

EuropeanIssuers

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‘EU firms will not simply smile and comply to the BlackRocks’

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Luc Vansteenkiste and Florence Bindelle, respectively chairman and secretary general of EuropeanIssuers, tell Asset News that European public companies will not accept the ethnic and racial-focused demands of US asset managers.



Luc Vansteenkiste and Florence Bindelle, chairman and secretary general of EuropeanIssuers (EuropeanIssuers)

Asset News: US asset managers are calling on US and UK listed companies to disclose the ethnic and racial composition of their boards. Where does EuropeanIssuers stand today in regards of diversity and inclusion within boards?

Luc Vansteenkiste: To start with, we do not have the US ethnic and racial issue on our minds at all since we see no emergency to look at it. Europe is made of 27 countries, it means therefore 27 ethnicities working together and that has been the case for quite some time. We are used to work with individuals from Romania, Spain, the Netherlands or whatever EU country on our boards. Thus, ethnicity is certainly not a problem on boards of European companies. Some actually already disclose the ethnic composition of their boards in their annual reports on their own. Thus, we never had to consider the topic at the exception of the gender male/female diversity question. The gender diversity question has now been more or less settled through local corporate governance laws, which are almost similar across EU countries and rely on a “comply or explain” approach.

What about the racial disclosure?

LV: Racial disclosure is a different issue. For US companies, there is a context. The public has seized racial issues in discussions. It is still a very recent phenomenon, which has been under the surface for a long time and exacerbated under Trump administration. In a way, US asset managers try to avoid troubles or being attacked, hence they walk away and reject responsibility on companies like some of them do for several topics including sustainability. Now, the racial disclosure issue is surely interesting but I do not think that in Europe, someone would find interest in knowing whether a dark-skinned individual or a LGBT community member is sitting on the board of a European company. That is not a relevant issue for us today, we have never thought of carrying out a study on this and we still don’t.

“We cannot force a board member to declare for example his/her sexual orientation.

Wouldn’t board racial disclosure also be a sensitive topic in Europe because of our history?

LV: You cannot simply bring all social issues at company board level. We inherited our past and we cannot change it but we can try to handle it correctly. If firms start looking at all history troubled periods and ask themselves how they are perceived outside today, we are going the wrong way.

Are European issuers facing pressure from US asset managers already on ethnic and racial board disclosure?

LV: None of our members has reported pressure from the US asset managers yet. The calls of US asset managers focus primarily on the US and on the London Stock Exchange for now.

Would Euronext follow Nasdaq’s request to the SEC?

LV: Euronext has never requested anything as such from us. Euronext will be reluctant to move towards this direction even if US asset managers ask for it. The governance bodies of 27 countries would inevitably question such a move. Moreover, in Europe, we value two fundamental principles. First, equality of treatment of individuals is enshrined in our local basic laws. Secondly, Europeans value the General Data Protection Regulation far more than Americans do. We cannot force a board member to declare for example his/her sexual orientation. Also, it is not rare in Europe to have board members with two or three nationalities. How do you count them?

“European companies will become mad if they are forced to appoint individuals from a very specific community on their boards.

Yet, some US investment managers have plans to ask European issuers to disclose ethnic and racial composition of their boards after US and UK firms. What will happen if they do so?

LV: If such demand comes around, the European community will commonly decide upon it. The request will be transferred to the local financial market authorities then to the European Commission before eventually ending up at the EU court of justice. Anything pertaining to more transparency in company reports is currently in the hands of European authorities, which are trying to achieve a harmonised capital markets union.

We also stress European institutional investors like Norges Bank starting to push for more board diversity... [For Norges Bank, non-diverse boards may lose the trust of customers, investors, and society in the long-term horizon, ed.]

LV: EU firms must take into account a number of social components on their boards like gender diversity (men/women). We have seen a domination of male board members with a uniformed vision for years. We have solved this matter more or less over the last 20 years. The racial issue is dangerous in a sense it could drive companies into inefficient processes that will prevent them to reach their real targets on the economic side. European companies will become mad if they are forced to appoint individuals from a very specific community, like non-gendered for instance, on their boards. First and foremost, board members must demonstrate skills and need to be effective on the board. If that principle falls, everything falls. US asset managers may try the blackmail option by telling European companies they will not invest in them because they do not have any dark-skinned or Asian individual on their boards. We will not let them do this.

“We must ever more pay attention to responsibilities of board of directors following the Wirecard scandal.

Are US asset managers drifting away with their ethnic and racial requests?

LV: We need to be cautious with all that comes from the United States and must not take it as the one-size-fits-all approach. Ways of working and considering things are different in and outside the US. We do not caution certain shareholding practices in place in the US. US asset managers’ requests could not last long in the UK because of Brexit. Firms listed on London Stock Exchange will most probably react and stand against the US asset managers’ requests. The same will occur in Europe. EU firms will not simply smile and comply to the BlackRocks of this world.

Florence Bindelle: Some developments regarding social aspects are already tackled as one of the points addressed in the EU upcoming sustainable corporate governance rules. We are sitting within the oversight committee of the Best Practice Principles for Shareholder Voting Research & Analysis Group (BPP) that draft guidelines on ways proxy advisors exercise analysis and which have a huge impact on EU issuers. We commented regularly as the way the topic is addressed does not fit the European companies provided differences in regulation and work environment.

We must ever more pay attention to responsibilities of board of directors following the Wirecard scandal. One must not forget that the whole of a board must have competences to run a company. Board composition is diverse by the nature of its activities and strategic development in the various markets and fields where it operates. As such, diversity of competence and experience matters to achieve a long term sustainability.