GENDER PAY EQUITY:

Assessing Corporate Transparency and Performance

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In recognition of the recently observed Women's History Month in March and the United Nations-recognized International Women's Day (March 8), ISS-Corporate reviews the state of pay equity practices based on corporate disclosures, with a focus on gender. The analysis includes an overview of legislation and shareholder initiatives that influence gender pay gap disclosures, while also sharing a review of disclosure data across geographic regions, as well as quantitative gender pay gap figures for publicly held companies.

KEY TAKEAWAYS

- Regulatory mandates are set to transform pay equity disclosures, including increasing requirements for gender pay gap information in various jurisdictions.
- Gender-pay-gap disclosures tend to reflect established and emerging regulatory reporting requirements, but many companies make disclosures voluntarily, prompted by an increasing demand for transparency by investors and other stakeholders.
- Disclosure levels vary significantly by region and by sector. In North America, where disclosures are voluntary, companies in the Financial, Real Estate, and Health Care sectors demonstrate the highest levels of disclosure.
- Many companies have proceeded to manage and disclose pay equity as a sustainable business practice to protect against risks and to capture opportunities in their human capital management programs.

Calls for Pay Equity Disclosures

Pay equity is defined as the fair remuneration of employees who perform similar work, regardless of gender, race, and other characteristics such as disability. In practice, pay equity challenges may vary by region and by industry. Many organizations face pressure from key stakeholders, including regulators and investors, to improve on both pay *transparency* (publicly disclosing pay practices and pay equity data) and *performance* (the extent to which these disclosures demonstrate equity within the organization).

A recent increase in pay equity-related regulations around the world demonstrates the increased focus on the topic, with examples listed below:

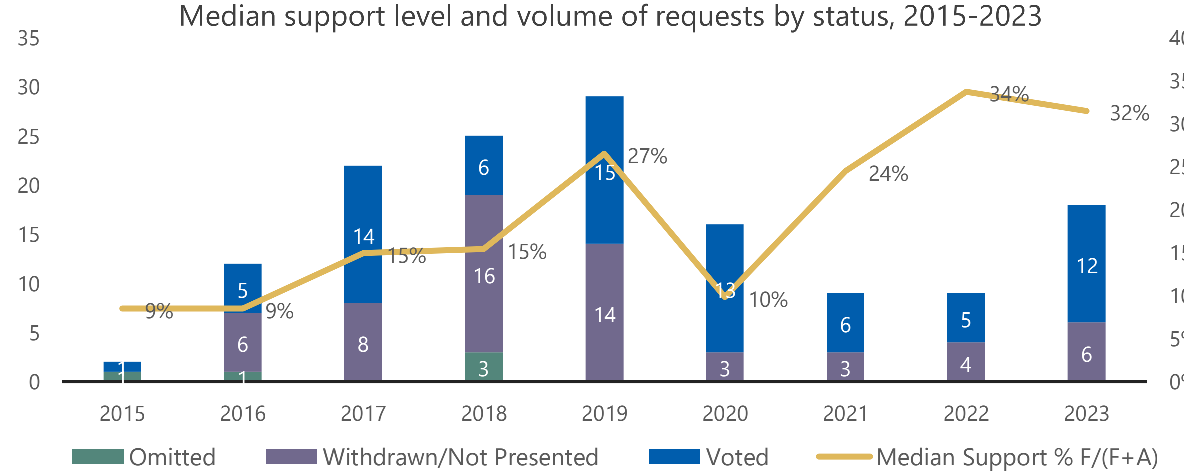
- **European Union:** Directive on Pay Transparency (2023); European Sustainability Reporting Standards (2023)
- **Brazil:** Equal Pay Law (2023)
- **United States:** requirements in several states and cities for employers to disclose salary ranges (e.g., New York State, 2023)
- **Japan:** Act on Promotion of Women's Participation and Advancement in the Workplace (including transparency-related revisions, 2022)
- **New Zealand:** Equal Pay Act (including 2020 update on testing pay equity)
- **Canada:** Federal Pay Equity Act (2018); provincial pay transparency laws
- **Australia:** Workplace Gender Equality Act (2012, amended in 2023)

In addition to regulations, sustainability-related standards also call for companies to provide pay equity disclosure. For example, the GRI standard on Diversity and Equal Opportunity (GRI 405) includes *Disclosure 405-2: Ratio of basic salary and remuneration of women to men*. This standard requires reporting organizations to include (a) this ratio for each employee category, by "significant locations of operation," and (b) how the organization defines "significant locations of operation."

In recent years, U.S. companies have experienced an increase in shareholder proposal campaigns on pay equity. Initially, these proposals focused explicitly on gender pay equity and requests for transparency on the gender pay gap. Starting in 2019, the scope of pay equity proposals broadened to cover reporting on both gender and race. Support levels have increased steadily, from a median of 9% of votes cast in 2015 to 32% in 2023, including several proposals that received majority support. In the 2015-2023 period, 43% of proposals on pay equity reporting were withdrawn, possibly indicating an agreement between the proponents and companies. The withdrawal rate for pay equity requests is notably higher than all environmental and social shareholder proposals for the same period (29% of requests withdrawn).

Pay Equity U.S. Shareholder Proposals

Median support level and volume of requests by status, 2015-2023



Source: ISS-Corporate Voting Analytics

Disclosure Varies Across Regions, Size, and Sector

To provide insight into the rate of gender pay gap disclosure, ISS-Corporate analyzed 7,738 companies across Asia, Europe, North America[1] and Oceania.

Companies demonstrate various degrees of gender pay gap disclosure including non-disclosure, partial disclosure, or full disclosure.[2] Roughly 12% of the 3,650 North American publicly held

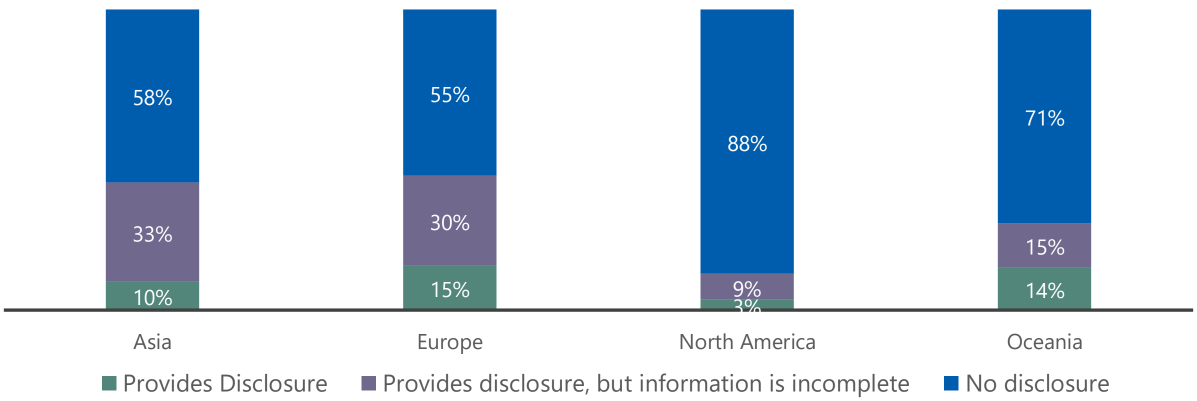
[1] For the purposes of this document, North America corresponds to USA and Canada companies exclusively.
[2] Companies may choose to partially disclose (for example, providing gender pay gap figures for a subset of employees or presenting information on bonus pay and not salaries), or the information provided may be unclear. In those cases, the analysis classified disclosure as "Yes, but information is incomplete".

companies in the dataset disclose their gender pay gap to some degree, noticeably lower than public companies in Asia (43%), Europe (45%), and Oceania (29%). Disclosures in the U.S. and Canada are largely voluntary (except for federally regulated Canadian firms). Disclosure levels in Europe are expected to increase significantly in the coming years due to reporting requirements under European Sustainability Reporting Standards and the EU Pay Transparency Directive.

Gender Pay Gap Disclosures by Region

Percentage of companies by gender pay gap disclosure status and by region

Coverage: 7,738 companies in ISS E&S Raw Data Coverage Universe



Source: ISS E&S Raw Data, as of February 29, 2024

Disclosure levels tend to reflect regulatory requirements in various markets. Countries with established mandates rank highest in prevalence of reporting gender pay gap figures, as anticipated. These jurisdictions include the United Kingdom, Italy, South Korea, Norway, France, and Japan, with several of these reporting requirements introduced in recent years.

Reporting requirements vary in scope from one jurisdiction to another. Canada requires only federally regulated private employers to report gender pay gap information, while in Switzerland reporting is required once every four years, but employers are exempt from disclosing if equal pay requirements are deemed to have been met.[3] Sweden requires companies to conduct annual surveys and audits on equal pay, but they don't have to disclose the information to the public.[4]

Regulatory requirements in relation to pay equity disclosures continue to evolve. In Australia, new gender-pay-gap reporting rules take effect in 2024, so the relevant data is expected to change this year. In the EU, the Pay Transparency Directive will take effect in 2026 and is set to transform the reporting landscape. The new initiative requires companies in the 27 member states not only to report on the gender pay gap, but also to provide pay information to job seekers and employees. Companies will also have to conduct pay assessments when the gap exceeds 5%. The rule provides

[3] OECD, 2023, *Reporting Gender Pay Gaps in OECD Countries*, available at https://www.oecd.org/publications/reporting-gender-pay-gaps-in-oecd-countries-ea13aa68-en.htm, accessed on March 25, 2024

[4] OECD, 2024, Communicating Gender Pay Gap Reporting Rules and Results, available at https://www.oecd.org/gender/Communicating-gender-pay-gap-reporting-rules-and-results-Policy-Brief.pdf, accessed on March 25, 2024

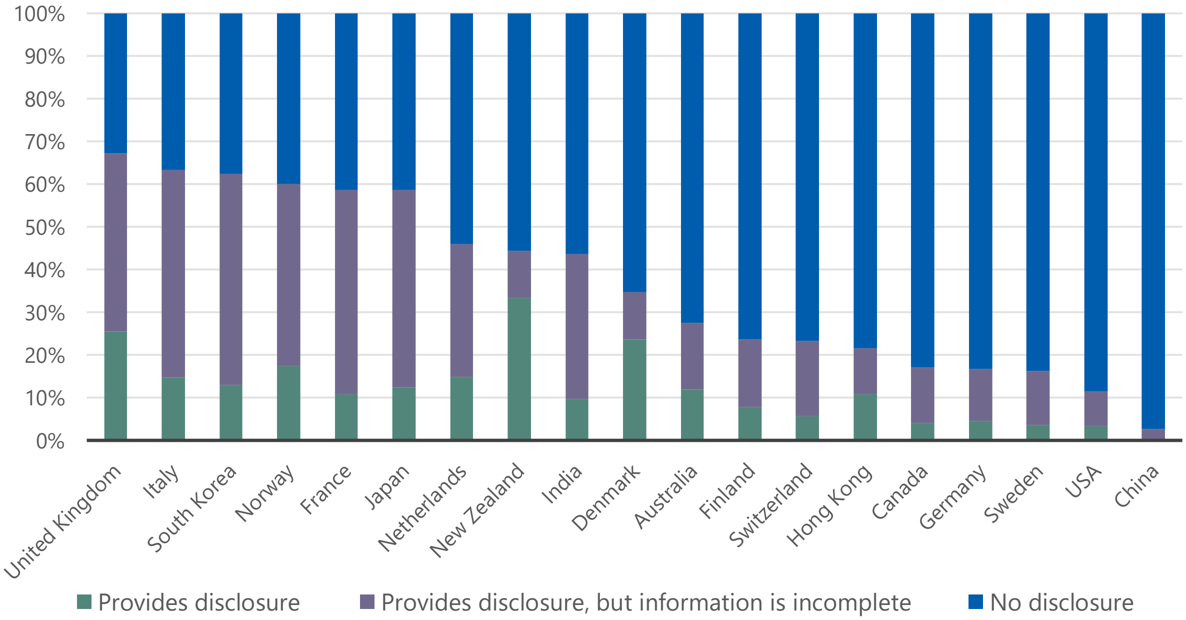
for compensation for workers in the event of discrimination, and includes potential penalties related to infringements.

Importantly, the adoption of the European Sustainability Reporting Standards (ESRS) subject to the Corporate Sustainability Reporting Directive (CSRD) also mandates disclosures on the differences between salary and remuneration between women and men, rendering the gender pay gap a standard disclosure among companies subject to the CSRD rules. Notably, application of the CSRD requirements is not limited to EU-based companies but extends to non-EU firms with turnover in Europe above certain thresholds.

Gender Pay Gap Disclosure by Country

Percentage of companies by gender pay gap disclosure status by country

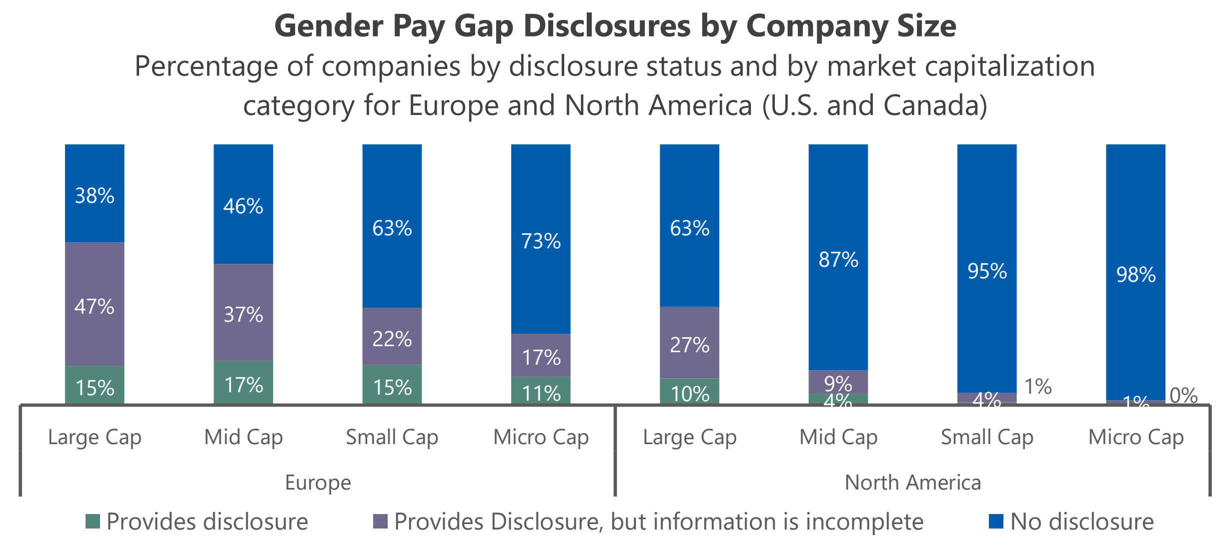
Coverage: select countries



Source: ISS E&S Raw Data, as of February 29, 2024

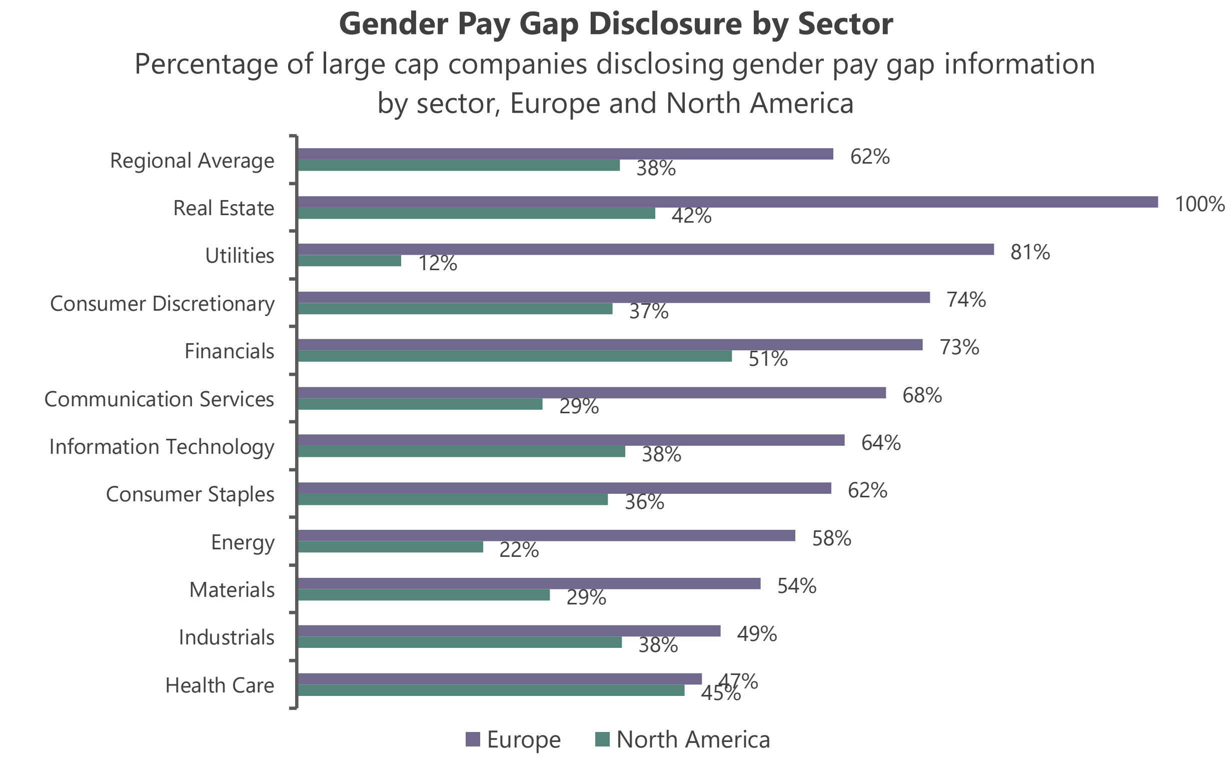
In Europe and North America, larger companies disclose data on their gender pay gaps much more frequently than smaller ones. While 62% of European large cap companies[5] disclose this information, the number drops consistently as the market capitalization decreases, with only 27% of the smallest companies disclosing. In North America, where such disclosures are shared primarily on a voluntary basis, the percentage of large=cap companies reporting gender pay gap data stands at 37%, compared to 13% for mid-cap companies and the low single digits for smaller firms.

[5] For the purposes of this publication, market capitalization classification is as follows: Large Cap – USD 10 billion or more; Mid Cap – from USD 2 billion to USD 10 billion; Small cap – from USD 300 million to USD 2 billion; Micro Cap – a less than USD 300 million



Source: ISS E&S Raw Data, as of February 29, 2024

To better understand how gender-pay-gap disclosure varies, we analyzed large-cap companies across sectors. In Europe, the sectors with the greatest proportion of companies disclosing their gender pay gap are Real Estate, Utilities, Consumer Discretionary, and Financials, with over 70% transparency. In North America, the leading sectors are Financials, Health Care, and Real Estate, while the lowest level of disclosure takes place among Utilities (with only 12% of companies reporting).



Source: ISS E&S Raw Data, as of February 29, 2024

Overall, a minority of all companies in both regions disclose their gender pay gap, but European companies show higher disclosure than their peers in the U.S. and Canada across all sectors, reflecting the regulatory requirements in the region.

Actual Gender Pay Gap Levels by Region

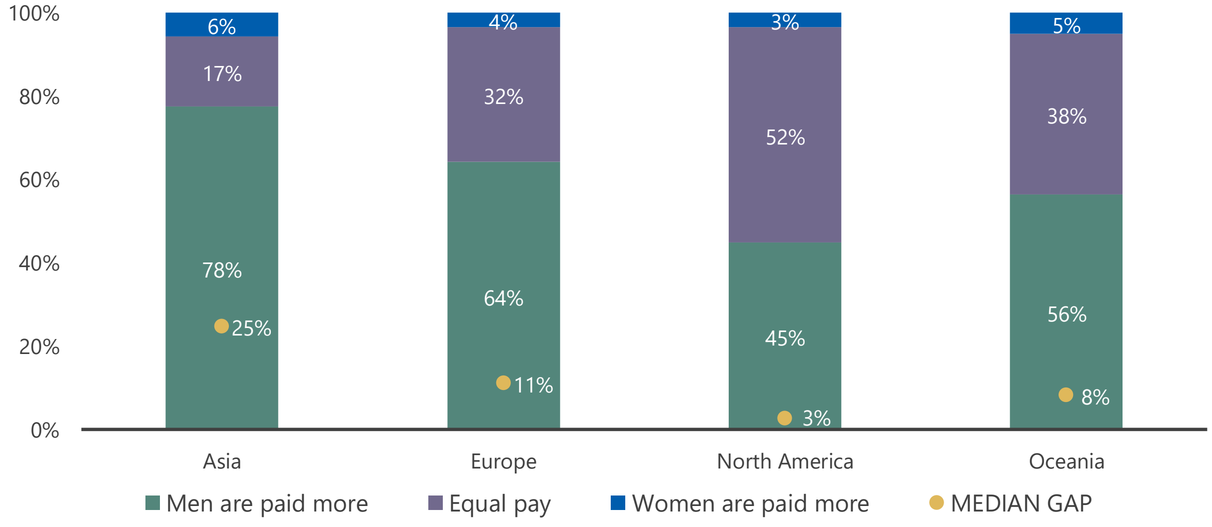
In addition to examining the rate of gender pay gap disclosure, the analysis explored companies' quantitative gender pay gap data. We examined the mean unadjusted gender pay gap value for the 641 companies under global coverage where such disclosures were made. This figure shows the total difference in earnings between men and women, regardless of other job-related factors such as tenure, job level, or experience.

For the purposes of this analysis, "equal pay" means women earn 5 percent more or less than men per the mean unadjusted gender pay gap calculation. For a true assessment of potential discrimination, the adjusted gender pay gap calculation would be more appropriate. However, given data availability, the analysis below serves as a helpful indicator of pay level differences as currently reported by companies globally.

Higher pay for men still appears to be the norm: men in 78% of Asian companies and 64% of European companies earn more than their women colleagues. Female employees in North America appear slightly better off than their peers in Asia, Europe, and Oceania. However, as the universe of coverage is limited in all regions, with reporting in North America taking place on a voluntary basis, self-reporting bias may play a role in the results. At a regional level, unadjusted mean gender pay gap is highest in Asia at 25%, followed by Europe (11%), Oceania (8%), and North America (3%).

Mean Unadjusted Gender Pay Gap by Region

Percentage of companies by status based on mean unadjusted gender pay gap and median of mean unadjusted pay gap figure by region



Source: ISS E&S Raw Data, as of February 29, 2024

Bridging the Pay Gap as a Sustainable Business Strategy

While regulatory requirements are increasingly dictating specific disclosures on pay and gender pay gaps, many organizations are taking proactive steps to manage not only their reporting, but also the level of pay equity itself. Many companies appear to see the imperative to conduct a thorough process that provides management, investors, and employees a significant level of confidence in their equal pay practices. A systematic approach to pay equity can protect against liability risks, while also anticipating potential forthcoming regulatory requirements. In addition, a comprehensive approach to pay equity can help improve employee engagement and contribute to a more effective human capital management program. Several leading practices among companies that share information about their programs that go beyond minimum disclosure requirements include:

- **Establishing strong commitments to pay equity**, including conducting an annual assessment, which may involve third-party review.
- **Publishing comprehensive remuneration statistics**, corresponding to the components of their workforce (e.g., location and/or employee category).
- **Setting targets and reporting progress** toward closing any gaps in pay equity performance.
- **Incorporating pay equity in human capital management**, including as part of the organization's recruitment and hiring process, as well as employees' annual promotion and performance assessments.

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