

Alison Pritchard
Gender Pay Gap Consultation
Government Equalities Office
1st Floor
Sanctuary Buildings
20 Great Smith Street
London SW1P 3BT

17 March 2016

Dear Alison,

Mandatory Gender Pay Gap Reporting – Government Consultation on Draft Regulations

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. We attach great importance to corporate reporting and have experience in developing codes, standards and guidance. In 2014, we published *Guidance on the Strategic Report*¹ which provides a principles-based framework for and encourages good practice in narrative reporting.

We understand the government's policy objective to take measures to address the gender pay gap. We have commented below, based on our experience of wider reporting initiatives, to make the disclosure of the information more meaningful.

a) Scope

The draft regulations apply to employers with at least 250 employees. We believe that there is a need for the regulations to provide further explanation of the term 'relevant employer' (1(2)(b)) in the context of companies. As currently drafted, there is a risk that the reporting requirements could apply to all companies (legal entities) with more than 250 employees. This could be burdensome for groups with a large number of subsidiaries if each subsidiary is classified as a 'relevant employer' and is therefore required to report this information.

We recommend an approach similar to that taken for other areas of corporate reporting where disclosures are required to be provided at a consolidated level for groups. We also highlight that information at a group level will be given due consideration at senior levels of an organisation prompting action.

¹ A copy of the guidance is available at <https://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Guidance-on-the-Strategic-Report.pdf>

b) Definition of pay

When the government introduced its Remuneration Regulations, our Financial Reporting Lab developed a methodology for determining a single figure for remuneration². Based on that experience, we consider that the definition of pay as set out in the draft regulation does not sufficiently take into account different pay structures. For example, benefits in kind are excluded.

We believe that it is difficult to make comparison between pay gap figures between male and female employees and with other organisations without considering the total remuneration package. Pay structures may vary within organisations for a number of reasons including type of work (e.g. commissions based work for sales roles, negotiation of individual employment contracts or changes to a company's remuneration structure over time).

We note that the draft regulations require separate publication of the gender pay gap information relating to bonuses. In our view, it would be helpful to encourage companies to disclose the total gender pay gap, with separate lines for pay and bonus information. The regulation could also provide flexibility to companies to include additional components of remuneration (e.g. company pension contributions) and present these separately if it improves the relevance and understanding of the information.

c) Calculating gender pay gap

Whilst we consider that the mean pay gap will provide relevant information, we are not convinced that calculating the median will provide useful information. We recommend that before finalising the regulations, the GEO test the regulations using actual data to determine the effectiveness the disclosure for the primary users, which in our view are employers, employees, government; and identify any challenges faced by companies in applying the regulation. Other specific points on the calculation are noted below.

- Companies should be provided with flexibility to determine the appropriate reporting period e.g. linked to its payroll period or year-end.
- The gross hourly rate of pay calculation is based on contracted hours per week. Our preference would be for this to be an annual figure as the proposed approach assumes that all employees will have a fixed number of contracted hours per week which may not be the case in a number of industries (e.g. hospitality, trade).
- We recommend review of the regulations relating to bonuses so that the calculation is based on a full time equivalent basis.
- We consider that splitting the pay gap information is helpful but we believe that it would be helpful to permit companies with flexibility on how they disaggregate information, this could be by salary, different roles, etc.

² A copy of the report is available at <https://frc.org.uk/Our-Work/Publications/Financial-Reporting-Lab/A-single-figure-for-remuneration.aspx>

d) *Narrative*

Any gender pay gap information is likely to be at a highly aggregated level. A number of variables (different roles within an organisation, experience, level of seniority, length of service) will have an impact on the figures that are presented. We believe that it is important for the GEO, perhaps through guidance to encourage companies to include narrative information to explain the published figures.

e) *Where to publish*

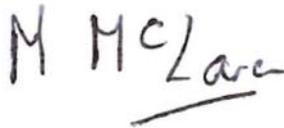
We support this information being published on a company website as we believe that this is the most effective method for communicating the information to the intended audience.

f) *Review*

The FRC attaches great importance to Clear & Concise reporting and the need for disclosures to provide relevant information. We therefore support the government carrying out a post-implementation review of the effectiveness of the regulations.

Finally, we recognise that gender pay gap reporting is an important issue that needs addressing. However, believe that sufficient time is taken to ensure that the regulations result in an effective disclosure. If you would like to discuss these comments, please contact Deepa Raval on 0207 492 2424.

Yours sincerely

A handwritten signature in black ink that reads "M McLaren". The signature is written in a cursive style with a horizontal line underneath the name.

Melanie McLaren
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