

CONSULTATION RESPONSE

EXPOSURE DRAFT OF THE CFA INSTITUTE DIVERSITY, EQUITY AND INCLUSION CODE (USA AND CANADA)

4 SEPTEMBER 2021

THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The [United Nations-supported Principles for Responsible Investment \(PRI\)](#) is the world's leading initiative on responsible investment. The PRI has over 4,000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US \$121 trillion in assets under management.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI welcomes the opportunity to respond to this consultation. The proposed new Code and Implementation Guidance represents a timely contribution from the CFA Institute to the growing DEI efforts within the investment community.

ABOUT THIS CONSULTATION

CFA Institute is developing a voluntary, DEI Code (the "Code"), to be launched firstly in the USA and Canada. The purpose of the Code is to drive greater diversity, equity, and inclusion within the investment industry. The Code has been designed for the investment industry, by members of the investment industry. It is intended to meet industry where it is, define the current state, and drive improvement from a realistic foundation. Organizations from across the investment industry are invited to become signatories, including investment managers, asset owners and consultants. The Code is supported by Implementation Guidance which is based upon tested practice from its industry research. It will be regularly updated to reflect changing DEI practice in the investment industry and elsewhere. CFA Institute have designed a Reporting Framework to guide signatories in the process of reporting on their progress. Individual signatory reports will be kept confidential by CFA Institute, which will in turn report on industry developments.

The goal for this Exposure Draft is to elicit feedback on the proposed principles and recommendations within the Code.

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PRI RESPONSE

SUMMARY OF PRI POSITION

The PRI welcomes the opportunity to respond to this consultation. The proposed new Code and Implementation Guidance represents a timely contribution from the CFA Institute to the growing DEI efforts within the investment community. We also welcome the expansion of this Code and Implementation Guidance to markets beyond the USA and Canada.

It is increasingly important that investors reflect inwards to strengthen their own DEI practices, to allow them to lead by example when assessing and engaging with investees and other stakeholders. As organizations themselves, investors also have a responsibility to act on their internal DEI as part of their wider responsibility set out in the [UN Guiding Principles](#) (UNGPs). Additionally, the people that make up investment teams play a crucial role in maximizing long-term value for their ultimate beneficiaries, and this requires a diverse and inclusive culture to ensure the team is working to its best and represents and understands the beneficiaries it is seeking to create value for.

The draft Code is a good starting point for investment industry organizations who would like to publicly commit to improved internal DEI efforts. However, due to the voluntary nature of the Code, real change will depend on high uptake from the industry and disclosure of practices and performance that demonstrate adherence to the Principles. Special attention should also be paid to how to provide public assurance that the DEI Code is being fully implemented by investment industry organizations and that performance is being made against the Reporting Framework, given that reporting by Signatories is confidential.

The Code and Implementation Guidance would also benefit from more information on why investment industry organizations should address DEI. For instance, DEI can be linked to human rights, and thus the corporate responsibility to respect human rights set out in the UNGPs. Policy makers and regulators are also increasingly introducing legislation, building on the UNGPs due diligence standards, to ensure that business and investment are delivering social value. Many countries already have national legislation that addresses DEI and this has the potential to increase in the future. The business case can also be further explained, including the potential benefits of improved decision making, employee engagement, innovation, brand value and market opportunities.

We outline a number of specific recommendations to strengthen the Code and the Implementation Guidelines. The feedback provided by the PRI is consistent with and informed by the PRI's position on DEI, documented in our forthcoming discussion paper, which outlines why and how investors can contribute to equity for all by promoting inclusivity, that recognizes diversity in the workplace and in society.

GENERAL INFORMATION

Respondent: <i>(Please enter your full name if you are submitting as an individual or the name of the organization if you are submitting on behalf of an organization.)</i>	Principles for Responsible Investment (PRI)
Stakeholder Group: <i>(Please select the stakeholder group with which you most closely identify.)</i>	Other: Investor network.
Region: <i>(If you are submitting as an individual, please select the region in which you live. If you are submitting on behalf of an organization and the organization has a significant presence in multiple regions, please select "Global". Otherwise, please select the region in which the organization has its main office.)</i>	Global
Country: <i>(If you are submitting as an individual, please enter the country in which you live. If you are submitting on behalf of an organization, please enter the country in which the organization has its main office.)</i>	United Kingdom
Confidentiality Preference: <i>(Please select your preference for whether or not your response is published on the CFA Institute website.)</i>	yes, my response may be published

DEI CODE AND IMPLEMENTATION GUIDANCE FOR INVESTMENT ORGANIZATIONS

Q11: General comments on the Code and Implementation Guidance:

- In addition to the feedback set out below, we include two points to consider throughout the Code and Implementation Guidelines:
 - consider refraining from referring to an individual as 'diverse'¹ - a group of people can be described as diverse, however, an individual cannot. It is more accurate to refer to an individual as coming from an underrepresented or marginalized group, or where possible, naming the specific identity or characteristic; and
 - consider including religion & belief, care-giving responsibilities and linguistic groups in the 'diverse groups' lists. These groups can be underrepresented within organizations and can also experience a lack of inclusion and equity²³.

Q12: Comments on Principle #1 and associated Implementation Guidance:

- Apprenticeships (which are commonly offered in the UK) have the potential to level the playing field for disadvantaged groups – especially for those who cannot access further education⁴. The inclusion of apprenticeships within the Implementation Guidance would be beneficial.
- Mobility within an organization is a key driver to improving diversity. For example, an organization may be able to improve the diversity within their investment teams by providing other teams within the organization, such as operations teams (which tend to have greater diversity) with the opportunity to develop their skills and move across to the investment team. The addition of this to this section would be helpful.
- Section i on outreach to a broad swath of institutions is an important point on opening up professional networks to individuals who otherwise would not have access through regular channels. However, more guidance could be given to explain the difference between community outreach and outreach to attract diverse groups of talent.
- Section xi on hiring interns based on connections to senior executives is important and highlights the barriers groups face when they do not have access to specific networks. This section warrants further information and can be expanded to areas of work beyond internships.
- The guidance for this principle is skewed towards attraction of young talent. Emphasis should also be given to attracting and hiring older candidates (i.e., candidates who have made career changes or had care-giving responsibilities). Consider mentioning initiatives such as 'returnships'⁵ which are paid work programmes for professionals looking to restart their career. This section could also focus more on accessing alternative hiring pools (such as veterans and ex-offenders) and groups who may not have 'traditional' training and education, such as asylum seekers and refugees.

¹ <https://www.linkedin.com/pulse/just-chups-2-stop-calling-me-diverse-jodi-ann-burey-mph/>

² <https://www.cipd.co.uk/news-views/viewpoint/religion-belief>

³ <https://www.cipd.co.uk/knowledge/culture/well-being/enabling-carers>

⁴ <https://www.thelpc.uk/news/diversity-inclusion-and-apprenticeships>

⁵ <https://womenreturners.com/returnships/returnships-what-are-they-where-can-you-2/>

Q13: Comments on Principle #2 and associated Implementation Guidance:

- We welcome the point on the importance of recognizing the context of educational and professional achievements (section v). Consider also including a point on whether a specific achievement – which some groups may experience barriers to accessing - is necessary for a job. For example, further education qualifications can be costly. We recommend more explicitly emphasizing the importance of an applicant's skills over formal educational qualifications.
- Careful consideration should also be taken in the design of different job descriptions to ensure requirements and/or language is not deterring particular underrepresented groups from applying for jobs or applying for promotions.
- The point on the Rooney Rule (section vi) is important. We suggest that the point is framed as recommending that investment professionals go *beyond* the rule, rather than dismissing it entirely. We also advise that guidance be provided on setting targets that reflect the community and region that the organisation operates in.
- Referrals from underrepresented staff members (section x) can certainly drive diversity. We recommend that guidance is provided on ensuring that referrals still go through the consistent (de-biased) recruitment process to ensure fairness in the process.
- We welcome the recommendation on ensuring the induction and courting process is inclusive (section xiii). Consider expanding this section to provide guidance on how to make this process fair, with consideration for ensuring the process is accessible to all (including physical accessibility requirements).
- Beyond the above feedback, we recommend that the following be considered for inclusion in this section:
 - Ensuring accessibility requirements for candidates and new staff are considered throughout the process. Investment professionals may consider including a statement in any communication with candidates and new staff to encourage them to request any arrangements necessary.
 - Ensuring training is available for managers around interview techniques and management styles that are more suitable for people with disabilities (including those with 'invisible disabilities'⁶).
 - The importance of salary transparency for current and potential employees, which often reinforce pay gaps, such as the gender⁷ and racial pay gap⁸. This may include listing the salary of a job in a job advert. It also may include ensuring pay bands and criteria for how people are paid is completely transparent within the business.
 - Clear guidance on 'positive action' steps hiring managers can take to better improve diversity, such as favoring the job candidate from an underrepresented group, where two candidates are 'as qualified as' each other⁹.
 - Further steps hiring managers can take to remove bias from the recruitment process, such as anonymizing applications, and having clear, objective assessment criteria.

⁶ <https://www.disabled-world.com/disability/types/invisible/>

⁷ <https://www.forbes.com/sites/adigaskell/2021/03/08/transparency-is-key-to-removing-the-gender-pay-gap/?sh=7126f11266c3>

⁸ <https://www.payscale.com/data/racial-wage-gap>

⁹ <https://www.equalityhumanrights.com/en/advice-and-guidance/employers-what-positive-action-workplace>

Q14: Comments on Principle #3 and associated Implementation Guidance:

- Promotion & development, and retention & inclusion are two distinct and important issues, which warrant separate Principles.
- Pay rises and other rewards, such as bonuses, are also important rewards that should be assessed for fairness, which we recommend including in the Implementation Guidance.
- Step-up opportunities (section iii) can also be informal, such as the opportunity to cover for a manager whilst they are on leave. Consider including this within the Implementation Guidance.
- Mentoring (section vi) is a key development opportunity which can improve DEI across an organization as it can strengthen individual's capabilities. However, it is important to be mindful that these opportunities are not the full solution and places the onus on the individual (as it infers that the individual needs to acquire additional skills to progress), when at times, slow progression of individuals may be due to a company's culture or lack of recognition for certain groups. We recommend more of a focus on efforts to explore and address these issues.
- Training for both mentors and mentees is also very important in understanding differences and creating a culture of inclusivity, and should therefore be included in the Implementation Guidance.
- Measures to prevent and address discrimination and harassment, such as zero tolerance policies and clear whistleblowing processes¹⁰ deserve special attention within this section of the Implementation Guidance (and ideally in a separate Principle on retention and inclusion).
- The Implementation Guidance would benefit from attention to the 'punishment gap', where certain groups, such as women, face harsher punishment than men for engagement in the same activity¹¹.

Q15: Comments on Principle #4 and associated Implementation Guidance:

- This Principle would benefit from clarity on the definition of 'leadership'.
- Section ii on compensation linked to performance on DEI is important. Linking pay or performance to targets on DEI should be considered carefully as to not create perverse incentives for the leadership of the organization. Leaders must be made accountable to DEI commitments and this should be considered as a combination of KPIs that cover both diversity and inclusion metrics, as well as a qualitative review of performance to understand the context and nuance around different metrics (i.e. an increase in grievances reporting might not necessarily be a negative outcome, if it is a reflection of a more inclusive culture where employees feel more empowered to speak up).

Q16: Comments on Principle #5 and associated Implementation Guidance:

- The PRI welcomes the inclusion of guidance on using investment activities to address DEI (section vii). We encourage the inclusion of stewardship within this section (defined by the PRI as "the use of influence by institutional investors to maximize overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend". This includes but is not limited to corporate engagement, filing

¹⁰ <https://www.unpri.org/governance-issues/whistleblowing-why-and-how-to-engage-with-your-investee-companies/6862.article>

¹¹ <https://www.unpri.org/pri-blog/when-harry-fired-sally-uncovering-the-gender-punishment-gap/5951.article>

shareholder resolutions, and voting at company annual general meetings). While divestment can be an important tool, divestment alone weakens an investor's influence over the entity and may do little to improve outcomes in the real world¹².

- There is scope within this section to focus on how investment activities can be used to shape *positive* outcomes related to DEI, in addition to avoiding harm.
- This section may be strengthened by including guidance on the ability to exert influence through engagement with stakeholders other than those in the investment chain, such as policy makers and standard setters.
- Consider the inclusion of guidance on how investment professionals can improve DEI through media, such as by ensuring event panels that organisations organize or participate in are sufficiently diverse.
- Influence can be strengthened through collaboration with peers and other groups. It would be beneficial to emphasize this in the Implementation Guidance.

Q17: Comments on Principle #6 and associated Implementation Guidance:

- Further guidance would be beneficial on how to identify which groups to prioritize in terms of data collection. The recommendation to start with the groups experiencing the greatest inequities and least inclusion, is sensible, however, this is subjective, and can vary depending on the context of which you are assessing a group.
- While we recognize and support the sentiment that measurement and data is key to progression, the first line of the definition can actually be detrimental to progress on DEI. Progress can still be made on DEI whilst a systematic framework around measurement and tracking is developed.
- Investment organizations should consider having the right balance between quantitative and qualitative information when assessing the success of different interventions.
- It would be beneficial to reinforce - within the Implementation Guidance - that data on DEI should be treated with the strictest confidentiality, and the assurance of this to employees may lead to better disclosure of this information. Investment professionals should also be mindful of the importance of aggregated data. When data gets too granular, it may be easy to identify specific individuals within an organization (section ii).
- Consider including guidance on how to improve better employee disclosure of this information where disclosure is low.

Section on what to measure:

- It is not clear how investment organizations will be evaluated against the Reporting Framework. More guidance on what the different levels of performance are (i.e., minimum safeguards vs. leading practice) would be beneficial. Qualification of the information provided by investment organizations will provide a better picture of performance and progress over time.
- It would be beneficial to emphasize the importance of using 'inclusion metrics', which go beyond workforce composition data and instead look at the treatment of staff across the recruitment, retention and promotion employee lifecycle, and how this is broken down across different

¹² <https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-stewardship/7228.article>

characteristics and identities. Metric examples may include the return rate from parental leave for men and women and the average turnover rate for LGBTQ+ employees.

- We welcome the recognition of socio-economic background as a 'diverse group' category. There is a clear lack of diversity and inclusion of this group within the financial sector¹³. Socio-economic background is also a category which often intersects with other characteristics, such as race & ethnicity, gender and ability¹⁴. Consider providing guidance on the measurement of this. While there is no one defining metric for this, companies often use questions such as: the type of school the employee attended; and the occupation or level of education of an employee's parents¹⁵.
- The concept of intersectionality - which can be defined as the complex, cumulative way in which the effects of multiple forms of discrimination (such as racism, sexism, and classism) combine, overlap, or intersect especially in the experiences of marginalized individuals or groups¹⁶ - is important to recognize within this Implementation Guidance. For example, seeking information on the percentage of Black women at the executive level, rather than solely looking at women and Black employees separately. This can provide greater insights into how groups are treated in the workforce and also acknowledges the barriers that groups face when they have more than one identity which typically experiences inequity or a lack of inclusion.
- The provision of guidance on how to ask questions around ability and neurodiversity may be helpful for investment professionals.
- The example question on sexual orientation can be strengthened. Sexual orientation categories can include (but are not limited to) heterosexual, bisexual, homosexual and pansexual¹⁷. Grouping these options together within an LGBTQ+ category can often miss these differences.
- Consider the inclusion of an example question around gender identity. The treatment and experience of historically marginalized groups, such as Transgender employees (amongst other groups) is important to capture.

¹³ <https://news.sky.com/story/89-of-people-in-senior-finance-roles-from-higher-socio-economic-backgrounds-study-12140800>

¹⁴ <https://www.apa.org/pi/sees/resources/class/intersections>

¹⁵ <https://socialmobilityworks.org/toolkit/financial-and-professional-measurement/>

¹⁶ <https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1052&context=uclf>

¹⁷ <https://www.stonewall.org.uk/help-advice/faqs-and-glossary/glossary-terms>