

Regulators to strengthen diversity and inclusion measures for FS firms

AT A GLANCE

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What's new?

- The FCA, PRA and Bank of England (BoE) published a joint [discussion paper](#) on diversity and inclusion (D&I) in financial services, on 7 July 2021.
- The regulators propose the introduction of regulatory reporting of D&I data, as well as a range of other policy measures. These include board representation targets, senior accountability, remuneration, and the public disclosure of D&I data and policies.
- The overall aim is to drive greater diversity and more inclusive cultures within the financial services sector, in turn creating positive outcomes for customers, firms and markets.

What does this mean?

- The regulators will apply the future policy to the broadest range of firms, recognising the business models of both smaller firms and overseas firms operating in the UK. They acknowledge the different supervisory framework that applies to financial market infrastructure firms (FMIs), noting that the BoE will separately consider proposals for these firms.
- Proportionality will be a central principle to any policy developments. The regulators are inviting views on what firm categorisation may be best to support this. Options include aligning to those used under SM&CR (Enhanced, Core, Limited) or the Companies Act (micro-entity, small, medium and large).
- The regulators are considering introducing regular reporting of employee data. They plan to carry out a voluntary pilot data survey this autumn, to inform reporting and future policy. They welcome views on which metrics to include in reporting, acknowledging most firms capture data on gender but reporting would go beyond this to include other characteristics, such as disability, sexual orientation and educational attainment.
- If successful, future surveys will be conducted to build up a time series of D&I data, helping to set benchmarks and inform better standards across the industry.
- The regulators set out potential policy developments including:
 - **Governance** - They expect boards to hold management to account for promoting D&I. They seek views on whether the current requirement for certain large firms to set a target for gender representation at board level should be extended to a wider range of firms and to characteristics beyond gender.

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What do firms need to do?

- **Accountability** - Making clearer the link between culture and D&I under the prescribed responsibilities as part of the SM&CR for dual-regulated firms, and allocating responsibility for D&I to a Senior Manager for solo-regulated firms.
 - **Remuneration** - Requiring firms to link remuneration to D&I metrics as part of staff's non-financial performance assessments.
 - **Disclosure** - Requiring firms to report publicly on diversity data, and to make public their D&I policy. This would be done using a consistent template and agreed definitions.
 - **Audit** - Using audit functions to track, and provide the evidence base for, the success and future direction of D&I measures. Audit's work will be an important source of knowledge for regulators as part of ongoing firm supervision.
- Firms should review what data they already hold on the make up of their senior management and wider workforce, and what metrics they use to measure diversity and inclusion.
 - Proposals for data collection will require firms to build systems and develop means of collecting data from employees. Data collection could prove particularly challenging for overseas firms operating in the UK, as their country of origin may have more restrictive rules on disclosure of diversity dimensions.
 - The regulators reiterate the need for firms to understand their customer base so that products and services remain inclusive, as set out in the FCA's [guidance on vulnerable customers](#) and its proposed [Consumer Duty](#).
 - Firms should consider their efforts and actions with regards to how D&I is being implemented and embedded throughout their operating model. Additionally, all three lines of defence should be assessing the cross-cutting risks and mitigating actions around equity, inclusion and diversity.

Next steps

The paper closes to comments on 30 September 2021. The PRA and FCA plan to consult on more detailed proposals in Q1 2022, followed by a policy statement in Q3 2022. The BoE will separately consider how to develop proposals for FMI's.



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