Parallelle® Lines

Monthly Q&A on Gender Lens Investing with Parallelle Finance

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What is Nasdaq's new board diversity rule?

On Friday the SEC approved Nasdaq's groundbreaking proposal from December 2020 on diversity disclosures for new listed companies. Under the rule, most listed companies will be required to have at least two diverse directors or explain in writing why they don't. These must be one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+. Prior to the proposal, Nasdaq found that more than 75% of its constituents would not meet these requirements, although most had at least one female board director. In particular, small-cap companies were found to have the most work ahead to meet the proposed thresholds. The exchange adjusted some of the requirements for smaller companies and foreign issuers.

What is the importance - and current pace - of corporate board diversity?

A wide body of research has demonstrated that higher women in leadership (WIL) metrics at the board and executive levels are related to higher share price performance and better results on several fronts. These include higher ROE, better profitability, lower incidences of fraud, and better risk management. Despite the proven performance and profitability benefits associated with gender diverse leadership, corporate WIL metrics have risen from historic lows, but progress is very slow. Among S&P 500 companies, women comprised 6% of CEOs as of January 2021, holding 28% of board seats as of December 2020, up from 26% in 2019. Several rationales for the slow pace have been put forth. One is a lack of broad-based acceptance of the business case for gender diversity in leadership, even in the face of ongoing WIL research. An absence of policy support is another. Third, many point to persistent discrimination in hiring and promotion. Corporations require a push.

Are board diversity rules and mandates effective?

In the face of stubbornly slow advancement for women in corporate leadership, we believe mandates and listing requirements have a role to play. For example, in 2018 the State of California issued requirements for board gender diversity in stages. At that time a quarter of the state's public companies had no women on their boards. Since the law was enacted, female corporate directors have nearly doubled. Despite legal challenges, more than ten other states have also passed or introduced similar measures. Some are centered on mandatory disclosure of board diversity information, with five states considering mandatory requirements similar to California's.

Have other stock exchanges enacted board guidelines?

Subsequent to the Nasdaq proposal, the U.K.'s Financial Conduct Authority (FCA) has raised a proposal to require listed companies to comply with board gender and ethnicity diversity targets or provide an explanation, as well as to publish diversity data on their boards and executive management. In addition, a subcommittee of the SEC has recommended the adoption of required disclosure of gender and racial diversity of mutual fund boards, reiterating studies showing that diverse investment management teams deliver equal or superior results as non-diverse teams. Prior to the Nasdaq proposal, in 2019 the NYSE established an advisory council to help its constituents find diverse board candidates. New Zealand and Australia recommend diversity policies for listed companies and disclosures on compliance with diversity recommendations. Malaysia requires diversity policies in order to list. Egypt now requires companies to have at least one female board member to list on the exchange.

How can investors capture the rewards of gender-diverse corporate leadership?

Parallelle Finance covers performance and composition of public sector gender lens and diversity, equity and inclusion (DEI) investments. A suite of gender lens equity funds (GLEFs) focuses on investing in companies with higher levels of WIL. A collection of DEI equity funds have stated objectives on investing in companies with strong DEI policies. In addition to equity funds, there is a growing array of private and public gender lens fixed income funds and products. These include U.S. and emerging markets funds, gender bonds issued by banks and development finance institutions (DFIs), U.S. notes and certificates, and a lending platform.

Moreover, a number of global asset managers have announced policies for voting against non-diverse boards. These include Blackrock, Vanguard, Legal & General, Fidelity International, AXA Investment Managers, Federated Hermes, and Lyxor Asset Management. Leading institutional corporate governance stewards, including Institutional Shareholder Services (ISS) and Glass Lewis, have adopted similar guidelines on proxy voting against boards lacking in diversity.

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