

DIVERSITY – THE CSSF TAKES STOCK OF THE SITUATION THROUGH DATA COLLECTION EXERCISE

Following a survey launched in April 2023 on diversity within the management bodies of less significant credit institutions (“LSIs”) of the financial sector, the CSSF noted that the market practice in respect of diversity is slow to evolve/improve. Thus, almost a quarter of LSIs did not have any diversity policy in place as at 31 December 2022. Nearly 97% of them had predominantly male management bodies. A quarter of LSIs had no female members in the management bodies as at 31 December 2022.

Moreover, the data collected by the European Banking Authority (“EBA”) on diversity practices, diversity policies and gender pay gap in 2022 show that only 23.8% of the non-executive directors and 16.3% of the executive directors of the entities in our sample (credit institutions and investment firms) were female, as at 31 December 2021. When focusing on new appointments, women represented just over one-third (almost 38%) of the newly appointed executive and non-executive directors of the entities in our sample between 2018 and 2021.

One general observation is that women occupied an average of 16.3% of the management positions among the credit institutions, the investment firms and the payment institutions/electronic money institutions of the financial sector. They accounted for 16.4% of the management bodies in their supervisory function and for 16.2% of the management bodies in their management function.

Consequently, the CSSF considers that the market must accelerate its diversity transition in order to comply with the regulations in force. In this respect, the CSSF wishes to inform the market that, from now on, it will closely monitor progress in the implementation of diversity by regularly conducting surveys and checks. If, following the injunction issued to the relevant LSIs, the CSSF notes the absence of any diversity policy, it will take strict measures or even impose sanctions.

1. Introduction

In accordance with Article 38-2(8) of the Law of 5 April 1993 on the financial sector, as amended, (“LFS”), credit institutions must engage a broad set of qualities and competences when recruiting members to the management body and for that purpose they must put in place a policy promoting diversity on the management body. Therefore, they must implement a policy of diversity. These provisions aim “to achieve a variety of views and experiences and to [facilitate] independent opinions and sound decision-making within the management body”¹ of a credit institution.

The CSSF is the competent authority responsible for verifying that these requirements are met. In this respect, the CSSF launched a survey among LSIs², i.e. 46 institutions, in April 2023, in order to collect additional information on the implementation of the diversity target.

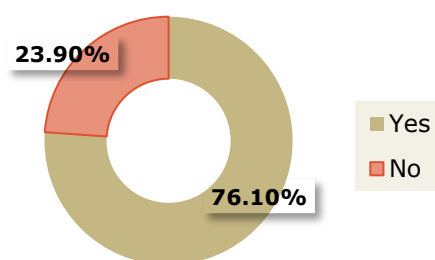
Before presenting the results of this survey, the CSSF wishes to draw the market’s attention to the fact that diversity will henceforth receive particular attention and be regularly subject to surveys by the CSSF. Administrative sanctions may be imposed for any breach of the legal and regulatory provisions.

2. Diversity policy

2.1 Adoption of a diversity policy

The results received reveal that, as at 31 December 2022, over three-quarters of LSIs put in place a diversity policy.

LSIs with a diversity policy as at 31.12.2022



¹ In accordance with point 102 of the joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06).

² As regards significant banks, the European Central Bank has responsibility for checking that these obligations are fulfilled.



However, 24% of LSIs reported that they had no diversity policy in place. By doing so, they were in violation of the requirements of Article 38-2(8) of the LFS. The CSSF urged them to achieve compliance with the legal requirements.

Measures to be taken

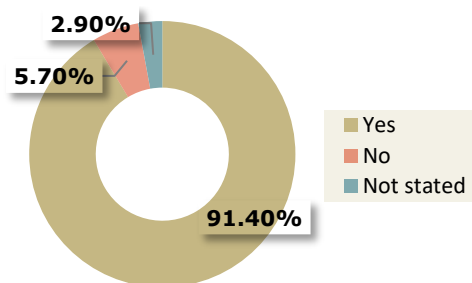
- ❖ LSIs that have no diversity policy in place must achieve compliance **without delay**.
- ❖ If, following the injunction issued to the relevant LSIs, the CSSF notes the absence of any diversity policy, it will take strict measures or even impose sanctions.

2.2 Diversity criteria

Over 91% of diversity policies promoted diversity in terms of gender.

In contrast, nearly 6% of LSIs with a diversity policy did not take into account the gender criteria, although it is mandatory pursuant to Article 38-2(8) of the LFS, read in conjunction with point 102 of the joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06). The CSSF required that these LSIs achieve compliance without delay.

Proportion of diversity policies valuing diversity in terms of gender within the management bodies as at 31.12.2022

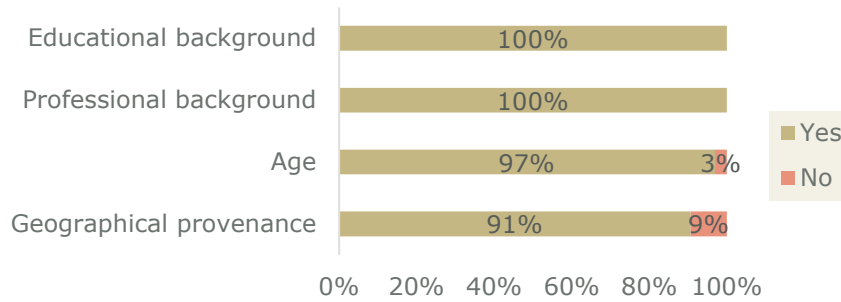


It should be stressed that diversity policies must also take into account other diversity criteria such as age, geographical and ethnic provenance, and educational and professional background.

LSIs with a diversity policy valuing diversity in terms of gender within management bodies all declared that they take into account the educational and professional background, 97% of them declared to take into consideration the age and 91% the geographical provenance.



Other aspects taken into account in the diversity policies as at 31.12.2022



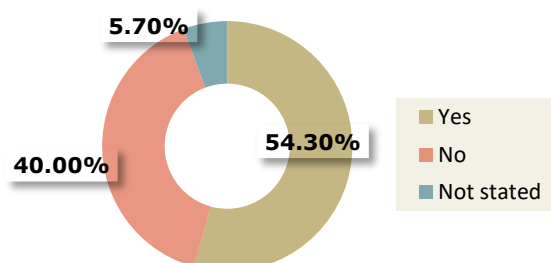
2.3 Planning aspects and other measures

The survey reveals that 54% of the diversity policies included career planning aspects and measures aiming to ensure equal treatment and opportunities for staff of different genders. Measures dedicated to equal opportunities for the whole staff are an essential prerequisite for greater diversity within the management bodies, notably by fostering access to management positions for people from more varied backgrounds, allowing them to build skills and experience. Such measures should in fine result in a pool of candidates available within the framework of the succession planning of members of the management bodies.

These measures already exist in most LSIs. They must now be formalised in the diversity policy and, where appropriate, be reviewed with an ambitious approach.

Conversely, 40% of LSIs did not implement career planning aspects and measures aiming to ensure equal treatment and opportunities for staff of different genders, as provided for in point 107 of EBA/GL/2021/06.

Proportion of diversity policies promoting planning measures as at 31.12.2022



Measures to be taken

- ❖ LSIs whose diversity policy does not include the gender criteria must achieve compliance **without any further delay**.
- ❖ Moreover, the CSSF expects that LSIs implement career planning aspects and measures to ensure equal treatment and opportunities to foster and maintain a diverse pool of candidates available within the framework of the succession planning of members of the management bodies.

3. Findings on the implementation of diversity policies

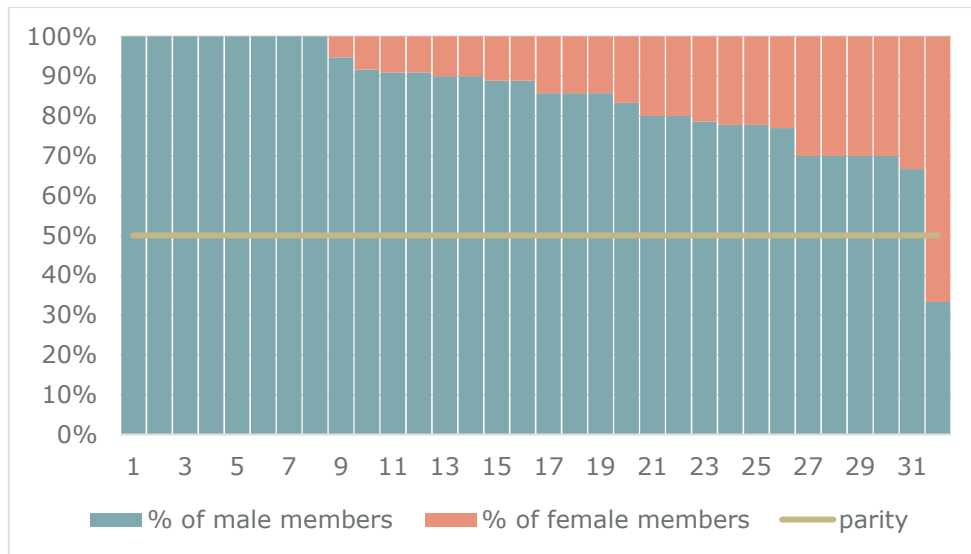
As regards the implementation of diversity policies, of the 32 LSIs with a diversity policy promoting diversity in terms of gender, 26 had little or even no representation of the under-represented gender within their management bodies (between 0 and 23%).

Of these entities:

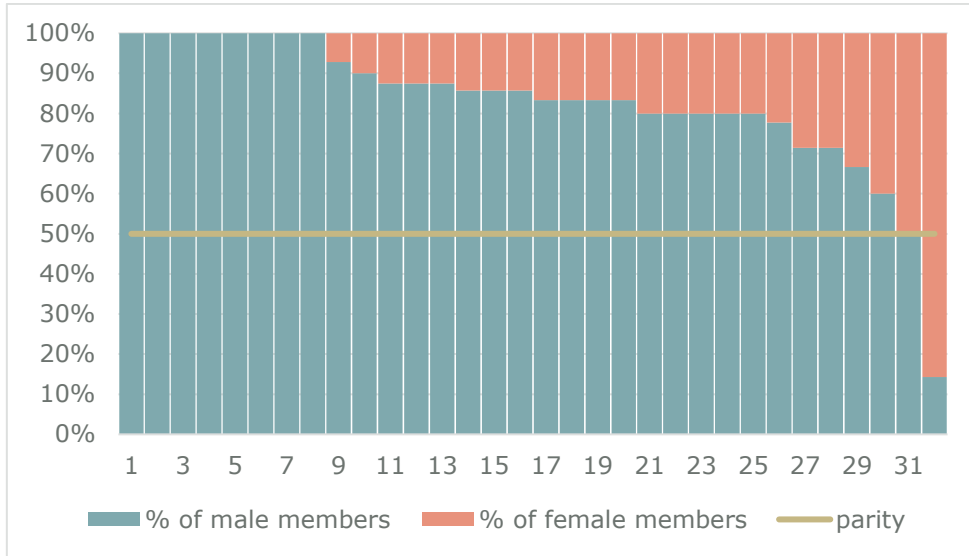
- 25% have management bodies composed of men only, and
- almost 97% have predominantly male management bodies.

It should be pointed out that the management bodies of LSIs in Luxembourg are dominated by women.

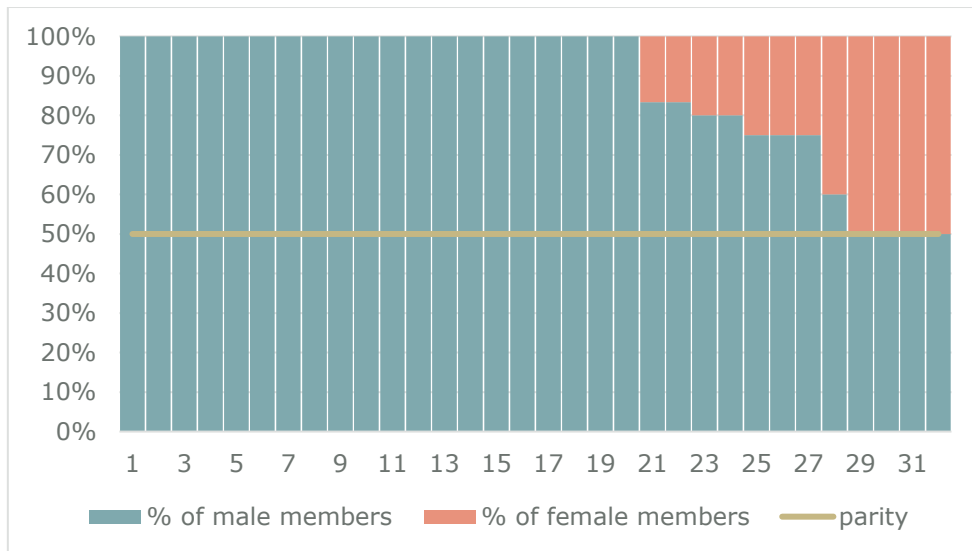
Gender distribution within the management bodies as at 28.02.2023



Gender distribution within the management bodies in their supervisory function as at 28.02.2023



Gender distribution within the management bodies in their management function as at 28.02.2023



Observation:

The market's awareness of the critical issue of diversity within the management bodies is not reflected in practice.

As already indicated in point 2 above regarding diversity policy, it is essential for LSIs to prepare for the future and to implement now practices aiming to:

- ❖ facilitate access to varied profiles at all hierarchical levels from the entry level;
- ❖ ensure equal treatment and opportunities, notably in terms of promotion and training; and
- ❖ provide for and implement career planning aspects.

The effective implementation of diversity policies must result not only in a significant improvement of diversity within the management bodies of LSIs both in terms of gender and with regard to other diversity criteria but also in the implementation of measures dedicated to equal treatment and opportunities, and career planning aspects.

These measures should lead to a pool of varied profiles for the succession of members of the management bodies.