

Governance and Cross Cutting Standards Policy Team  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

By email

1 January 2024

Dear Sir/Madam,

**CP23/20: Diversity and inclusion in the financial sector – working together to drive change**

The Panel is deeply committed to the ambition to drive greater Diversity, Equity and Inclusion (DEI) and to gain a better understanding of the UK workforce demographics, to sustainably widen the financial services talent pool and foster healthy and inclusive workforce cultures. All appropriate efforts should be made in pursuit of those outcomes.

We anticipate there may be challenges in implementing some of the proposals in this paper and would suggest caution against a one-size-fits-all, prescriptive approach. Fundamentally, a balance is needed to encourage firms to find a responsible way to collect meaningful D&I data; imposing strict regulatory oversight of this activity could have inadvertent consequences.

Data collection

We agree that collecting and monitoring of D&I data should help drive improvements in DEI in the financial services industry; however, mandating that firms collect data across all demographic characteristics, including a number that are highly sensitive to the individuals being asked to provide the data, may not lead to the intended outcomes. Mandatory data collection could result in a higher 'prefer not to say' response rate, and – before any strict reporting obligations are put in place – clarity is needed on what level of 'prefer not to say' would be deemed a risk by the FCA and what consequences breaching that level may create. More broadly, greater transparency is needed on what is sought to be achieved by collecting broad, prescriptive diversity data, how it will be used and how it will be stored.

Target setting and disclosure

Putting in place set targets and requirements to publicly disclose targets would not be helpful in our view. Mandatory targets have historically sometimes resulted in sub-optimal outcomes and behaviours. Firms should be encouraged to have targets and be allowed to determine if, how and when they disclose their targets – all of which could be addressed through supervisory dialogue. We see little benefit in firms being mandated to report targets to the FCA, and clarity is needed around consequences for missing targets. Instead, we should empower firms to determine their own approach reflecting their specific D&I journey and encourage appropriate supervisory dialogue about that journey.

### Inclusion questions

While we welcome the focus on 'inclusion', the application of a prescriptive set of questions applied uniformly to all firms will fail to understand the distinct methods each firm adopts in cultivating an inclusive culture. We should offer flexibility, enabling firms to articulate their own approaches to establishing and measuring inclusive cultures. In short, the FCA's approach here should remain consistent with its focus on outcomes, not prescriptive process which may create consistency but not necessarily support the intended outcomes.

### Solo entity basis

Our view is that solo entity application (vs group level reporting) will be overly burdensome for firms to implement – especially larger firms with multiple business activities organised efficiently – and there will be significant administrative costs for firms, from identifying employees, upgrading systems, diverting resources away from those impacting meaningful change. There is also an unintended impact risk on firm culture in the drive for high disclosure rates, especially as low disclosure rates do not automatically reflect low levels of trust or poor culture. Moreover, putting in place quantitative reporting requirements for firms that operate within a group entity could result in unintentionally misleading figures as employees of group entities usually service a number of regulated entities, for example through a shared service model, and therefore cannot be wholly assigned to a solo entity or expected to represent a separate 'inclusive culture'.

### Non-financial risk

Panel members have differing views on whether or not D&I should be treated as a non-financial risk. Our shared observation is that there is a need to recognise that what works for firms in the capture (or not) of DEI data varies, especially as no two firms' governance structures are the same. In this context the approach to managing this risk should be flexible for firms to apply to their existing risk and governance structures.

We would be happy to discuss any of these points further.

Yours faithfully,

[signed]

Matt Hammerstein  
Chair, FCA Practitioner Panel