30 September 2021

FAC: Prudential Regulation Authority (PRA), Bank of England and FCA

Submitted by email to: dp2_21@bankofengland.co.uk

CFA UK Response on Consultation DP 21/2: Diversity and inclusion in the financial sector – working together to drive change

CFA Society of the UK (CFA UK) and CFA Institute [1] welcome the opportunity to jointly share their views on this consultation, which seeks to accelerate the pace of meaningful change on diversity and inclusion in the sector.

Our responses to the specific questions in the Consultation are provided in Appendix II. However, in summary, we highlight:

- As an organisation, we are strongly committed to the management of environmental, social and governance (ESG) issues and regard diversity, equity, and inclusion (DEI) to be key components of the wider ESG agenda.
- Progress requires commitment from senior leaders, who need to lead by example and hold their organisations accountable.
- The UK financial services sector has a key role to play in advancing DEI across broader society given its size and influence on the economy. Failure to act carries meaningful reputational risk.
- The focus should be on improving DEI internally within firms focusing on the areas outlined below, and more broadly on enhancing product and service offerings including facilitation of more inclusive capital deployment (e.g. private equity investment in social housing).
- To maximise impact, firms should focus their efforts on pipeline, talent acquisition, promotion, retention, leadership, influence and measurement in the first instance.
- Better data and the accountability brought about by reporting on the areas mentioned above will play a key role in driving change.
- We encourage a focus on embedding DEI into BAU activities and processes rather than treating them as standalone topics. Firms would benefit from best practice guidance in this area and we encourage the FCA/ PRA/ BoE to incorporate DEI considerations across their policy making activities.

Yours sincerely,

Will Goodhart
Chief Executive
CFA Society of the UK

Sarah Maynard
Global Head, External Inclusion & Diversity
CFA Institute

With thanks to representatives from the CFA UK I&D Steering Committee and CFA UK Ethics Steering Committee for their contributions and to the CFA UK Professionalism Steering Committee for their oversight.

[1] A synopsis of the mission and scope of both CFA UK and CFA Institute is provided in Appendix I.

Appendix I: About CFA UK & the CFA Institute

CFA UK: serves over 11,500 members of the UK investment profession. Many of our members work with pension funds, either managing investment portfolios, advising on investments, or overseeing pension investments.

- The mission of CFA UK is to build a better investment profession and to do this through the promotion of the highest standards of ethics, education and professional excellence to serve society's best interests.

- Founded in 1955, CFA UK is one of the largest member societies of CFA Institute (see below) and provides continuing education, advocacy, information and career support on behalf of its members.

- Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials.

- The organization is a champion of ethical behaviour in investment markets and a respected source of knowledge in the global financial community. It aims to create an environment where investors' interests come first, markets function at their best, and economies grow.

- CFA Institute awards the Chartered Financial Analyst® (CFA), and Certificate in Investment Performance Measurement® (CIPM) designations worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

- CFA Institute has members in more than 160 markets, of which more than 175,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 160 local societies.

- For more information, visit http://www.cfainstitute.org

CFA Society United Kingdom

Appendix II: Responses to questions

1. What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?

We believe the proposed definition of diversity, which focuses on diversity of thought, is somewhat nebulous and therefore presents challenges as to how firms can measure it (noting also that diversity of thought can change over time amongst a static group of people as their experiences evolve). We do however agree that a broad definition of diversity is important and would point to the definition as outlined in the draft CFA Institute Diversity, Equity & Inclusion Code[2] as an example that is sufficiently broad but that also lends itself more readily to measurement and monitoring.

Definition of Diversity:
'The full spectrum of human attributes, perspectives, identities, and backgrounds'

Using the above definition would allow measurement beyond the protected characteristics under the Equality Act 2010. In the DEI Code, CFA Institute identified an indicative list of groups to inform the implementation of the Principles[3], which we think will also be useful in the UK. We highlight the additions of gender expression and socio-economic status[4], whilst also supporting the desired outcome of greater diversity of thought. To enable comparison across firms, it would also be beneficial to define the narrower terms e.g. socio-economic status, so that the industry could track and report on a consistent basis, albeit with the caveat for smaller firms that proxies could be used where necessary and fully disclosed.

We are more comfortable with the proposed definition of inclusion, which broadly aligns to that expressed in the CFA Institute draft DEI code 'A dynamic state of operating in which any employee can be and feel respected, valued, safe and fully engaged'. We note the need for firms to address both diversity and inclusion with equal vigour, as diverse employee demographics do not necessarily lead to an inclusive culture. Equally a less diverse firm may score higher on inclusion in a staff survey if the majority of staff are from the same demographic.

We further highlight that the Discussion Paper does not encompass Equity, a concept that has become increasingly prevalent across the broader DEI agenda. Per the CFA Institute DEI Code, equity is defined as:
'Fairness of access, opportunity, and advancement for all within an organisation, which requires eliminating barriers and root causes that have prevented under-represented groups from full participation within the workplace'.

We view this as a material omission that should be an integral part of regulatory thinking around diversity and inclusion.

---

[2] CFA Institute held a public consultation on its proposed DEI Code from 7 July to 4 September 2021. We saw a significant response from CFA members, CFA societies and investment firms, trade entities and other interested bodies. We are currently reviewing the responses and expect to publish a final, revised DEI Code along with the Implementation Guidance and Reporting Framework by the end of 2021.
[3] https://www.cfainstitute.org/en/ethics-standards/codes/diversity-equity-inclusion
[4] We make these additions because we are already seeing firms defining data with these additions and we are keen to future proof our recommendation as far as possible.

Additional areas we highlight that the FCA/ PRA/ BoE may wish to capture and potentially define as part of their work on diversity and inclusion include behavioural aspects such as biases, and the importance of emotional intelligence and 'soft' skills development in driving diversity, equity and inclusion.

2. Are there any terms in the FCA Handbook, PRA Rulebook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?

The FCA Handbook, PRA Rulebook and Supervisory Statements should specifically integrate DEI considerations/aspects (where relevant) into the topics they cover, setting the tone for the approach we believe should be required of regulated firms. Progress requires commitment from senior leaders, who need to lead by example and hold their organisations accountable but the handbooks should also make clear that all industry participants are responsible. To support this, we recommend including industry/ regulatory expectations on DEI within the syllabus for any exams required to achieve certified status.

Use of jargon words and phrases, or mention of experiences only a narrow group can relate to, are a common challenge in attracting a diverse workforce into the finance sector. Given the breadth, complexity and the intent of regulatory materials, it is hard to be specific without a proper review by someone with expertise in linguistics. We suggest that the regulators may wish to make the intent behind their rule books plain and take the lead in simple and inclusive language in regulatory communications.

3. Do you agree that collecting and monitoring of diversity and inclusion data will help drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?

We view the collection, analysis and disclosure of DEI data as essential to driving progress and holding firms and leaders accountable. As with any other business challenge, what gets measured gets evaluated and managed, and DEI should be addressed in this way. Financial services professionals are typically used to data-driven rationales and decision making and therefore a data-based approach is likely to resonate, encouraging engagement across the sector. Further, industry level data and comparisons will support benchmarking and be useful to firms in understanding how they are positioned. There will also be an incentive, to the extent data is publicly disclosed, to be well positioned relative to other firms. This may help drive innovation around DEI, supporting the desired outcome of accelerating change.

Whilst recognising the benefits of robust data collection, we are also mindful of the challenges it presents. Collection of such data can be challenging and is not an exact science, and there can be privacy and data protection concerns to be navigated. Clarity on and support for firms on these aspects would be helpful. Linking back to our definition comments in our answer to question 1 above, the lack of standardisation around metrics and how they should be interpreted is a key current challenge in this area that can lead to 'window dressing' by firms. Whilst standardisation may present particular challenges for international firms, noting that definitions of e.g., ethnic diversity may differ by country/ region, this should not act as a barrier to the largest firms being asked to collect such standardised data. Detailed disaggregated data is preferable to using 'catch all' terms such as BAME and allows efforts to be focused for maximum impact e.g., addressing those groups facing the greatest inequities and least inclusion. CFA Institute research[5] finds that an increasing number of global and regional organizations are already collecting demographic data. Further many human resources (HR) software dashboards have a capability to collect and analyse inclusion metrics by triangulating standard HR data with demographic data.

Noting that reliance on self-disclosure is typically necessary to collect a lot of key DEI data, we recognise that there are likely to be numerous individuals that do not identify with the specific categories available or do not wish to disclose at all. More broadly, we also acknowledge that numbers alone may not tell the full story. As such, qualitative 'data'/information should also be required, including, for example, senior management objectives and priorities, and details of programs and initiatives to incorporate DEI into BAU. Time horizons should also be given careful consideration; too short and they risk superficial appointments and window dressing; too long and they allow the glacial pace of change typical of previous decades to continue.

In acknowledgement of the challenges outlined above, the costs involved with data collection and reporting, and the potential that in smaller firms individual employees could be identifiable, proportionality is a key consideration. Data collection and monitoring requirements should lend themselves to a qualitative accompanying commentary. We encourage the FCA to broaden the discussion to government and other interested parties, such as stock exchanges, in order to consider how the impediments to the collection and reporting of such data can be removed across the financial and corporate sector. There are growing demands for better reporting of social characteristics as part of the growing focus on ESG (Environmental, Social, Governance), but the lack of available and consistent data can be an obstacle to the investment industry in evidencing how this is integrated into their research and into the ESG-related statements of investment firms.

4. Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub-set?

There has been little data collected on protected and other characteristics beyond gender and ethnicity, and limited information on socio-economic diversity, still less on intersectional data. As such, further data collection should be encouraged, particularly for non-observable diversity characteristics.

Any data collection on protected and other characteristics should be done with care given potential legal ramifications, particularly for firms operating across jurisdictions that include countries where certain protected characteristics may be considered illegal and criminalised; any data leakage could put employees in those locations at risk. Furthermore, employees should not be obliged to provide such data, albeit firms should seek to track employees that hold this position e.g. via a 'I choose not to disclose this information' option in HR systems. We note that a key part of an effective demographic data collection process is clear internal organizational communication to explain how it can be helpful to all employees. Over time, our research finds that effective communications can raise employee participation to more than 75%, and over the course of three to five years, close to 100%.

Whilst we consider protected characteristics, gender expression and socio-economic background as priorities areas for firms starting DEI work, consideration should also be given to collecting data on caring responsibilities, noting this can materially impact an individual's ability to progress. Such data

[5] CFA Institute report into DEI work within investment organizations
https://www.cfainstitute.org/research/industry-research/accelerating-change

could also be useful in informing broader public policy on matters such as childcare and elder care provision.

5. What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers' needs?

A wide range of data could be collected depending on what the regulated entity is attempting to change. We refer you to a foundational list on the CFA Institute DEI Code Reporting Framework as a minimum for better decision making. Organizations with more developed DEI will be able to triangulate diversity data, human capital analysis and team performance and appraisal measures to show how mature their work on inclusion is.

With regards to product and service development, we concur with the arguments set out in 2.7 – 2.13. Ensuring that product development teams, marketing and client service teams are both diverse in terms of demographics and inclusive in terms of practice should be a minimum expectation. This approach would also be beneficial in terms of mitigating risk as the widest range of consumers' needs could be met.

More broadly, over time industry level data could be reviewed in the context of broader societal changes and benefits to understand second order impacts of increased diversity, equity and inclusion. Examples can be seen through greater social mobility and better financial outcomes/ reduced complaints from vulnerable groups as the sector improves how it meets the needs of all customers.

6. What are your views on our suggestions to approach scope and proportionality?

We agree that DEI is important to the entire financial sector and that future policy proposals should apply to the broadest range of firms, including UK branches of overseas firms given the given systemic nature of diversity and resultant macro and societal impacts. Proportionality is important to reflect the regulatory burden for smaller firms and has precedence in other initiatives such as the BoE Money Market Code.

There is a balance between imposing unduly onerous reporting on small firms or sole traders and having no expectations at all. Regardless of size, the expectation should be that entities have an inclusive culture which extends to employees, customers and suppliers. Firms with a large customer base should be able to provide information on how their staff reflects the clients and society they serve.

7. What factors should regulators take into account when assessing how to develop a proportionate approach?

Our guiding principle is that talent is equally distributed across all populations, therefore a wide divergence in employee demographic data from local demographic data likely indicates a need for a change. We suggest starting with a definition of 'proportionate' not only with regards to firm size by number of employees, AUM and customer base but also with respect to the details of the outcomes expected in the context of the firm's operations, products and geographical location. A principles-based approach with some key targets and scrutiny of these targets by regulators may allow a more holistic approach for all firms.

8. Are there specific considerations that regulators should take into account for specific categories of firms?

As discussed above, data collection can be challenging for smaller firms in terms of costs, resources, and the potential that individuals could be identified via any data disclosed. What is meant by a 'smaller' firm will also need to be explicitly defined. We note the 250 employee limit for HM Treasury Women in Finance Charter, which may be a useful reference.

In our response to Q7 we have also noted that other factors such as geographical location may be relevant when considering requirements. There should also be consideration as to how entities collect and report on data by geographical region e.g. any requirements for the UK financial sector should apply to the UK operations (incl. branches) of global/ international firms. This could help address challenges relating to diversity across countries and regions, but may not reflect the overall global diversity of such firms. Differing cultural norms, regulations and other factors can make cross border comparisons difficult and may provide misleading results if not presented in the correct manner.

9. What are your views on the best approach to achieve diversity at Board level?

We note that the use of the term 'Board' is different depending on the size of the firm, and in some cases, companies may have Committees that take similar decisions. Consideration should be given to extending the diversity criteria for Boards to such Committees.

To address DEI at Board level holistically, we recommend the setting of medium-term goals and the establishment of policies and mechanisms to ensure that candidate lists and interview panels are appropriately diverse and inclusive. Performance against such goals and the effective implementation of such policies and mechanisms should then be monitored and owners held accountable. It must be recognised that creating a truly diverse board culture that sets the tone for the rest of the organisation cannot be achieved overnight. Rather, this requires the commitment, patience and structure that is built on inclusion and equity.

Succession planning and nominations processes for all Board and Committee appointments should be reviewed regularly. Boards should consider:

- Establishing and documenting DEI criteria into their board recruitment process.
- Hiring a DEI consultant to provide education and training for the nomination committee before starting the process.
- Pushing search firms to generate candidates from beyond the usual backgrounds.
- Mandating diverse interview lists. Accepting this may mean interviewing more candidates.
- Being forward looking and setting bold criteria for Board appointments, which may include life experiences that would be beneficial in the boardroom as a mitigant to group think and those that would be culturally 'additive' rather than a cultural 'fit'.
- Consider candidates from other sectors, who may bring different perspectives as compared with industry peers
- Consider the value of candidates who may not have had PLC board experience, especially with respect to independence of thought and ability to challenge current board practices

- Accept and plan that looking for diverse candidates may lead to a longer and more challenging appointment process
- Openly advertise board roles and commit to a more open and transparent process (e.g. mirroring aspects of the public sector appointments process)
- Time limits for serving on a board may also ensure there is greater turnover of the board and limit the risk that 'groupthink' may develop over time.
- To help build a diverse pipeline of Board level candidates, firms could create shadow boards with a maximum 12-month membership that would enable more senior employees to gain relevant experience and develop key skills and knowledge.

10. What are your views on mandating areas of responsibility for diversity and inclusion at Board level?

Boards should take a leading role in setting integrated strategy and being responsible for promoting diversity, improving equity and creating an inclusive culture. Mandating specific responsibility for any area of activity can be operationally effective but boards also need to hold senior managers to account through appropriate mechanisms to ensure agreed diversity, equity, and inclusion targets and goals within the organization are met. Governance structures need to be more than compliance requirements and their effectiveness monitored by measurements of the organisation's culture.

11. What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?

We agree that the Senior Manager & Certification Regime (SM&CR) should be used as a mechanism for driving DEI related accountability. The starting point should be an expansion of Senior Manager training to provide awareness on how to build an inclusive and equitable workforce as an integral part of their function. We note some key elements to consider as part of this training. Firstly, we are of the view that too much focus is often spent on the need to build a diverse team, with too little attention paid to the creation of an inclusive environment. As with Board diversity, realizing the benefits of team diversity is crucially enabled by inclusion. Specific training, such as the encouragement of, coaching for team leaders and mentoring and sponsorship programmes, and collaborative ways of working are all important to make diversity a natural outcome of the culture of a firm.

Having a Senior Manager Function (SMF) with responsibility for DEI under SMCR would be a positive move. Firms are increasingly creating the post of DEI lead. Giving this person responsibility under SMCR would strengthen the visibility and remit of this post. However, as part of this there will need to be careful consideration of how SMF responsibilities are delineated between human resources and DEI. Additionally, to ensure DEI is effectively embedded across all facets of the organisation, DEI language should be embedded into the Statement of Responsibility and/ or Governance & Oversight documents of all senior managers including those for whom it is not a primary focus. Elevating DEI from HR functions to creating value across the business is a key strategy where Senior Managers can use their influence to drive change internally.

12. What are your views on linking remuneration to diversity and inclusion metrics as part of non-financial performance assessment? Do you think this could be an effective way of driving progress?

Linking performance to remuneration has been shown to drive results in other spheres and therefore could be an effective way to drive progress, albeit metrics will need to be carefully constructed to avoid incentivising unwanted outcomes.

We believe that DEI should be considered in the same way that other aspects of non-financial performance are considered. DEI goals should include both quantitative (metric based) and qualitative factors and should be embedded in objective setting and any resulting assessment of performance against objectives. This should then inform decisions on remuneration in the way performance appraisals already do.

13. What are your views about whether all firms should have and publish a diversity and inclusion policy?

We agree that all firms should publish a policy that forms the foundation of their strategy and action plan. We advocate that a DEI policy be mandatory.

We believe that clear guidance would help foster the direction of travel on the DEI journey. This should be focused on structure, the areas of content that could/should be included and the frequency of review of the policy; all of which would help expedite progress.

We would thus make the case for a defined and prescribed format and share the example of the FRC's new Stewardship Code, which has defined both content and format for institutions applying to become signatories.

In addition to a standalone DEI policy, firms should be encouraged to embed DEI considerations within their broader policy framework and to consider potential DEI impacts when developing new and updating existing policies.

14. Which elements of these types of policy, if any, should be mandatory?

We believe that public voting (and engagement policies) can be mandated to further the DEI agenda. The requirement for public voting (and engagement) policies is increasingly becoming a necessity because of market forces, so making this mandatory would be solidifying current good practice.

More broadly, DEI policies should include details of an organisation's DEI aims, the key pillars of its DEI strategy, the DEI accountability structure within the firm, and information on the types of data – both quantitative and qualitative – collected, and how these are used. Per the CFA Institute DEI Code, the policy more specifically should include details of how a firm serves the needs of customers, employees and other stakeholders. It should also include information on the risks of not successfully implementing the strategy, details of the commitment from the Board and senior management, an outline of who is responsible for ensuring adherence to the policy, clarity on how it is disseminated across the organisation, and colour on how adherence is tracked/ monitored and progress measured across the organisation. Ideally policies should cover as a minimum pipeline, talent acquisition, promotion and retention, leadership, influence, and measurement.

DEI policies should be subject to regular review and be approved by the Board or a relevant senior management committee.

We highlight the following as examples of existing/ proposed reporting frameworks:

CFA Institute DEI Code –

https://www.cfainstitute.org/-/media/documents/code/dei/Reporting-Framework-for-public-consultation.ashx

Asset Owner Diversity Charter

https://diversityproject.com/sites/default/files/resources/Asset%20Owner%20Diversity%20Questionnaire.xlsx

15. What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?

Unless targets are set throughout an organization, DEI targets with regards to Board and Committee composition risk only addressing Board and Committee appointments or merely change at the top without developing a future pipeline of leaders.

Diverse approaches to hiring are important, including apprenticeships, returner programmes and non-graduate hiring. This can be built upon by a broader, more inclusive approach to internal talent spotting and development, noting that many DEI challenges are at the mid-level of organisations (e.g. the 'leaky pipeline' that sees female employee representation drop significantly at more senior levels).

We recognise that broader targets may be challenging for small or medium sized firms to achieve across their organisations so some proportionality may need to be applied on this point, but even small firms need to take a holistic approach to change.

16. What are your views on regulatory requirements or expectations on targets for the senior management population and other employees? Should these targets focus on a minimum set of diversity characteristics?

Mandatory targets can be challenging for small to medium sized firms, which often lack the breadth to make meeting targets easy or where levels of staff turnover make it hard to tackle current poor diversity statistics. A better requirement would be for explicit commitments to developing and publishing policies and procedures, backed by education and training, to ensure that there is a progressive improvement in diversity, equity and inclusion over the medium-term. Such firms should be held to account by relevant reporting requirements.

Larger firms (over 250 employees), however, should be subject to clear expectations for the reasons outlined in #8 above. They should be required to justify where such expectations are not being met and provide details as to how they plan to align with expectations.

17. What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?

Regulators are in a unique position to influence the attitudes of staff at all levels on the importance of DEI on real business outcomes and serving diverse customers. Nearly all financial services activities must be authorised by the FCA and some level of training could be added to the minimum competencies required for individuals, including as part of their continuing education requirements each year. Two objectives for training programmes would be i) Education and ii) Skills-building, as the goal would be to provide an environment that actively supports diversity, equity, and inclusion.

Additionally, material covering the importance of DEI, and regulatory recognition of the importance of DEI, should also be included within accepted professional exam syllabi and other qualifications used to demonstrate training and competence.

General education and training themes could include:

- Monitoring Diversity
- Managing Diversity
- Instituting a Diversity and Inclusion Strategy
- Inclusive leadership
- Culture workshops
- How to use HR/whistle-blowing systems
- Types of Bias / Bias Consequences / Counteracting Unconscious Bias
- Micro Behaviours also known as subtle acts of exclusion / Dealing with Micro Aggression
- Active Listening
- Having Difficult Diversity Discussions
- Non-Verbal Communication
- Workplace Bullying
- Harassment including Sexual Harassment
- People with Disabilities
- Neurodiversity

CFA UK and CFA Institute believe that training is most effective when embedded in broader leadership and management training, rather than delivered via stand-alone DEI related training sessions. Note however that training requirements will need to be adequately framed as there is a significant burden of mandatory training in most (large) organisations, leading to training being seen as an imposition rather than a route to better outcomes for all. Well timed and targeted training – such as inclusive leadership and unconscious bias training before the performance review cycle – can have a significant impact without being unduly onerous.

Furthermore, training will have little value if it is not backed up with a zero-tolerance policy to discrimination, bullying or inequity. Investment management is a competitive and highly rewarded industry, and this can lead to a culture of non-compliance for top performers or revenue generators. Whistle-blowing systems need to be effective and senior management must respond appropriately to concerns raised. There have been cases where whistle-blowers have been castigated, fired or anonymity breached by financial firms. The regulatory bodies have an important role to play in ensuring that such cases are dealt with firmly and that the industry sees an example being set. Furthermore, the regulators should take into account any DEI related considerations in their fit and proper assessments.

While training has an important role to play, it is not an end solution in itself. Real progress will be made through firms taking meaningful action to recruit, develop, retain, and promote diverse teams and embed a strong DEI supportive culture across their BAU activities.

18. What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?

Meeting the diverse needs of customers is a challenge and needs to be considered at both the product level and at the firm level. Training on ethical decision making would be a good starting point. Furthermore, there may potentially be aspects of Know your Customer (KYC) training that could be leveraged, noting that staff need to understand the behaviour of their clients with a view to identifying suspicious transactions.

Case studies based on client personas could also be used. Given how different and how complex clients can be, providing comprehensive training to all staff who may infrequently need to handle certain more sensitive client situations can be challenging. 'Vulnerable Customer Champions' could be trained and made available where necessary, offering expertise through regular interactions with clients in this category.

Employees need to put themselves in the shoes of the customer to understand their needs, hearing real-life stories of consumers affected by the wrong choice of product. For example, equity release is sold as an easy way to release money from the customer's property but the full implications of products are often poorly understood by elderly and vulnerable customers. Analysing the customer base versus the employee base may help identify gaps to fill.

Staff should be trained on the use of clear and simple language, the importance of disclosures, and how to effectively listen to and understand clients. They should also understand the consequences of failure to act in accordance with the needs of clients. An understanding of why short-termist behaviour is sub-optimal may also be helpful (this would also require firms to ensure their incentive schemes do not encourage such behaviour).

This is something that all actors in the sector need to consider, including the various regulatory bodies, noting instances of harmful impacts on specific groups such as 'mortgage prisoners', who may be disproportionately from some socio-economic groups and harmed by what had been intended as beneficial requirements for mortgage customers as a whole.

19. What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics?

There has been a growing focus on understanding the needs of clients, encouraged by clear guidance and rules from regulators. As new standards emerge on addressing client needs with a specific focus on ESG, the inclusion of diversity needs in the KYC process should be incorporated. As the broader ESG space still struggles with a lack of relevant or comprehensive data and no common standards for definitions on many of characteristics, care needs to be taken to frame consumer requirements in simple and relatable terms, backed by supporting evidence. Where specific DEI characteristics may lead to additional risks compared to other products, these need to be explained to avoid false inference that these matters enhance returns.

There are several ways that investment products can be made accessible to all, including improved digital offerings, increased selection of pronouns on application forms, inclusive marketing through a range of images and use of inclusive language, use of plain English, building inclusive questions into market research prior to launch, and providing more innovative solutions to customer segments that have historically been underserved by the financial sector.

20. What are your views on whether information disclosures are likely to deliver impact without imposing unnecessary burdens? Which information disclosures would deliver the biggest impact?

Addressing the data gaps is an important step in furthering our understanding of the benefits of a strong DEI culture. One way to facilitate this is to consider how the requirements around GDPR could accommodate the collection of personally identifiable information related to diversity characteristics of employees and customers.

Moreover, as we have already stated above, efforts towards better data and reporting of DEI metrics should be made in parallel to encouraging the establishment of transparent DEI policies, made publicly available, set by the Board and enacted by executive management, to promote a culture of progressive improvement in DEI outcomes in firms.

Disclosure requirements may be challenging at the beginning, however over time it would be reasonable to assume there will be improvements in data availability and the standardisation of metrics. The value of the information gathered will help drive future strategy for DEI across the sector and in serving wider society.

In our view, the following initial disclosures would be particularly impactful:

- Pay gaps (by gender and ethnicity)
- Diversity of workforce and senior leadership (capturing broader diversity characteristics)

For larger firms, where there is sufficient employee mobility, data that captures DEI characteristics focusing on recruitment, promotion, and attrition would set a good example to help measure progress.

21. How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?

We agree that reporting and disclosure requirements should be balanced and commensurate with firm size. The FCA's principles-based approach to regulatory matters should be preserved to avoid the overly prescriptive requirements that can lead to box ticking over action. The requirement for relevant and appropriate DEI policies relevant/proportionate to individual firms is recommended as per our comments in question 8 above.

Aggregated disclosure reports by the FCA would help demonstrate the industry wide commitment to improving DEI. The development of disclosure templates would be beneficial in providing structure for firms and facilitate cross-firm comparisons by promoting consistency.

22. What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?

The FCA should disclose as a minimum metrics related to protected characteristics, gender expression and socio-economic status plus qualitative information. See also our preceding comments.

In addition, the FCA should provide aggregated, cross-sector statistics and statistics for specific sub-sectors within financial services (Insurance, Banks, Asset Managers etc), including trend analysis. Such statistics need to be grounded in relevant and permissible information, the extent of which may grow over time as data privacy limitations evolve. The aim should be to encourage as much transparency as possible so that customers may make their own informed judgements on the strength and success of a firm's DEI approach based on publicly available information. The emphasis should be on meaningful information rather than on marketing.

23. What are your views on how we should achieve effective auditing of diversity and inclusion?

Effective auditing should focus on reviewing evidence that substantiates the claims made, data reported and outcomes delivered by firms, and on ensuring that governance and escalation channels have been utilised appropriately (including engagement of the Board and senior executive committees). Senior managers should also be able to speak to the topic during their regular supervisory engagements.

We note that auditing has an important role to play in progressing DEI improvements across the industry by holding it to account.

24. How can internal audit best assist firms to measure and monitor diversity and inclusion?

Audit Committees should ensure internal audit functions are mandated to cover DEI matters. For maximum impact this should include, to the extent possible, the embedding of DEI in BAU Audit practices and reviews rather than DEI being reviewed purely on a standalone basis. For example, in a review of adherence to SMCR, internal audit could focus on the SMF function responsible for DEI and the training provided to relevant SMFs on DEI related matters. DEI aspects could also be explicitly included in audits of organisational culture and corporate governance, and in product related audits e.g. algorithm driven outcomes for different client groups.

We agree that diversity audits should be considered for strategic work. Departmental DEI audits that focus on, for example, existing policy, training, bias in role descriptions, promotion history and equality of access to all aspects of the physical and virtual workplace would also assist in fostering an inclusive environment.

25. Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?

We believe that non-financial misconduct should be embedded as a key consideration within fitness and propriety assessments. This would help address potential issues with firms overlooking inappropriate behaviour from key staff for commercial reasons, incentivise an ethical culture in firms, and send a strong message to the industry that such misconduct is not acceptable.

We also agree that evidence of sexual harassment, bullying and discrimination should be included in an assessment of whether an individual is deemed "fit and proper." Firms would benefit from guidance on definitions of non-financial misconduct and its implications.

26. What are your views on the regulators further considering how a firm's proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board and senior management?

Considering collective suitability offers an opportunity to think more broadly about potential candidates. As such, a candidate's cultural 'add' (rather than fit) should be considered alongside other factors.

Overall, regulators should require firms to have policies and procedures in place that support inclusive hiring. Firms should be able to evidence adherence to such policies.

27. What are your views on providing guidance on how diversity and inclusion relates to the Threshold Conditions?

We are strongly supportive of providing such guidance, which would be helpful to firms from a practical perspective. In addition, such guidance would reinforce the importance of DEI as a fundamental consideration for the industry.

28. Do you have any suggestions on which aspects of our supervisory engagement with firms that you think could be improved to help deliver and support greater diversity and inclusion?

DEI should be embedded across supervisory engagements to the extent possible and be an integral part of periodic business and senior manager updates and assessments. In addition, DEI factors should be considered as part of application processes, including those for individuals, firms and, if appropriate, models (e.g. to understand potential negative impacts from model use on specific groups). Engagements with Board members should also routinely include DEI related discussion.

We are strongly supportive of the desires expressed in 5.77.

29. What impact do you think the options outlined in this chapter, alongside the FCA's proposals for a new Consumer Duty, would have on consumer outcomes?

Further information on the Consumer Duty is required for us to meaningfully opine. More broadly, it is in the interests of the financial services sector to proactively improve DEI, recognising the evolving nature of reputational risk and the imperative in a knowledge-based economy to attract, retain and maximise the skills of the best talent. A diverse, equitable and inclusive firm is likely to have access to a broader range of perspectives and knowledge, which may help enhance customer outcomes, minimise reputational risk for the firm, and increase innovation.