EXCLUSIVE As fund board diversity lags, U.S. SEC advisers push for details on race, gender

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July 6, 2021

Mutual fund boards would be required to disclose information on the gender and racial diversity of their directors under a rule change recommended to the top U.S. securities regulator.

The suggestion from an advisory subcommittee of the U.S. Securities and Exchange Commission, which would need further approval, goes further than subcommittee members had outlined in the spring and mirrors a growing focus from other quarters on the financial industry's lack of diversity.

At present, there is "virtually no representation of women and minorities" on the boards that set policies across the $29.3 trillion U.S. mutual fund industry, Gilbert Garcia, chair of the subcommittee and managing partner of a Houston investment firm, said in an interview late on Monday.

Garcia said the subcommittee does not have a specific set of disclosures in mind, but said in general more data should lead to more diversity. "The theory is that by shining transparency on this, market forces will change the makeup" of boards, he said.

The push for new information is in line with other steps aiming to show the lack of women and minority representation in many realms of U.S. business. A new Illinois law requires public companies headquartered in the state to list the race and gender of each director, for instance. read more

Fund boards are distinct from the directors who run publicly traded asset-management businesses like BlackRock Inc (BLK.N) or T. Rowe Price Group (TROW.O), and traditionally face less public scrutiny. Fund boards oversee areas like the fees that funds pay to managers and their performance.

Garcia had said on March 19 the subcommittee would likely recommend other changes including having investment advisers report on the race and gender of officers. read more

That idea remains among the official recommendations the subcommittee has made to the SEC's asset management advisory committee ahead of its Wednesday meeting, according to a subcommittee report.

Other recommendations include calls for demographic details on fund firm workforces, for new SEC guidance on how asset managers are chosen, and for a study of how political contribution rules could influence asset allocation at the expense of smaller firms owned by women and minorities.

NEW METRICS FROM WASHINGTON

Gary Gensler, the SEC chair appointed by U.S. President Joe Biden this year, said at a conference last month he has asked staff to propose "human capital disclosure" details that could include information on diversity and other workforce demographics. read more

Skeptics worry Gensler and other officials will adopt regulations that are hard to enforce on areas outside of traditional finance. Beyond social issues like board room diversity these include climate change considerations and executive pay metrics. read more

Speaking on a panel organized by the conservative-leaning Competitive Enterprise Institute on Tuesday, which was webcast, Jennifer Schulp, director of financial regulation studies at the Cato Institute think tank in Washington, said the SEC could move too quickly or overstep its mandate.

"We're going to suffer from haste here," she said.

A survey from February by the Investment Company Institute, a fund industry trade group, and the affiliated Independent Directors Council found women represent 30% of all independent fund directors and that racial minorities represent 11%, although both figures rose significantly among independent directors who were nominated and started serving in 2019.

Asked about the subcommittee's recommendations, Thomas Kim, the IDC's managing director, said in an emailed statement that it has a working group on diversity and inclusion that is "committed to take actionable steps to foster a more diverse and inclusive fund director community. We also look forward to working with others in the industry, including the SEC, on this important issue."