



FCA and PRA Consultation Papers on Diversity and Inclusion in the financial services sector

City HR Compensation Forum
10 October 2023

Introduction



Jasmine Campbell

Senior Manager

M: +44 (0) 7808 106976

E: jasmine.e.campbell@pwc.com



Alison Wade

Senior Manager

M: +44 (0) 7483 371172

E: alison.c.wade@pwc.com

Agenda

1. Overview / scope and proportionality
2. Key elements
3. Spotlight on remuneration
4. What's next?

FCA & PRA consultation papers on diversity and inclusion

On 25th September 2023, the FCA published Consultation Paper 23/20, “Diversity and inclusion in the financial sector - working together to drive change” and the PRA published Consultation Paper 18/23, “Diversity and inclusion in PRA-regulated firms”.



What is it?

These two CPs are broadly consistent in content and set out proposed requirements (subject to proportionality) that firms:

- Embed **non-financial misconduct** considerations into existing regulatory frameworks;
- Clarify **D&I governance and accountability**, including through embedding D&I into existing Senior Management Function (‘SMF’) responsibilities, linking variable pay of certain SMFs to D&I, and considering D&I risks within risk management and control functions;
- Set a robust and data and evidence driven **D&I strategy**;
- **Set D&I targets** to embed this strategy; and
- Introduce new annual **D&I monitoring, regulatory reporting, and public disclosure**



Scope and proportionality

The proposals in the FCA and PRA CPs apply differently to different types of regulated firms.

Firms in scope

- **CRR firms and Solvency II firms:** At least some of the PRA and FCA’s D&I proposals apply to all these firms (banks, building societies, PRA-designated investment firms, insurers/reinsurers).
- **FCA solo-regulated firms:** All firms which carry on at least one FSMA-regulated activity are in scope of at least some of the D&I proposals.

Proportionality

- **Firms with 251+ employees at individual entity level** (‘larger firms’) would be subject to all requirements. Those beneath this threshold would not have to apply the requirements on target setting and data monitoring, reporting and disclosure (but would need to embed non-financial misconduct considerations and submit the number of employees they have).
- The FCA **exempts Limited Scope SM&CR firms** from all requirements, except those related to non-financial misconduct.

FCA & PRA consultation papers on diversity and inclusion

Embedding non-financial misconduct into existing regulatory frameworks



- Extending scope of the Conduct Rules to cover serious instances of bullying, harassment and similar behaviour in the workplace
- Explicitly confirming that these are relevant to 'fit and proper' requirements, both in the workplace and personal life
- Additional guidance on how non-financial misconduct should be incorporated into regulatory references
- Expansion of Suitability Threshold Conditions to include discriminatory practice, to be applied in line with existing guidance.

PwC

Governance, accountability & risk management



- The Board have ultimate accountability for D&I and must be capable of explaining rationales
- Individual accountability requirements for firms in scope of the Prescribed Responsibilities including clarifying responsibilities for D&I within SoRs and linking performance objectives and remuneration outcomes of the SMF responsible for D&I strategy
- Risk Management and control function requirements where D&I should be considered and treated as a non-financial risk

Diversity & inclusion strategy



- A requirement to develop and publish a D&I strategy including an overview of the firm's core values and culture, clear objectives and goals on D&I, an action plan to meet these, an approach to monitoring progress and the role of all staff in doing this
- Data and evidence based approaches must underpin the development of D&I strategies and action planning
- The Board and responsible SMFs would be expected to be able to clearly articulate this

Diversity & inclusion targets



- Larger firms (251+ employees) must set demographic diversity targets. Targets should cover the Board, senior leadership and all employees
- Targets would need to be over a set timeline (unspecified) and regularly (biennially under PRA rules) reviewed.
- Targets, the rationale for setting them and progress against them would need to be publicly disclosed and reported to the regulator annually

Diversity & inclusion data monitoring, reporting & disclosure



- Firms would be required to annually collect, report and disclose a range of D&I metrics on an entity level. This includes data on sex or gender, age, ethnicity, disability, sexuality and faith.
- Firms would also be required to annually ask employees six specific inclusion questions and publish responses. Data would be reported by entity for the Board, senior leadership and all employees

Spotlight on remuneration

1

Feedback to DP



- In responses to the July 2021 DP on D&I, **76%** of respondents were **supportive of linking D&I to non-financial performance metrics** for variable pay.
- But: many thought that requiring firms to have a quantitative D&I performance metric would be too **inflexible** and could drive a **box-ticking culture** on D&I.

2

Remuneration rules



- Following the feedback from firms, the PRA and FCA have **not proposed any changes to the remuneration rules** as part of the D&I CPs.
- The FCA notes:
 - Costs to firms would be lower if such changes were to be made together with other changes to the remuneration rules 'at the next suitable opportunity'; and
 - it 'may consider a wider review of our remuneration regime subject to strategic priorities'.

3

PRA proposals on individual accountability



- **Responsibility for D&I to be** integrated into the **existing responsibilities for culture** (banks and insurers).
- SMF holding Prescribed Responsibility (PR) H (on culture) would need to have D&I responsibility reflected in their **performance objectives, remuneration scorecard, and remuneration decisions**.
- CRR firms with gross total assets of £250m or less are not in scope of PR H. Instead:
 - At least one SMF to have responsibility for D&I strategy reflected in their Statement of Responsibilities.
 - Where it is an executive SMF, they must also have their D&I responsibility reflected in **their performance objectives and variable remuneration**.

What's next?

The FCA and PRA will each publish their final rules and guidance as part of Policy Statements ('PS') in 2024. They propose to bring the rules into force 12 months from publication of these. Reporting and disclosure requirements would be on a 'comply or explain' basis for the first year only.

What should firms do next?

- Review current D&I practices, strategies and data to identify any gaps and priority areas to address;
- Engage with key stakeholders such as the Board, HR, risk and senior leaders to discuss any gaps and agree strategic priorities;
- Consider starting work on any gaps that may take time to address (such as collecting diversity data); and
- Consider whether to respond to the CP by the deadline of 18 December 2023.



Firms are and should be starting to think about the following areas...

Identifying current gaps and future priorities compared to the CPs

Collecting workforce diversity data and/or improving data collection systems

Setting robust diversity targets

Preparing for measuring and addressing inclusion issues

Creating or improving any D&I strategy, including to embed D&I data

Any training/process changes required to meet non-financial misconduct requirements

Creating consistent and clear narratives to support D&I disclosures

Thank you

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2023 PricewaterhouseCoopers LLP. All rights reserved. 'PwC' refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.