



## Top 10 Topics for Directors in 2019: Board Diversity

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For example, in 2018, BlackRock, Inc., among the world's largest asset managers, added to its 2018 U.S. [proxy voting guidelines](#) an expectation to see at least two female directors on every board and wrote to the nearly 300 companies in the Russell 1000 with fewer than two female directors asking them to explain their board diversity efforts. BlackRock has also voted against directors over diversity concerns in recent years both in the United States and abroad, for example, by voting against directors of 52 companies in Europe, the Middle East and Africa (EMEA) with male-only boards in the first half of 2017. Other stakeholders, including Vanguard, State Street Global Advisors, the New York City Pension Funds, the California Public Employee Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), have also engaged with companies, withheld votes from directors and/or taken similar steps to promote board diversity and accountability.

With respect to proxy advisory firms, Glass Lewis updated its U.S. board gender diversity policy in its [proxy paper guidelines](#) to take effect in January 2019. Under the new policy, Glass Lewis will generally recommend voting against the nominating committee chair of a board with no female members and may recommend voting against other nominating committee members depending on other factors. In 2018, Institutional Shareholder Services (ISS) began highlighting boards with no gender diversity, but did not make adverse vote recommendations on director elections on that basis. However, ISS has published new [Americas proxy voting guidelines](#) for shareholder meetings of Russell 3000 and S&P 1500 companies held on or after February 1, 2020 (following a "grace period" in 2019). Under the new policy, ISS would generally recommend voting against, or withholding votes from, the

chair of the nominating committee (and potentially other directors on a case-by-case basis) at companies with no female directors on the board.

Two of the main approaches taken by governments to promoting board diversity are quotas and disclosure. A number of countries in continental Europe follow the first approach with legislated board quotas, including France, Spain, Norway, Iceland, Italy, Germany and the Netherlands. In addition, California passed a law in September 2018 (SB 826) requiring California-based public companies to have at least one female director by the end of 2019 and at least one, two or three female directors by the end of 2021, depending on the size of the board.

By comparison, the United Kingdom and the United States (with the recent exception of California) follow the second approach, requiring companies to disclose certain information and allowing investors to evaluate the disclosure and underlying policies. In the United States, SEC rules (specifically, Item 407(c)(2)(vi) of Regulation S-K) require public companies to describe the nominating committee's process for identifying and evaluating director nominees (including whether and how diversity is considered) and, if the company has a diversity policy for identifying nominees, how the policy is implemented and how the effectiveness of the policy is assessed.

Corporate governance groups, investors, regulators and other stakeholders continue to focus on board diversity. Externally, companies should review their applicable diversity-related obligations and investor preferences. Internally, companies should assess their diversity policies and the composition, refreshment and nomination processes for their boards.

In particular, companies may consider developing a framework to identify and recruit appropriately diverse candidates for the board. For example, Amazon recently joined Facebook, Uber and other high-profile companies by adopting a form of the "Rooney Rule" (a policy first established by the National Football League in 2003) to ensure that the initial candidate list for its board seats includes qualified women and minorities. Finally, although some directors may view board diversity as a "check-the-box" exercise, pressure to meaningfully improve board diversity has increased in recent years, and that trend appears likely to continue in 2019 and beyond.

View the full report [here](#).

## Categories

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