

# Directive seeking gender balance on listed company boards 3/28/24



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In November 2022 the EU passed Directive 2022/2381 on improving the gender balance among directors of listed companies as a key step towards achieving a gender balance in corporate governance. This is also known as the Women on Board Directive, which may create a false impression that only women should be appointed to the board in the future. This article aims to dispel this myth and describes the directive's goals in more detail.

Latvia is to pass the directive into its national law by 28 December 2024, so we will soon be able to examine some legislative proposals (in our next article).

## The goal

The directive seeks to secure a gender balance on the boards of listed companies. It's important to note that the goal is to balance male and female directors by including whichever group is under-represented. A board or council with a female minority needs more women and vice versa.

## Companies covered by the directive

The directive applies to all large companies established in the EU with shares that can be traded on a regulated market in one or more member states.

The directive does not apply to micro, small or medium enterprises.

If a parent company established in a member state meets the directive's criteria, this does not mean that its subsidiaries are covered by the directive unless they themselves meet those requirements.

## Time limits, criteria and penalties

Listed companies have until 30 June 2026 to meet either of the following board gender-balance targets:

1. At least 40% of non-executive directors are an under-represented gender.
2. At least 33% of all directors are an under-represented gender.

A company that does not meet either target will have to adjust its candidate selection process for board appointments or elections using clear and neutrally formulated criteria.

The company will have to favour an under-represented gender candidate when choosing from applicants with equal qualifications and competencies (unless there are some overriding legal grounds).

The company will also have to provide annual information on gender representation, as well as on reasons

and measures it's taking, or plans to take, to become compliant with the directive's requirements. This information will have to be posted on the company's website.

The member states will be publishing annual lists of companies that have met the target.

Each member state should provide for effective and proportionate sanctions, such as fines or role cancellation. Companies that have not met the target will have to set quantitative targets, put correct candidate selection processes in place and adopt anti-discrimination policies. A member state may also choose targets that prevent access to some previously available benefits or limit the scope for taking part in public procurement.

Both the directive and the national law will cease to apply on 31 December 2038.

## Where is Latvia at?

While the latest statistics for 2023 are not fully available other than the Gender Equality Index, we can look at several studies where Latvia's rankings in the EU vary depending on researchers and methodology:

1. A European Commission 2022 study of women percentages on the boards of major listed companies ranked Latvia 21st out of 27 member states with 19% (the EU average being 32.2%). As stated above, the directive's target is 40%.
2. According to a Deloitte 2022 study, Latvia is the Baltic leader with almost a quarter (22.9%) of directors being women. Lithuania continues to boost its gender equality with 19.4%, while Estonia lags far behind with a mere 9.1% of directors being women.
3. In the Gender Equality Index's 'Power' domain, which measures differences in political, social and economic representation, Latvia has 49.1 points (the EU average being 59.1). A lower score has mainly political reasons, for example, women in Latvia compared to the EU are less frequently represented in Parliament, in regional municipalities and on the boards of large companies.