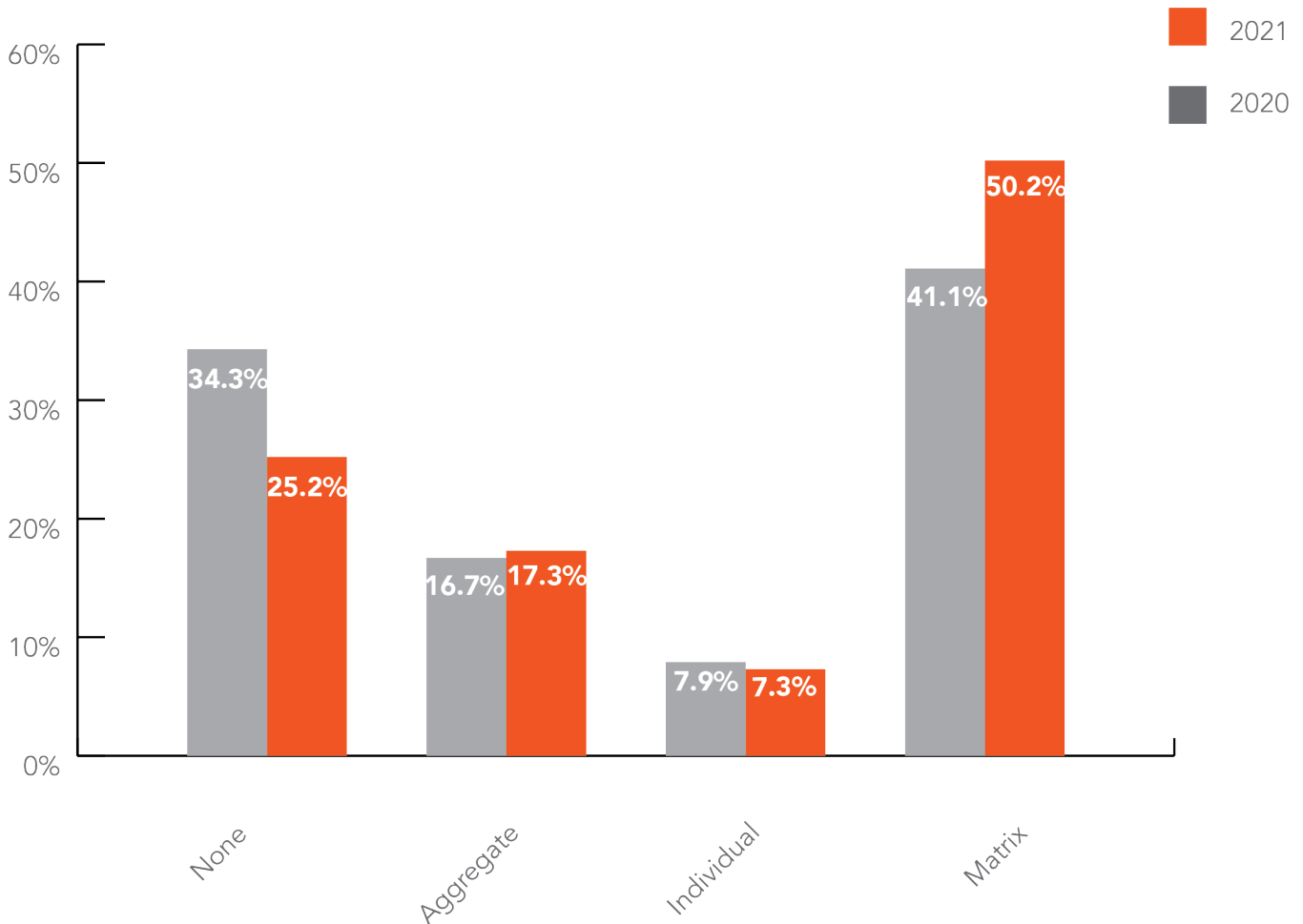
Rooney Rule or Equivalent



- Yes – The company discloses in its proxy statement, nominating committee charter, or corporate governance guidelines that it utilizes a formal Rooney Rule in its director search process, or expressly states a requirement to include diverse candidates in its director search pool.
- No – No such disclosure is provided in the proxy statement or relevant committee charter.

The Rooney Rule feature is the least common feature across the diversity disclosure assessment, and the area where we saw the least amount of change from 2020 to 2021. However, in our review of proxy disclosures, we observed that although many companies did not require that minority candidates be included in the initial pool of candidates, they did commit to including minority candidates in such pools. As such, we determined to add a third category for this feature in our 2022 reports, “Commitment”. This represents when a company discloses in its proxy statement a commitment to include diverse candidates, or otherwise, the nominating committee is bound by a committee charter which expressly states a commitment to include diverse candidates, in its director candidate pool.

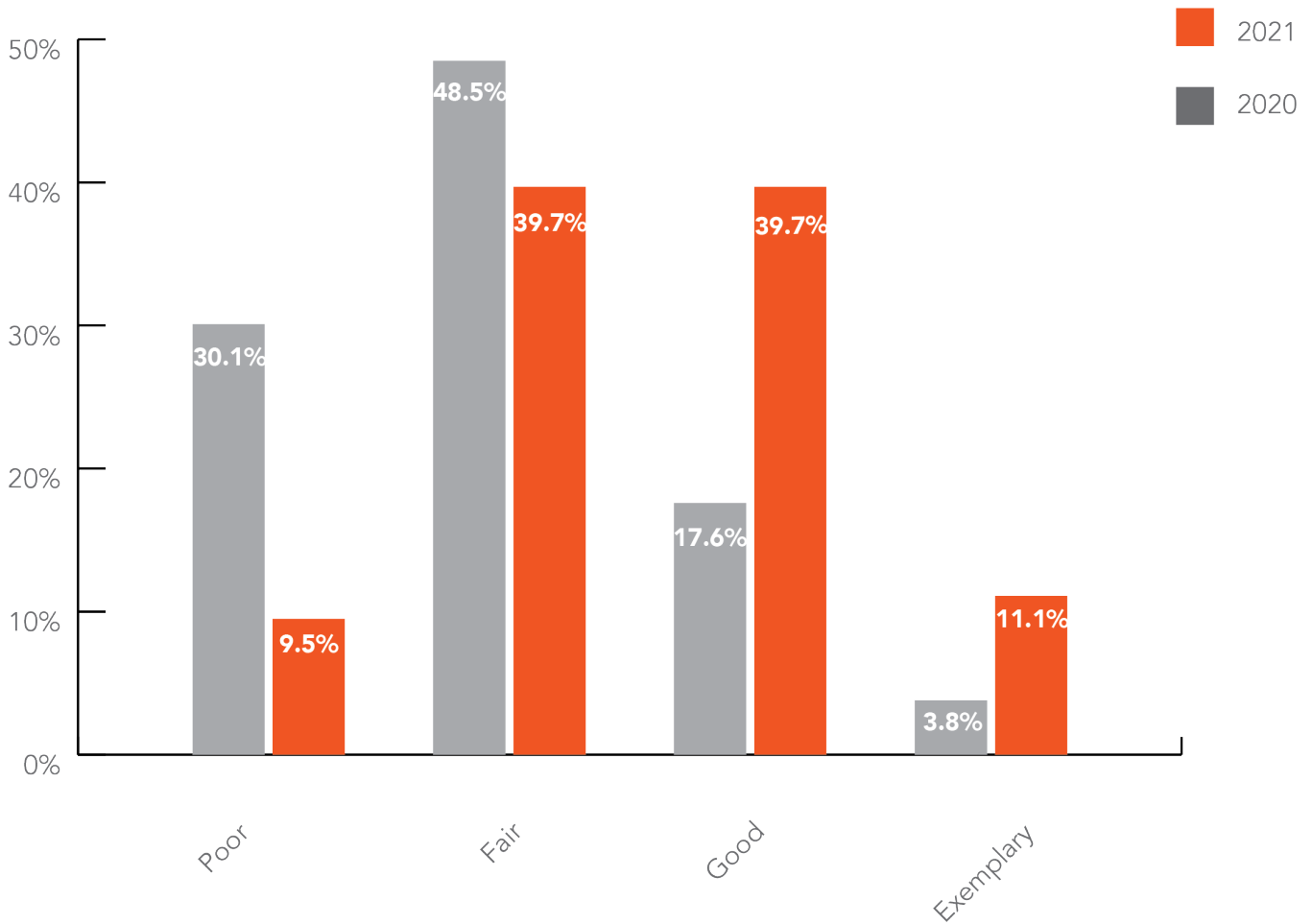
Director Skills Disclosure



- 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.

We have seen a steady increase in the number of companies disclosing tabular skills matrices which identifies director skills at an individual level over the past few years. Following that trend, we found that just over half of the S&P 500 disclosed skills in this way in 2021. Investors tend to favor a tabular skills matrix over other skills disclosure as it allows shareholders to quickly see a complete composition of skills on the board.

Overall Ratings



Overall, we found a noticeable improvement in S&P 500 disclosures on director diversity and skills. While over 30% of companies received a “Poor” rating in 2020, less than 10% received one this year. Further, most companies received a “Poor” or “Fair” rating in 2020. A vast majority of companies received a “Fair” or “Good” rating in 2021, a rapid improvement in overall disclosure on these topics.

Looking Ahead

Lack of diversity in American boardrooms has been an area of investor concern, and in recent years, there has been increasing pressure on companies to improve board disclosure and best practices in this area. As seen in our diversity disclosure assessments, S&P 500 companies included more information and metrics about the composition of the board, skills, and diversity considerations in 2021.

In the 2022 proxy season, we expect to see the trends within the S&P 500 continuing to rise, with more companies disclosing the racial/ethnic composition of the board, for example. We also expect the wider market to follow suit, and accordingly we have expanded our diversity disclosure assessment to all companies in the Russell 1000 index. We are seeing increasing legislation and exchange requirements in this area as well.

The Nasdaq proposal approved by the SEC in August 2021, which requires companies listed on the exchange to disclose board racial/ethnic demographic information, will come into effect in August 2022. Following the SEC's approval of the Nasdaq rule, we continue to monitor whether other exchanges or the SEC will adopt similar rules addressing board diversity and disclosure.

In time, we believe that these disclosures will become standard to include in proxy statements, and that providing less robust disclosure than peers could be an indication that a company has gaps in skills, backgrounds, experiences, or diversity that the board does not want to make apparent to shareholders. We expect to see that investors are increasingly willing to hold boards accountable for board composition, diversity and disclosure in the 2022 proxy season.

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