

Speaking with you today

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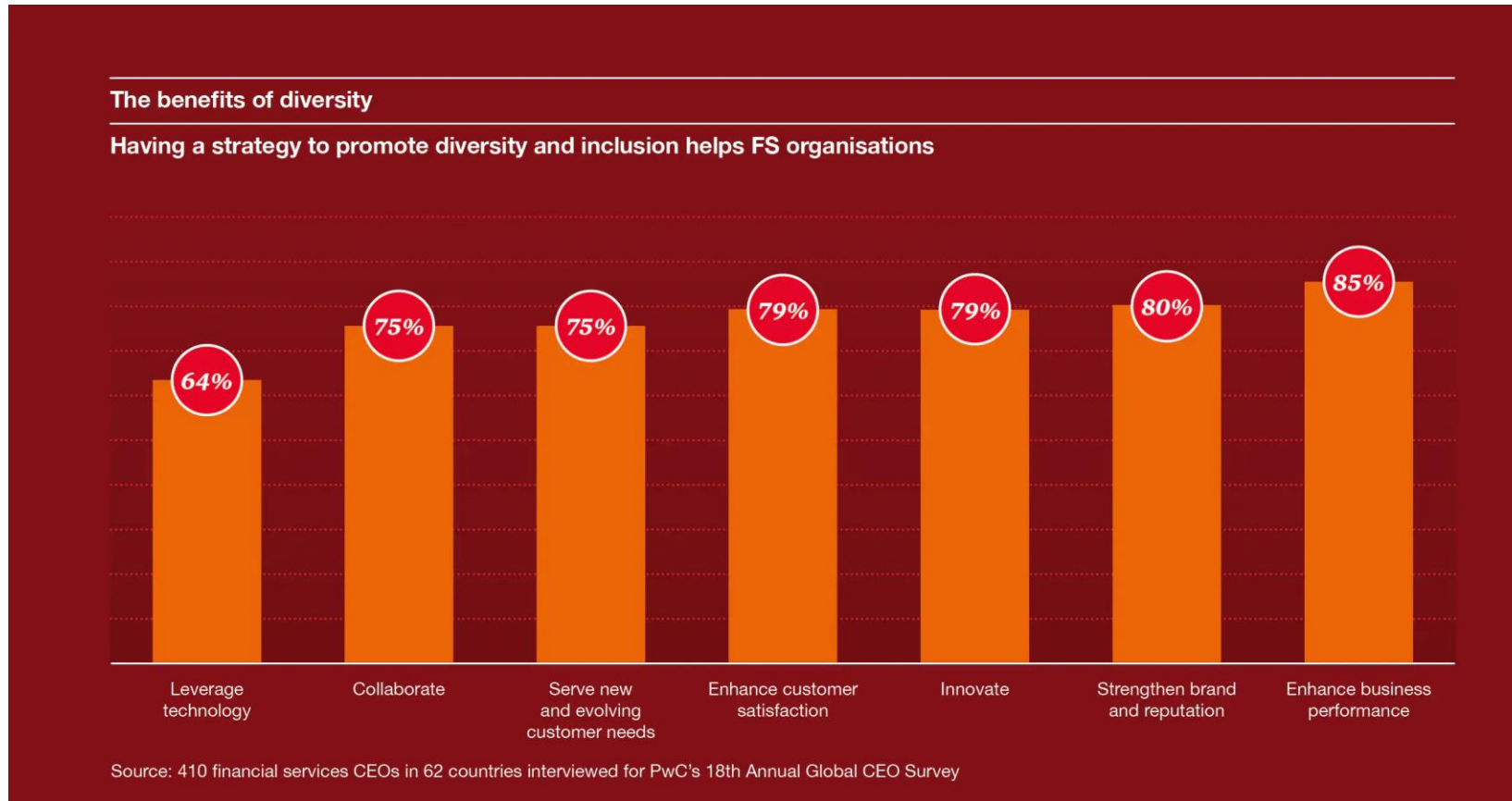
Head of Corporate Legal and HR Legal

Nomura International plc

Agenda

- Benefits of D&I
- Regulatory Perspective
- Risks/challenges of not having effective D&I strategy
- What is D&I
- Psychological Safety
- Q&A

General Overview – the benefits of diversity



General Overview – the good news

- 85% of CEOs in this sector polled said promoting inclusion and diversity helps enhance business performance.
- A 2019 McKinsey & Co. study revealed top-quartile companies for racial and ethnic inclusion outperformed those in the fourth quartile by 36% in profitability.

The bad news – there's a way to go

- **Only 17% of FCA approved individuals are women (women in senior roles at financial firms is only slightly higher, at 23%)**
- **Fewer than 10% of management roles in financial services are held by those of BAME backgrounds**
- **Fewer than 1% of investment managers are black and only 18.5% are Asian;**
- **38% of investment managers went to independent schools vs just 7% of the population as a whole**
- **Only 11% of investment management firms have a female CEO or chair**

Regulatory context – top of the agenda for the FCA

Last year the FCA, PRA and Bank of England published a joint discussion paper on "Diversity and inclusion in the financial sector – working together to drive change". This paper:

- Set out the importance that the regulators place on D&I:
 - Critical to regulators' role in **culture** and governance
 - Key to promoting **financial stability** and soundness
 - **Improving** consumer **outcomes** – see also New Consumer Duty CP
- Put a marker in the sand of the regulators intention to ramp up their activity in this area.



Regulatory context

- Consultation launched on a number of key planks :
 - Annual disclosures on diversity targets – a "comply or explain" approach
 - make management more responsible and accountable for D&I
 - Senior Managers' statements of responsibilities;
 - assessment of Certified Persons/Senior Managers;
 - veto right for appointments that would worsen diversity or contribute to groupthink
 - link remuneration to D&I progress by including in scorecards for bonuses
 - implement D&I policies and training
 - conduct D&I audits



Driving meaningful change

- Fitness and propriety
- Senior management function approval
- Threshold conditions
- D&I properly embedded

FCA New Consumer Duty: CP21/36

- New Principle 12: Firms should act to deliver good outcomes for retail customers (plus substantial new rules and guidance supporting that)
- Crossover with D&I:
 - Diverse teams needed for proper consideration of customer outcomes
 - Vulnerable customers: broader than the protected characteristics
 - Potentially quite striking position that a breach of the Equality Act (goods and services) is likely to breach the Consumer Duty

What is Diversity?

Legal Perspective

From a legal perspective people with the following characteristics are protected from discrimination under the Equality Act 2010:

- age;
- disability;
- gender reassignment;
- marriage and civil partnership;
- pregnancy and maternity;
- race;
- religion or belief;
- sex; and
- sexual orientation

Regulatory Perspective

The regulators have made it clear that when they talk about diversity they mean "**diversity of thought**" i.e.:

"bringing together a range of different styles of thinking among members of a group. Factors that could lead to diverse thinking could include, but not limited, to different perspectives, abilities, knowledge, attitudes, information styles, and demographic characteristics, or any combination of these."

It is influenced by factors wider than those included in the Equality Act including socio-economic diversity gender, and cultural background.

What is Inclusion? – FCA's view

Inclusion can be defined as the practice or policy of providing **equal access to opportunities** and resources for people who might otherwise be excluded or marginalised, for example due to demographic characteristics. Our view is that this would mean that all individuals are able to participate fully, **including being able to speak freely without fear**. Their views and contributions should be **valued and fully considered** regardless of differences due to demographic characteristics or background. They should be **able to freely show diversity of thought** without the expectation that they will conform to arbitrary cultural conventions.

Psychological Safety

What: Creating an environment where employees feel safe to share ideas and speak up where they see issues.

Why: Psychological safety results in more productive and innovative businesses. It also reduces the potential for inappropriate risk taking or behaviour which can result in major incidents of misconduct, causing harm to consumers and markets.

How: reducing the fear of speaking up (ridicule/reprimand/favouritism) by setting a climate where all views are listened to, valued and respected.

Risks that come with not having an effective D&I Strategy

- Difficulty attracting and retaining talent/increase in successful litigation
- "Serious risk to safety and soundness" of financial controls
- Loss of confidence from customers/clients/stakeholders
- Unwanted regulatory attention
- Reputational damage

Conclusion – the benefits of diversity

Happy Staff

Happy
Customers/Clients

Happy Regulator

Happy Balance
Sheet

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Head of Corporate Legal and HR Legal

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Q&A

Sources

Joint discussion paper DP 21/2 on "Diversity and inclusion in the financial sector – working together to drive change (fca.org.uk), available at: <https://www.fca.org.uk/publication/discussion/dp21-2.pdf>. The paper was co-authored by the PRA, FCA and the Bank of England, in its capacity as regulator of Financial Market Infrastructures.

Any question?



About Osborne Clarke

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