Financial Conduct Authority – Diversity and Inclusion Webinar
30 October 2023
Transcript

Alexander Smith, Head of Department, Cross-Cutting Policy & Strategy, FCA:
Hello and welcome to this webinar from the Financial Conduct Authority
and the Prudential Regulation Authority, where today we're going to be discussing the diversity and inclusion consultations that the FCA and the PRA published in September.
I'm delighted to say that I'm joined by a number of colleagues from both the FCA and the PRA so we can talk through the content of those consultation papers to give a flavour of what it is we're seeking to try and achieve, but importantly also answer the questions that you may have.

So let's give a flavour of what we're going to be doing over the next hour. In the first half of this webinar, you can hear from a number of FCA and PRA colleagues, talking a bit about the consultation.
We'll start with Sheldon Mills, Executive Director of Consumers & Competition at the FCA. He will introduce this webinar and talk about the FCA perspective.
Gareth Truran, the director of Prudential Policy at the Bank of England will give the PRA’s perspective before Peter Curtis-Valino and Tina Harris, the policy managers responsible for this work at both the FCA and the PRA respectively, will talk us through a bit more detail around what's in the consultation, the policy development and the next steps.
When we’re in the second half of this webinar, we will move on to talk about the questions and answers that you have.
Thank you to all those that have provided very many questions already. We will do our very best to get through as many as we possibly can, but you still have plenty of opportunity to ask additional questions.
You've got the sidebar, so please feel free to add as many questions as you want and we'll work our way through them.
And those four speakers will be joined by another panellist, Sacha Sadan, director of Environmental, Social and Governance at the FCA as well. So why don't we dive straight in?
Sheldon. Good morning. You're going to talk us through the FCA’s perspective on diversity and inclusion in financial services firms.

Sheldon Mills, Executive Director, Consumers & Competition, FCA:
Good morning, Alex, and good morning everyone.
Thank you very much for joining this joint FCA and PRA webinar on our diversity and inclusion consultation paper.
I am delighted to be introducing this webinar and I wanted to take you through some observations at the outset before we come on to questions in the panel.
A question some of you might have is why is diversity and inclusion a regulatory issue and why are we getting involved as a regulator?
That put simply, this is important to us because diversity and inclusion relates directly to all of our statutory objectives.

Firstly, when firms have a healthy culture and have diversity of thought at all levels, staff feel more able to raise concerns and speak up. It's about psychological safety. This makes firms better equipped to tackle groupthink, improve decision making, and ultimately strengthen risk management. It enables all sorts of problems to be remedied at an early stage before they might develop into regulatory breaches with negative impacts on consumer protection, market integrity and competition in the interests of consumers, all of which are our statutory objectives.

Secondly, if firms have diverse perspectives and enable all voices to be heard, they are more likely to create and deploy innovative products and services.

We've been at the forefront at the FCA of enabling firms we regulate to test their innovation safely in our sandboxes, and we've committed to encouraging a diverse range of firms and voices to participate. Greater innovation supports all of our objectives, facilitates the growth and competitiveness of the UK economy, and improves the UK's reputation as an attractive place to do business. At the heart of that is diversity and inclusion.

Thirdly, how diverse and inclusive a firm is impacts how well it is likely to be able to understand and importantly to meet the diverse needs of its customers.
Firms with a greater understanding will be better equipped to provide products and services to better cater for a diverse consumer base and then compete for business.

Our most recent Financial Lives survey showed that many consumers in minority groups face unequal outcomes and barriers to access. Finally, one of the factors underpinning the international competitiveness of the UK's financial services sector is its broad and highly skilled talent pool and the capacity to attract and retain such talent or human capital.
We consider that proposals to increase levels of D&I within firms can further help unlock talent from individuals with under-represented characteristics and support their career progression.
This means sustainably widening the sector's talent pool and thereby bolstering further the UK financial services sector’s reputation. The importance of this work lies in the outcomes we want to achieve, and ultimately we envision our proposals helping firms to develop healthier cultures, reduce groupthink, unlock new talent, promote innovation, and have a greater understanding of and ability to provide for their diverse customer needs.
That is what our proposed framework will do, and my colleagues will take you through the detailed proposals shortly.
Flexibility is central to our framework. We are not adopting a one size fits all approach and we understand that each firm is different. There are firms with different sizes, different local populations, and it's important that the proposal is flexible to meet those.
Therefore, it is the firm's responsibility to come up with solutions that will best fit their business within the framework we've proposed. And when it comes to smaller firms, we recognize the need to be proportionate.
It's important to note we are on this journey as well at the FCA. Diversity and inclusion isn't something that we are obliging firms to do - we also have to do this too. We are an employer and we've set ourselves challenging targets and are making good progress. But I'll admit we have more to do and we will do so. In closing, this paper represents a really important step forward, and I want to take a moment to thank all of you listening today. We know that moving the dial on diversity and inclusion is a collective effort.

That's why we're encouraging you all to respond to the questions in the consultation paper by December the 18th. Just in time for Christmas and with over 1600 people signed up to today's event, we know that there's keen interest in our proposals and we want to get this right with all of you. I'm sure there'll be many questions today and we shall get through as many of them as we can.
But I can assure you that we will take those away and we will reflect on both the questions that we get here and the consultation responses that you provide to us. And I look forward to working with you and so does the FCA as we continue our engagement with industry on D & I. And we all seek to make the financial services sector and improve the sector as brilliant, to make it a brilliant sector for everybody to work in.
Thank you.

Alex:
Thank you very much. That was the FCA’s perspective on the diversity and inclusion consultations. Gareth, I think you're going to talk us through the PRA’s perspective.

Gareth Truran, Director, Prudential Policy, BoE:
Thank you, Alex. And thank you to Sheldon. So let me add my welcome to you all here today on behalf of the PRA, I'll say a few words about how I see these proposals from our perspective.
So first of all, from our primary objectives, we see a clear link between improved diversity and inclusion outcomes in firms and our primary statutory objectives at the PRA.
Specifically, there are many similarities here to Sheldon's comments. We think improved diversity and inclusion can support better internal governance within firms, better decision making and better risk management, and these clearly support our primary objectives to support the safety and soundness of

regulated firms and to contribute to the protection for insurance policyholders. And we see two main drivers of these outcomes.

The first is reduced groupthink, and the second is promoting a culture where individuals and firms feel able to speak up and challenge.
Groupthink has frequently been highlighted as a factor in a number of previous failures, most notably in the Walker review following the 2008 financial crisis.
And this showed the dangers where individuals are not able to challenge a prevailing orthodoxy. And also even where dissenting views are held, it can prove difficult for individuals to speak up effectively and to challenge particularly where there are strong leaders.
So our CP makes the case, we think, supported by evidence that a lack of diversity and inclusion can be key factors that contribute to groupthink in financial institutions. And conversely, that improved diversity, when combined with inclusion, can help improve decision making in risk management, thereby supporting firm safety and soundness.

Now, alongside our primary objectives, we also have two secondary objectives to facilitate effective competition and to facilitate international competitiveness and growth. And we also think that proposals in our consultation can facilitate these secondary objectives. And in a similar way to what Sheldon described from the FCA's perspective, we've set out in the CP that we think there's evidence to suggest, for instance, that enhanced diversity amongst employees can help support greater innovation, enabling firms and particularly new entrants to be more competitive. And improving diversity in recruitment, improving the working environment through inclusion, can also help firms access and retain a wider pool of candidates, making them more competitive in the labour market.
And countries that access the full range of their talent pool, often have better economic growth potential.
So we think our objectives or proposals are good for our safety and soundness, our primary objectives, but also to support competition and competitiveness. And in a similar way to the FCA, we've also tried hard to recognise the fact that our proposals need to be tailored to different firms’ circumstances and to ensure our expectations vary proportionately.
For example, for smaller firms or for branches of overseas firms. And on reporting, we've tried to take into account the areas where firms are already further advanced in their own data collection.
So, if diversity and inclusion can help support our objectives, what is the current position out there in the financial sector?
And while there are limitations in the current data, it's pretty clear that the evidence from various studies shows that financial services remains unrepresentative of the UK population as a whole, particularly so in relation to women and individuals from different minority ethnic backgrounds.
And in terms of inclusion, as you will be well aware, there are known cases where culture in financial services firms continues to be under the spotlight.

Now there are many reviews and industry initiatives out there which have highlighted these issues and have identified action plans to make improvements. And we welcome these initiatives and want to build on them. Many firms participate in them and they often involve voluntary pledges, targets and reporting standards for firms and the Bank as an employer also has a number of initiatives in train and participates in a number of these broader programmes to continue to make progress on our own diversity and inclusion commitments and outcomes.
So, we think there's good evidence that diversity and inclusion is both a risk and an opportunity for the sector.
And many firms, albeit at different paces, are already mobilizing to improve outcomes.
Which brings me back to the role that we think we as regulators can play in supporting further progress.
As many of you will know, we've been thinking about the role we can play here for some time, and our 2021 joint discussion paper with the FCA set out a number of areas where we felt we could make a difference and we were very encouraged by the feedback we received to this discussion paper and in particular that respondents agreed that regulators could play a role here alongside the other work underway across the sector.
So, thank you to all who fed back on that discussion paper because it's really helped shape the proposals we have consulted on.
However, at the same time, we are aware that diversity and inclusion is a very complex topic. Many of the issues involved reflect deep factors across society and areas that are well beyond our remit or ability to resolve as financial regulators. And so, we've been very careful to make sure that in going into this area we

focus on those things we think we can link most directly to our objectives and where we think the evidence can best support regulatory action.
So let me close by saying thank you again for your engagement so far, and we look forward to hearing your feedback on the proposals both today and through our formal consultation responses. We'll be very interested to hear your feedback.
So let me hand over now to Tina, who will outline more about our policy journey so far. Tina.

Tina Harris, Manager, Governance Remuneration & Controls, Prudential Policy, BoE:
Thank you, Gareth.
If we look at the regulatory timeline, we can see that the PRA and the FCA has been developing its approach to D & I since 2018 in a coordinated way. In 2018, the Capital Requirements Directive and the Markets in Financial Instruments Directive rules on board and diversity targets were implemented.
This currently requires firms to consider a broad set of qualities and competencies when recruiting board members, set targets for the under-represented gender, have a policy in place promoting diversity of the board and explain on their website if they have one how they comply with the above.
You will see later on that we propose to tweak the above by requiring a diversity and inclusion strategy instead of a policy.
And also we are updating requirements on targets. After 2018, there was the FCA literature review in 2021 - 'Evidence and impact of diversity and inclusion in the workplace', and this led up to the FCA CP 'Diversity and inclusion on company boards and executive committees'.
There was also the D & I DP, which has been mentioned earlier, which was published jointly by the FCA, PRA and the Bank. The Diversity and Inclusion discussion paper set out the case for further action and some options for what the regulators could do.
As Gareth alluded to, we did get quite a lot of responses from firms there was 184 responses and lots of responses from industry organisations as well as firms, consultancies, think tanks and lots of other stakeholders.
Respondents set out some ideas on how the regulators could make policies that will help improve progress on diversity and inclusion in support of these outcomes. Suggestions included how data collection, monitoring, reporting and disclosure could help firms use evidence to understand their starting point, set appropriate targets, identify areas for intervention, measure progress and hold themselves to account.
The DP also explored the role that the board and senior managers of the firm play as key decision makers in making progress on diversity and inclusion.
It also considered some levers that could help firms to develop their strategies such as setting targets.
The DP responses and the accompanying voluntary data collection inform the approach that we have taken in the CP.

In 2022, the FCA published the policy statement 'Diversity and inclusion on company boards and executive management'. They also then published their paper 'Understanding approaches to D&I in financial services'. In this particular paper, the FCA observed how financial services firms are designing and embedding diversity and inclusion strategies.
The timeline ends, of course, with the FCA and PRA publishing the CPs last month. I will now hand over to Peter to discuss the policy proposals and the next steps. Thank you.

Peter Curtis-Valino, Manager, Cross-Cutting Policy, FCA:
Thanks, Tina.
Let's start by giving an overview of our joint policy proposals. And as you can see from the fact we're here doing this webinar together, we and the PRA have worked very closely together with the aim of developing a joint set of proposals.
And that's across all the firms that we regulate, but of course we're different regulators, with different objectives and regulatory frameworks, there are some differences which I highlight as we go through.

This slide provides a high-level view of our shared policy proposals.
I'm going to start with the large firms at the top of the pyramid, the large firms which we define as firms with 251 or more employees would be subject to the full regulatory regime, including elements that smaller firms don't need to apply.
So large firms would need to set targets for themselves to address underrepresentation in their firms.
And that's across a range of characteristics. We're proposing that
firms would have the freedom to prioritise the areas within their own firms where the most progress is needed, and that's where they could make the biggest difference. We would normally expect firms to set at least one target for each of the board, senior leadership, and employee populations as well to drive progress across the firm as a whole.
And they may choose to set inclusion targets in addition to diversity ones.
So large firms would also need to collect data from staff and report that to us annually in an aggregate form, and that would be across the range of diversity characteristics, inclusion metrics and targets, and that would form part of a regulatory return. A new regulatory return.

This would also go wider than just sex and gender and ethnicity, it would also go across a range of characteristics like disability, age, religion, sexual orientation and we'll also encourage firms to collect and report data on other characteristics on a voluntary basis as well.
And that goes to things like socio-economic background and caring responsibilities.

So, in addition to reporting this information to us, large firms are also being asked to disclose that publicly. That would be a requirement to increase transparency and scrutiny from stakeholders, including staff and shareholders, so they can help drive change and hold their own firms to account.
And we'd also be looking at whether we can publish a report of aggregate data, and that would just allow firms to much more easily compare against peers within their sector or across the industry as a whole.

And finally, for large firms we are proposing to provide additional guidance to make clear that lack of diversity and inclusion is a type of non-financial risk.
And of course, it's sort of the reverse of the links there that we've made to our objectives.
So very much the risk of driving groupthink leading to worse quality decision making, potentially adversely impacting firms and their customers. And this is an area where we think it's really important for firms to have full flexibility on how to embed that within their internal governance and risk management frameworks including in the work of risk, compliance and internal audit. But we know HR and corporate responsibility functions will also play a big role here as well.
Other requirements would also apply to firms with fewer than 251 employees. So in addition to the big firms, all CRR and Solvency II firms would also be required to establish, implement and maintain a diversity and inclusion strategy. That's to support and drive progress by setting themselves clear goals and objectives, making a plan to meet these and monitoring progress, identifying and managing obstacles,
sharing knowledge with staff, and ensuring oversight by the boards that firms can drive progress and hold themselves to account for their own strategy.
So, firms of any size would also need to report their average employee numbers via RegData on an annual basis, and that's so that we know who will and won't be in scope of the full proposals.
We don't currently collect that data for all firms on a standardised basis. Firms of any size will also need to meet FCA requirements on non-financial misconduct, so I'll come to those in a few moments. And all dual-regulated firms will also need to meet some additional PRA requirements as well on governance, accountability and monitoring.

So, moving onto the next slide on non-financial misconduct.
Our proposed measures here would apply to firms of any size, including limited scope firms, and our proposals aim to clarify expectations around how firms should address non-financial misconduct. This is intended to support firms to take decisive action against employees engaging in serious adverse behaviour such as bullying or harassment, which run counter to the kinds of healthy and inclusive cultures that we all want to see.
Where tolerated these kinds of behaviours pose a real risk to public confidence. Also fostering an environment where other types of misconduct could be tolerated or go unchallenged resulting in greater harm to customers or higher magnitude regulatory breaches down the line.
To help tackle this, we're proposing to explicitly include non-financial misconduct both in fitness and propriety assessments, the conduct rules, but also the suitability threshold conditions as well.
On fitness and propriety, we propose to explain that bullying and similar misconduct in the workplace is relevant to fitness and propriety assessments, and that similarly serious behaviours in personal or private life are also relevant. And we would consider this to be a clarification of our existing approach.
We have already taken action for non-financial misconduct under existing requirements. We're also proposing to expand the scope of the conduct rules, to make clear that they cover serious instances of bullying, harassment and similar behaviour towards staff.
This means we'd expect to see firms taking appropriate disciplinary action in the same way that they do other types of breaches to the conduct rules now.
It's also worth noting that unlike fitness and propriety assessments, these don't apply to personal and private life.
We can also take action ourselves where we think disciplinary action by firms alone isn't sufficient. And in that scenario, we have access to a full range of the usual enforcement powers, including things like prohibiting staff from working at other regulatory firms as well.
But that, of course, would be limited to the most serious cases.

And finally, we propose extending our guidance on the suitability threshold conditions to make clear we will consider, for example, offences relating to some of these demographic characteristics such as sexual or racially motivated offences. We'd look at tribunal and court findings that the court ruled against the firm or someone connected with the firm has engaged in discriminatory practices.
And we also consider the circumstances of each firm on a case by case basis, looking at the overall suitability of the firm at the gateway.

So, moving then to the next slide so this one is on next steps and there's still a way to go before the regime is fully up and running.
So the CP is open now. It's open for three months until the 18th of December. So please do take the time to respond. We'll then carefully consider all of that feedback and we do use it to refine our approach. As Tina was saying, we've already had the discussion paper and we got a really great response there, so that helped shape this set of consultation proposals.
But we will carefully consider all of the feedback that comes in at the consultation stage as well before finalising our rules likely in the second half of next year. And then firms, we understand firms will need some time to implement these. We will also need some time, by the way, to kind of upgrade our internal systems and make sure our regulatory approach is in place.
So for this reason, the rules wouldn't come into effect until 2025, 12 months after the policy statement is published.
Thank you very much. Back to you, Alex.

Alex:
Thanks very much, Peter. Thanks very much, Tina. And also to Gareth and Sheldon.
So, this is the section where we move on to answer your questions. We've had quite a lot coming through, but please do keep sending them and I'll do my very best to guide us through and answer as many as we possibly can. I'll also try to take them thematically and actually, I want to come to Sacha first, because we've had some questions around whether the proposals are really focusing on diversity and diverse characteristics, or is this also about inclusion?

Sacha Sadan, Director, Environmental Social and Governance, FCA:
Hi, everyone.
So, as someone who's been caring about this and involved in this from an asset owner and an asset manager for over 20 years, I think it's a really it's a cracking question and it really is important that we talk about inclusion.
And one of the things I've been quite pleased with in certain things on here is look at the six questions that we're going to be including on inclusion specifically, and I've already talked to a few people who are ex-FTSE chairmen and non-executive directors who have been really pleased to see the six questions that we're doing on inclusion because it's just as important and you've seen that from when the PRA talked about the Walker Review, which obviously I helped Sir David Walker a long time ago on at the banks.
And so some of the things that give you an example let's just give you an example, Is it safe to speak up not just on bad stuff, but can you speak up to try and help on opportunities?
Not always do it the same way and what's important is that the directors of companies always hear, they do their own survey.
So, we know 84% of large firms already do employee surveys, but they do them all slightly differently, so it's very difficult to compare them. And so what we are trying to do is try and help that by having consistent data that can be then used and those questions can be then compared. So it can also help the companies as well as helping our supervisors.
So, inclusion is extremely important. It's not always about risk, although we always talk about that, safe to speak up negatively, but it's also about do you not go with the flow and want to think about new innovative ideas? And when you think about financial services, we're thinking a lot about, look at the new technologies that are coming. Look at the new things that are coming. It's not easy to keep your existing business model, and you want new innovative things.
So, competition is important, but also putting your hand up and even cannibalizing your own business model. Now that's not easy to do in a firm, so inclusion is very important. Thanks.

Alex:

Thanks Sacha. Actually, I'm going to stick with you if that's okay, because we have had another question through the live chat that I always wanted to pose to you.
And this is talking about the fact that lots of diversity and inclusion related initiatives in firms.
How do you make sure that there's longevity in the actions and they deliver real, demonstrable, meaningful change?
And how do we therefore avoid the FCA's and the PRA's intervention just being this cycle of reporting?
How are we going to deliver that meaningful change?

Sacha:
Well, the first thing is, I mean, I can only speak for myself, but I remember I just had a look 2015 one of the asset managers that I worked for, but others as well were voting against all male boards in 2015 and we now got 40% women on FTSE 100 boards.
This is not new.
This is the regulator helping join that. A lot of the data that we're doing is linked to the Parker review on ethnicity. We'll be linked to Women in Finance, we will be linked to the Diversity Project.
So, we are trying to help build the momentum that's already there. Asset owners and asset managers are already demanding this of listed firms, and we're trying to move it more to the private, financially regulated firms. So, it's not new.
Secondly, that's why we got the consultation out to talk about these things in a bit more depth, including inclusion, which I've already talked about.
But no, we're not trying to just suddenly start from scratch. We're not coming up with many metrics that haven't been used already. As I said, 84% of large firms are already doing employee surveys and asking some of these questions.
We're just trying to help make this consistent, transparent and more importantly comparable.
And I think we can do that. And the more that the discussion, debate comes up, the more that this will become important.
But most employees want to work for a firm that care, and most employers are already thinking about these things, we're just trying to help. And that's why the consultation will be so important to get your answers.

Alex:
Lovely, thanks Sacha, and we've actually had some questions through in relation to data but
I'm going to come back to that in a second because there's been a group of questions I want to bring both Sheldon and Gareth in on if that's okay.,They're kind of two questions asking the same thing. It's about approvals, approvals by the regulator.
So one of the questions is very much how do we ensure that firms don't feel under pressure to appoint the wrong person just to meet a diversity target and then from the other perspective, some we've got some questions here challenging whether or not because there's a perception that you need 20 years experience to be able to be a NED of a firm, whether or not the pool is sufficiently big to create that diversity and inclusive group.
Sheldon, I want to start with you. What's your take on both those questions?

Sheldon:
Yeah, no, they are great questions.
I mean, the starting point is that this is not a box ticking exercise. So as a black man, well a black LGBT Welshman who works on the executive at the FCA, I would hope that I don't have my job on the basis that somebody wanted a black LGBT Welshman, right?
So, at the end of the day, it's not a box ticking exercise.
People are obliged by law to appoint the best person for the job. But we do know from the data that we see that diversity at the very top and throughout organisations, sometimes roles aren't necessarily always going to the best people for the job and that there are issues in terms of representation. How do you manage that issue of pressure?
Well, I turn the question on its head and don't talk about pressure to appoint the wrong people.
There's pressure to appoint good people for the job regardless of their characteristics, and I think that's important.
So, the starting point is that firms look at the knowledge, skills and capabilities that it needs for a role or for its board. And then through that process of searching, seeks out the vast possible amount of talent that it can find in terms of candidates from a range of characteristics. And in that way you end up delivering a more

inclusive recruitment process and you end up hiring in a way which might meet targets that large firms might set for themselves or strategies that smaller firms might have in this space.
That's in a sense why we're not mandating which demographic characteristics the targets must cover, nor what those targets should be.
That's to give firms that flexibility in terms of characteristics or additional characteristics.
But I don't think I don't think that there's pressure to tick boxes.
There is pressure to adopt a process that's fair, equitable and seeks to benefit from the diverse talent that we have in the UK and that we can benefit globally from.

Alex:
Thanks Sheldon. Gareth,I assume that’s a consistent answer for the PRA as well, is it?

Gareth:
Yeah, definitely.
Yes, I agree with Sheldon, but just to pick up on one other aspect of the question that I think you flagged, Alex, was this perception and comment that, you know, to be on a board you need to have a certain number of years of financial services experience.
I mean I think it's important that we sort of push back on that a little bit. I mean, our perspective, certainly as the PRA is that we want as well as the demographic sort of issues that Sheldon mentioned, we want people with the best skills and a broad range of skills on a board.
It would be a rather sort of broadly deficient situation if you had a board full of people with a certain type of financial sector,
financial services experience, or a board that had none at all.
Clearly, we need a range. You need some people on the board who can provide that type of challenge, but also other people on a board with a wide range of skills from other perspectives.
So, if there is a perception there that the reason why board diversity is is because there's a regulatory drive to say we want a certain type of person with a certain background or a certain skill set, I would just push back on that a bit to say that's certainly not our position and there may be other parts of the recruitment process there that is driving that sort of behaviour. And if so, then it's important that we look at that and that the industry looks at that.
But certainly from the perspective of getting something through a regulatory approval, we are looking for people with the right skills and a balance of skills across a board. Thanks.

Alex:
Thanks, Gareth. I want to come back to you, Sheldon, if that's okay.
As you've mentioned there, one of the one of the key things that we're proposing is for the larger firms is to have data reported to us around employee characteristics. What reassurance can we give to firms and their employees around how their data is going to be used?
And how can we encourage employees to feel safe to share that information with their employer?

Sheldon:
Well, the starting point with this question is that it’s mandatory for firms to report to us on the aggregate data that they collect, but it’s voluntary for any individual to report internally to a firm on their personal characteristics.
And some colleagues may well wish to preserve their privacy and not say, so within any collection of data. It's important that that prefer not to say box exists and we support that.
So, what do we do with in that environment where we don't want to place pressure on colleagues to do something that they don't want to do?
Well it's the same with anything. I mean, it's about building trust with your colleagues, making them feel safe that they are able to share that data.
And that goes hand in hand with our approach under this D&I policy to foster workplaces where there's trust and healthy cultures, where employees feel more encouraged to disclose their personal information in confidence and see the benefit that comes from that.
I think when you dig in to that a bit, transparency is key.
So being transparent around what the data is going to be used for and that isn't just saying well the FCA requires it, therefore we need to collect it or the Equality Act requires it, and so on and so forth.
I think it really is important for people to feel and understand what an individual firm is going to use that data for and how that is going to build into both fairer and more equitable processes in terms of hiring and

recruitment, in terms of progression and representation, as well as responding to any regulatory requirements that the firm has.
So, I think it's about building trust, transparency and building those cultures.
But at the end of the day, it is important to enable colleagues to say when they preferred not to say. Just one final point in relation to that.
I can remember many years ago working in a law firm where we were deciding whether or not to ask colleagues for information on what was then described as their sexual orientation.
And there were many colleagues who were LGBT who didn't want to disclose that information, so that actually there were some people who were in favour of it, some people who weren't.
And some of the reasons for that was because the environment within the UK was such that there was still quite significant discrimination against LGBT people and people were worried about disclosing that information.
So, it's important.
What I learned from that is it's important to have context and to explain and be transparent about what information is going to be collected for.

A final point in relation to that is that the data that we're asking people to collectively report to us relate to UK largely to UK colleagues.
So, employees who are here. There are different laws and there are different socio and political contexts in international and other countries. And of course, it wouldn't be appropriate for us to necessarily collect that data from those global firms and activity which they have there.
So it's important to note that there are contextual examples here and it's important for the firm to get that right in terms of its relationship with its colleagues, to build that trust and confidence so that people can share their data.

Alex:
Thanks, Sheldon.
And as you said right at the beginning in your introductory remarks, you know, as an employer, the FCA is obviously going on this journey as well. And we ourselves are asking how do we make sure that all employees feel comfortable sharing this information or as you say, indicating they prefer not to say, I could go anywhere with this, but I think what I might do is just stick to data for one more question and bring in Sacha, if that's okay.
Because Sacha, in the consultations, the FCA and the PRA have proposed that certain characteristics we would be looking to collect information from firms on a mandatory basis, some more voluntary. And the one that's being called out, which is voluntary, and the consultation is around the social economic background, what if you could kind of pick up some of the thinking around that, given that we know that's an area where there are some challenges?

Sacha:
Hi everyone again.
So, first of all, we are trying really hard here and we're being pretty ambitious in lots of ways.
I know quite rightly people want us sometimes to be even more ambitious and we are trying to work it out and we are trying to be a data led regulator.
So let me give you some stats.
When we look at the large firms that we surveyed, only 20% of them actually had been analysing socio economic data.
So, they're not already there yet.
So, what's our thinking? Our thinking is we're already talking about it.
So, the great news is we're talking about it right now at the CP level and we're already pushing that at large firms, but it is voluntary to start with. But there is a question in the CP, should it be mandatory?
We are asking that and we will be listening to your answers.
So, nothing has been decided, but we tried to take a balance of what people are already reporting, where they're already doing things.
So, 84%, already do employee surveys so it's not hard to tweak the questions to that, simple.
But if only 20% of the firms had been even asking this, it might take time. But you can see the journey.

Thirdly, we're the regulator, if we are already talking about this, it will become voluntary for now, but people will think this is becoming more standard and we can do things with that. But as I said, it will be a question in our CP. Do you think voluntary is the right approach or should it be mandatory? And we will be waiting and looking forward to your answers.
But it is very important and I think the ones that will be giving us this data will obviously will give us some good data to start with and others will join in.

Alex:
Thanks, Sacha.
What I might do is I might just dive into one of the detailed questions now.
It came through very early in the webinar, so I feel like it's there on my screen ready to be asked. And Peter or Tina, I might come to you first, actually, Tina, if that's okay. And it's around clarifying our expectations for firms with multiple regulated entities, i.e. a group structure, particularly when you start to get into that 250 employee threshold that Peter described in his remarks, how do we propose that that's going to work?

Tina:
Yeah, well, first of all, we did say that we wanted the data on a solo entity basis, but that firms, if they want to submit data in relation to groups, they could choose to do so. But the reason why we said solo entity basis is because we wanted to have a clear sight of what was going on in detail on the solo entity basis, and that when you combine figures on the group basis, you might not have the insight that you would like to have.
But I do think this is an area depending on feedback, because we've had firms contacting us and tell us that they would like to report on a group basis, that we could have further thoughts about it and how and what advice we want to give to our regulated firms on this.

Alex:
And I guess that's the key point, isn't it, Tina?
And we've heard it from a couple of the other speakers. This is actually a consultation. This is our opportunity to hear what everyone thinks in response to that consultation. And so we would invite feedback on that.
Indeed, on any of the proposals we put forward, wouldn't we?

Tina:
Yes, I agree.

Alex:
And Peter, can we just come to you then, because we had a few questions around the 250 employee threshold, and particularly in relation to small firms that may never hit that and why we're proposing that they would need to submit to us that number annually, whether that's a proportionate thing to do.

Peter:
Yes, I think this is to some extent this is just a practical question, because I think one of the things that we don't have at the moment is a return which asks the question systematically across all firms, you know how many staff do you have?
And I think this is important to monitor that gateway to see whether firm is or isn't below that threshold and whether they're likely to hit it at any time in the future.
And I think what we can do is look quite closely at whether there are ways to do this more efficiently.
And we will need to devise some sort of RegData return on this. And it doesn't always need to be the case that when providing information to us, it's sort of a, you know, an extensive form that needs to be completed and take a long time. You know, it could be as simple as sort of a single sort of tick box or a single number that that needs to be entered.
So, we can look at that quite closely to work out how best that can be that that could be achieved. And whether it is something that needs to be sort of re-entered every year or whether it could be sort of affirmed as part of, you know, perhaps a wider, a wider declaration.

Alex:
Lovely. Thank you, Peter, If I jump back a bit, if that's okay.

When Sheldon was talking a bit about some of the territoriality, Gareth, I think we've had a few questions here around what are the requirements for third country branches and subsidiaries of international groups and how that would work in practice?
I wonder if you could unpack that a bit.

Gareth:
Thank you. Thank you, Alex. Let me let me say a few words on this.
So, first of all, our proposals only apply to employees that carry out their activities predominately from a UK establishment. And most of the proposals that we've set out in the chapter on board governance are just not applicable to third country branches recognizing that they don't have a standalone board in the UK, so that would be the first thing to say.
I guess the second thing that is, you know, when it comes to monitoring diversity and inclusion, the senior management functions of the firm that are approved by us, would have to oversee those proposals in lieu of a board.
And then the third thing would be for the purposes of reporting, firms can enter not applicable as third country branches don't have a board and can just sort of put in a zero for the board questions. On individual accountability, we'd expect the firm to allocate responsibility for diversity and inclusion to the relevant senior management function holder in the same way as would apply to other firms. And that should be reflected in their statements of responsibility.
So, I hope that helps clarify.

Alex:
It does. Thank you very much to you, Gareth. Okay.
So we have actually had, Sacha this is going to come to you because we've had a very good question I think that we will probably want to address, which is, is there a risk that in seeking to meet the policy proposals which, subject to becoming requirements, this just becomes window dressing, we don't deliver that demonstrable change that's talked about in both of the consultation documents.
How do we as regulators intend to interrogate this to make sure that actually firms are delivering and living what that what the proposals are seeking to achieve?

Sacha:
Well, let's start from the beginning.
Already, asset owners, asset managers of companies are already asking for these kinds of data and starting to talk about it because they start to see the positives.
And when I mean the positive, the business case and we must remember it's a business case.
So even 15 years ago I used to talk to engineering companies who had a real problem recruiting some of the greatest engineers out there because they were going to work for firms that had better diversity policies.
And that's the same here. We've just talked about fintech.
You talk about some of the things that are going on in our industry that's about to happen in the next 5 to 10 years.
Why would they want to come and work for your firm?
So, you have to be able to show that you are an inclusive culture, that you are the sort of person you want to work for.
You see some of the tech firms, they all dropped out before they went to university. They come from different ethnicities, they come from different places.
So, it's a business decision.
And so what we're trying to do here is try and bring that data comparable.
And it isn't just us that's going to be using it.
I tried to say before, when I look at the non-executive directors of lots of these firms, whether they're privately listed or publicly listed, they want to know how they're competing with their rivals.
And of course, most executives will say that they are doing really well when they're talking about this. But how can you compare that if you're using different data?
So, our job is to try and help that on
an anonymised basis, but also supervisory, when we're looking at our firms and when we're interviewing them, we want to ask them, what are you actually doing on here?
We've done some multi firm work already on the gender pay gap and looking at some of the things about the firms that had the highest gender pay gap versus ones that have the lowest, not targeting them, but asking why do you think that you've got that and anything we can learn.

And part of our job as regulators is to help impart information and maybe give, you know, convene meetings to see when good practice happens.
So, it's not all about the data and it's not all about the stick. It's about the carrot and showing best practice sometimes.

Alex:
Thanks, Sacha. And obviously that's from an FCA perspective.
But I would imagine, Gareth, this is going to be fairly true of what you would answer that question for from a PRA perspective as well.

Gareth:
Yeah, no, definitely. I don't think I've got much to add to that. You know, we need, we need a broad range of skills.

Alex:
Lovely, thank you. Okay. In that case, we've got a couple of quite detailed questions that have been coming through now, so Tina I'm going to come to you first.
And some of the questions are around the consistency between the FCA and the PRA's proposals and specifically the additional requirements that the PRA is seen to have had.
I wonder if you could unpack a bit, what are they and why are they considered necessary?

Tina:
Yeah, our proposals for dual regulated firms have been developed in close coordination with the FCA, so they are substantially the same.
However, our proposed framework includes some additional requirements and expectations for CRR and Solvency II firms, which translates as banks and insurers.
So, for instance, we think the board should consider diversity and inclusion when succession planning. And another example is in relation to individual accountability.
The scope for prescribed responsibilities for Culture should be widened to include diversity and inclusion.
I can comment that the FCA doesn't a prescribed responsibility for Culture.
Instead, the FCA considers that all SMFs are expected to take responsibility for culture when taking forward their other responsibilities.
We also think that diversity and inclusion should be included in SMFs' statement of responsibilities as well.
The proposals also include that all firms monitor their own diversity and inclusion outcomes and their data and use this as the evidence base for monitoring progress. In relation to non-financial misconduct, firms will be expected to consider patterns of behaviour such as bullying, discrimination and harassment in fitness and propriety assessments.
So I think overall, that whilst we've addressed these extra issues, I think it probably just demonstrates we're very much aligned and it's just that the PRA just wants to outline further things to be considered at this stage, like succession planning, particularly when we're thinking succession planning up towards the board level and think about succession planning in relation to the employee cycle and up through senior executives and into the board as well.
And we expand on that explanation within the CP.

Alex:
Thanks Tina, people on the webinar, wouldn't be able to see me because I wasn't on camera but I was nodding away furiously when you were talking just then, I think that's the key obviously, is the fact that the FCA and the PRA teams are working jointly on this to try to make sure we have as consistent approach as possible.
There are some slight divergences where we have different objectives or different focuses, but we've tried to keep them as consistent as possible, but we welcome feedback to the consultation on that.
Peter, I'm going to bring you in now if that's okay.
And we have had a number of questions around non-financial misconduct. Specifically, what would be serious enough to make it relevant to the FCA?
And what more we could do at the FCA to help firms understand what they should be doing.
Some of the difficulties around this. I wonder if you could unpack some of the thinking that's gone into the consultation on this topic.

Peter:
Yeah, of course, and I think we know this one isn't always a straightforward question. I mean that's why we've kind of gone to some, some lengths in the consultation paper to set out lots of examples and detail. And what I would encourage everyone to do is to, is to turn to the detailed instrument at the back of the consultation paper as well, which sets out quite a list of different examples around the sorts of things that we would consider to be serious cases, you know, things like bullying, violent sexual offenses, racially motivated cases.
But I think it also calls out that, you know, there will sometimes be behaviour that falls below what we consider to be good practice but won't be serious enough to constitute a breach of the conduct rules.
So, I think judgment will be, will always play an important part here.
We've tried to give as much clarity as we can, but a bit like some of the other answers to the questions, you know if you think we can be even clearer and it's still not crystal clear what exactly would or wouldn't constitute something that would be a breach,
you know, do please let us know and we can think more carefully about that. I mean, I would say just as a general point, things which are consistent with the FCA's statutory objectives are a good yardstick to look at. That there's terminology in there as well about things that are, you know, morally reprehensible and things that throw into question somebody's ability to sort of meet the standard, the standard expectations of behaviour to operate within a regulated firm.
Please let us know if there's anything else that we can add on that.

Alex:
Thanks, Peter and Sacha, I want to come to you, if that's okay.
A few questions in relation to targets and the fact that actually different firms in financial services industry have different shapes, different structures, and about some of the flexibility that we tried to build into that to reflect that and empower firms to decide what targets should look like.
And some of the questions are really focused around what would could look like, how would it work in maybe a business with a call centre, I wonder if you were able to unpack a bit some of our thinking in relation to targets.

Sacha:
Well, I think always we should always think about the firm rather than what we think. And there are many different types of firms.
I like that debate on call centres. So again, and call centres have changed
now it might be call centres that you do half of your work from home now because of what's happened since post-COVID.
So, your targets are going to be very different to someone that's a bank branch or a motor finance retailer.
So I think it can be very difficult for us to just come up with one target.
So, it's up to you. I would think, though, if you're the board of the company and five of your rivals all have targets that are lot higher than yours and you're in a similar business, it may be a very good question for one for you to be asking, but also maybe that's the sort of question that some of your investors would be asking as well. So, I think that's where we start with.

Secondly, I think it's so important that people think about this in the round.
No one's going to have a perfect answer. So there's no pointjust saying, I'm going to go straight to 50% because that's just, that could be like greenwashing or social washing. Think about how you're going to get there.
And it's more about the things that you're doing because it's all about explaining this to your own people.
Forget about even just for the regulator. I personally think this is an employee led initiative and most employees do get involved.
We all have our own workstreams, internal work groups that want to help improve these things.
So, are you using them? Are they coming up with good ideas? And empowering them to answer that is a much better thing than just coming up with a number at the top of an organization. We're going to hit that and then push in the wrong direction.
So, I think it's really important we balance it and of course, it's our job to start looking at why your targets may be different to others'. It might be a very valid reason, but it's a very good starting point.

Alex:

Thanks, Sacha. So, I have been bouncing around quite a bit with the various questions and apologies for that.
And I don't think I've scratched the surface on the very large number that we have received.
So just to provide some reassurance in terms of the questions that we haven't managed to get to, we will make sure we feed them into the consultation so we consider them, we consider the questions that you've posed as areas where you would like further clarity and give further feedback.
So, everything that we haven't got to, I do apologise, but I promise you they will be taken into account.
I just want to lift us back out again right towards the end of this, if that's okay. And I'm going to come to Sheldon first and to Gareth, Sheldon, kind of what would success look like as a result of this initiative from an FCA perspective?

Sheldon:
Thanks, Alex. Well, I mean, I think what success might look like is that we have more diverse representation in our financial services industry here in the UK, that employees feel safe and confident within the workforce, that we have a speak up culture, that we see decisions taken which are subject to challenge from a wide variety of views and voices, including at board level.
What will that mean in terms of outcomes though? Because we are financial regulators after all.
So, we should see improvements through that and causal links to the integrity of our markets. The variety and choice that we see provided through to consumers and to businesses due to competition and that consumers are protected. And then a key question is how will we measure that success?
We want to be an outcomes based regulator
certainly at the FCA, and I know that's the case at the PRA. Measuring that requires us to collect data from you, data in relation to the aggregate data that we're collecting on representation.
But we'll also be asking certain inclusion questions which Sacha has been talking about, and that will allow us to get a picture of how this is faring within organizations and how they feel to be in which I think is an important part of that. And I'd also like to see the incidences of non-financial misconduct reduce.
And I think that would be an important indication for colleagues. And that's, you know, that's what I see as success. The final point I just wanted to make is that there's a lot of focus on D & I, obviously there will be because we’ve got our consultation paper, but this is not new for us.
So, through our supervisory activity, one of the five points that the FCA of how we look at firms, both from our portfolio analysis, our fixed firm analysis and our flexible firm analysis, which is the three layers of how we supervise the 50,000 firms that we regulate, is culture. It’s always been there, it is not new. And this proposal forms part of that supervisory architecture.
But we have always worked with firms in relation to their cultures being psychologically safe. And my predecessors have always talked about diverse representation at board and throughout firms as an important part of that.
This merely seeks to start to put that into a more structured approach that we as a regulator can look to, that we can base on data, and that firms across industry rather than the ones that we selected through that supervisory culture work, all understand what the baseline is for us as regulators.
And I think actually a good success measure will be the embedding, once this is confirmed, into our regulatory approach and then into firms. Thank you.

Alex:
Thank you, Sheldon. And Gareth, from the PRA’s perspective, what does success look like for you as well?

Gareth:
Well it's always good to have to go second on those sorts of questions because I think I can say I agree with a lot of what Sheldon said there. I wrote down three, when you asked the question just a minute ago, Alex, I wrote down three words which were culture, skills and data.
I think on culture, what I said at the beginning about the link through from the culture of the firm to sort of groupthink and speaking up are the key links, the key channels that we see to our objectives.
And so, I think an outcome around seeing those broken down within firms at various levels are an important component of that and skills.
We've talked a little bit about that already, but making sure that firms have the range of skills, experiences and backgrounds of staff to help them think through what are complex problems.
You know, financial services is a complex business.
It requires people with a range of backgrounds, a range of things they can bring to the table to help firms reach good decisions.

And from our objectives, make sure that those decisions and the culture that supports that are safe and sound.
And then as Sheldon mentioned, the data is a really important component of this. We do need we think we've got good evidence within the consultation to support what we're doing here.
But tracking how these things are changing over time will be an important part of the evidence base for the effect that our proposals are having. And the benchmarking reports that we mentioned in the consultation will be an important part of that. And but we do recognize that needs to be done in a sensitive way.
So, the questions earlier about making sure that individuals feel safe in terms of the questions that they are being asked as part of that. And the voluntary nature of those is an important safeguard. But being able to track at an aggregate level how about data is changing will be an important part of measuring success. And then I think my final point is really around, I think a success measure of this will be that this ends up being seen as a core part,
as Sheldon says, of the work that is absolutely bread and butter for regulators in terms of assessing firms' management and governance. We do that in the same way the FCA looks at that as one of our priority areas too, and that's a core part of supporting safety and soundness and making sure that this is seen as a core part of that overall work rather than something that sits off to the side, I think would be a good measure of success. Thank you.

Alex:
I agree. I completely agree. I cannot believe the hour has just flown by and that does bring us to the end of this webinar. In a couple of days' time a live version of this webinar including access to the slides will be made available on our website so you can watch it back or indeed share it with colleagues should that be helpful. We will also be sending round and making available a feedback form.
We would love to hear what you thought about this webinar to help us shape and improve future webinars, but all that does lead me to do is to thank Sheldon, to thank Gareth, to thank Sacha, Peter and Tina, but most importantly all of you for joining us.
Thank you very much for spending your time with us listening in on this webinar. And please don't forget that the consultation closes on the 18th of December and we look forward to receiving your responses. Thank you very much, everyone.