

30<sup>th</sup> September 2021

**Bank of England**  
**Threadneedle Street, London, EC2R 8AH**

Submitted via email to: dp2-21@bankofengland.co.uk

**RE: Diversity and inclusion in the financial sector – working together to drive change / DP21/2**

Dear Sirs,

BlackRock<sup>1</sup> is pleased to have the opportunity to respond to DP21/2 issued by the FCA, Bank of England and PRA.

BlackRock supports the UK regulators' commitment to advancing diversity and inclusion across financial services firms. BlackRock places particular importance on promoting diversity, equity and inclusion, both within the firm and as an integral part of our stewardship engagement with companies in which we invest in on behalf of our clients.

We welcome the opportunity to comment on the issues raised by this discussion paper and will continue to contribute to the thinking of the FCA on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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<sup>1</sup> BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

## DP21/2: Diversity & Inclusion in the Financial Sector

### Executive summary

#### **Note:**

- ***As we commit to transparency, any response we provide to discussion papers or consultations are published on our website.***
- ***In addition to requesting Corporate Communications review generally, we align in the event journalists report on our response.***

#### **Introduction**

BlackRock is committed to helping build a better, fairer society, starting with our own organization. We believe that a strong culture, in which inclusion and belonging are paramount, creates room for all of us to drive our purpose of helping more and more people experience financial well-being.

BlackRock, therefore, welcomes the UK regulators' commitment to advancing diversity and inclusion across financial services firms. BlackRock places particular importance on promoting diversity, equity and inclusion ("DEI"), both within the firm and as an integral part of our stewardship engagement with companies in which we invest in on behalf of our clients.

As part of our long-term commitment, BlackRock has instituted a multi-year DEI strategy that it believes is actionable, measurable, and designed to be relevant and applicable in different parts of the world.

BlackRock has made a long-term commitment to increasing DEI across all levels of the firm. BlackRock embraces the responsibility it has to its employees and to the communities in which it operates, but also recognises the scale and depth of realising success and the sustained focus and efforts required to advance DEI at BlackRock and beyond.

We recognise that the promotion of a diverse, equitable and inclusive workplace is an ongoing journey, requiring continuous and persistent commitment from all levels.

#### ***Broadening the breadth of ambition in promoting diversity, equity and inclusion***

BlackRock has evolved its approach and strategy to include a broader definition of Diversity and Inclusion to include Equity as a key component. For these purposes, we define "equity" as "*everybody having fair access to opportunities to advance, succeed and be their best, authentic selves*" and "inclusion" as "*the actions and policies we put in place to ensure everyone feels like they belong – to be known, heard and seen*".

#### ***Support for use of a broad set of definitions and terms***

BlackRock broadly supports the definitions used in the discussion paper and the need for a broader assessment of characteristics beyond focusing solely on the legally protected characteristics; this includes a more consistent approach to socio-economic diversity and of assessments of neurodiversity, neither of which are legally protected characteristics. We welcome the importance placed on "intersectionality",

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acknowledging that individuals have multiple aspects that shape their identities and lived experiences that shape their diversity of thought, and we would also recommend the regulators ensure that this lens is considered and reflected in any future policies.

## ***Data underpins change***

Collecting diversity data is an important first step for all firms in understanding the diversity of their workforce. It enables firms to identify potential under-representation in their employee populations and workforce pipelines, as well as inform actions they could take to address any such under-representation. It also allows firms to identify any additional areas for improvement in relation to DEI (for example, in recruitment and people and talent management processes). Data also enables firms to meet applicable existing legal and regulatory requirements (such as UK gender pay gap reporting obligations and potentially future initiatives such as ethnicity pay gap reporting) and respond to client queries and expectations in relation to DEI-related matters.

Data has to be usable and comparable and we encourage the regulators to work with the industry and broader stakeholders on common standards to ensure the development of high quality, consistent data practices. Self-identification rates depend on voluntary disclosure by individuals. To build up trust and confidence in the use of the data, and to avoid potential survey fatigue, which can lead to poor response rates, clarity is needed on why data is being collected, how the information will be used and transparency on the outcomes the data collection helped to drive action. This will help to reinforce individuals' readiness to provide and update data. Many firms have international operations in jurisdictions with different legal and data protection standards and firms must be able to adapt their processes to local circumstances.

## ***Application of scope and proportionality***

Whilst diversity and inclusion are relevant for all companies – not just those in financial services – regulatory application must reflect the different types and sizes of institution which are regulated. A proportionate approach therefore is necessary as a 'one size fits all' methodology could not operate across the plethora of regulated financial services institutions. However, even in applying any requirements proportionately, we feel every approach should principally seek to achieve the same diversity and inclusion considerations and objectives, irrespective of the size, type or complexity of the firm or its regulatory status.

As a global firm with employees constantly working with each other across jurisdictions, we believe that it is critical to be able to articulate a common set of expectations for our employees across the world. A proportionate approach would also take into account how firms set DEI policies and expectations globally to ensure that UK operations are not carved out from a firm's wider operations, but rather effectively incorporated within wider internal policies. We also remain conscious of the need for multi-jurisdictional firms, like BlackRock, to react appropriately to different local circumstances.

BlackRock also supports the regulators' approach to embed diversity and inclusion within the existing regulatory framework and tools rather than applying an additional regulatory regime. We believe that this approach may be best achieved through a set of guiding principles, applied proportionately. We highlight the FCA's recent letter on ESG matters where the approach taken by the FCA has been to develop a set of guiding principles to help firms apply existing rules. We consider a similar approach to DEI

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would be beneficial. This would recognise that there are already pre-existing obligations on DEI such as the Gender Pay Gap reporting obligations in the UK and elsewhere, and that this remains an area which continues to evolve. These principles should be complemented by supervisory scrutiny and challenge, to ensure regulated institutions are acting appropriately and making positive changes to support greater DEI within their organisations.

## **Training to drive cultural change**

BlackRock understands that progress on DEI requires a long-term mindset with sustained focus and persistence. One way to advance the firm's efforts in this journey is by raising awareness and educating its employees on issues relating to DEI.

We believe that a range of training programmes should be used to effectively promote diverse workforces and inclusive cultures. These training programmes should reflect (and vary as appropriate to take into account) a range of relevant factors, including the nature and context of the firm, the seniority of the individuals involved and the extent to which participants have people management and/or management and leadership responsibilities.

To foster inclusive cultures, we believe all employees should take part in regular dialogue and training to equip them to be able to identify and challenge potentially non-inclusive behaviours and language. We believe this approach is effective in holding everybody accountable, setting clear expectations of what is acceptable and expected from employees at different levels and clarifying the potential implications and consequences of not operating in that way. These programmes should be designed with psychological safety in mind to empower individuals with particular concerns and experiences to speak up and engage in inclusion dialogues.

## ***Expectations of senior management and boards***

In its engagement with investee companies, BlackRock takes a multifaceted approach towards evaluating board diversity and the steps companies are taking to develop it. We regularly engage with members of the relevant nominating and/or governance committees to understand the director recruitment process and efforts to facilitate a diverse and thoughtfully vetted pool of qualified candidates. We expect boards to disclose their approach, actions, and progress towards achieving a diverse board composition, including (in those markets where we consider demographic diversity a particular priority) the demographic profile of the incumbent board. Investors and other stakeholders can then assess whether they consider the approach taken by a company to be appropriate given the business and broader context in which the company operates. In identifying potential candidates, boards should consider the full breadth of diversity, including but not limited to personal and professional factors.

In our experience, companies with engaged and experienced board directors with a diverse range of backgrounds, experiences and skillsets, who actively advise and oversee management, have a competitive advantage. Specifically, we believe that strong management and oversight practices help companies deal effectively with material ESG factors relevant to their businesses. Companies can demonstrate such a robust approach through the establishment of corporate governance structures which facilitate proper board oversight of issues that are material to the creation of sustainable long-term value, including the fostering of DEI.

## ***Transparency***

BlackRock believes that transparency to employees, shareholders and other external stakeholders on how firms embed DEI within their business forms a critical component of effective DEI policies. For example, as part of its long-term commitment to DEI, BlackRock has instituted a multi-year DEI strategy that it believes is actionable, measurable, and designed to be relevant and applicable in different parts of the world. Non-financial standard setters such as the Sustainable Accounting Standards Board require firms to report on employee diversity data.

We believe that the publication of DEI policies is a potentially valuable exercise, as it may help drive accountability and clarity around what firms are focused on. Given expectations on firms to report on a variety of corporate sustainability criteria are developing rapidly both at a domestic and international level at this stage we recommend that the regulators do not prescribe a specific disclosure format, to avoid the risk of duplicative reporting. Rather firms should consider what is the most useful format for their stakeholders. As practices develop, however it may be helpful for the regulators to issue guidance to support firms in meeting best practice standards. Charters (such as the HM Treasury Women in Finance Charter), can be useful for organisations as they are able to set and publish their own targets as signatories and then report against those targets, generating greater transparency across the industry.

We would also encourage the regulators to engage in broad industry dialogue on DEI, to share details of best practice which they have observed, and to articulate any specific priorities for action in order to deliver a transparent understanding of regulatory appetite and expectations.

## ***Accountability as to progress***

Both internal and external stakeholders are keen to see effective change on DEI. BlackRock reviews its global DEI strategy at least annually, along with the corporate policies and programmes that support it, so that the strategy remains aligned with the firm's business priorities and long-term objectives. BlackRock sets its ongoing approach to DEI globally in its annual Sustainable Accounting Standards Board report.

Senior management for each business unit across the firm is required to conduct Quarterly Business Reviews, which include focused reviews of their progress and plans to achieve DEI goals. Year-end business assessments, which include a review of the progress that is being made against the firm's DEI goals, can potentially influence individual discretionary variable compensation outcomes for senior leaders with overall responsibility for driving progress against those goals. Organisational strength objectives such as attracting and inspiring talent, and developing a more diverse and inclusive culture are also factored into overall performance assessments for some senior BlackRock executives. These objectives include progression toward BlackRock's current target to have 32.5% female representation in senior leadership roles globally by 2024, and continued engagement on increasing the firm's focus on improved recruiting and talent management of employees from as diverse a range of backgrounds, experiences and skillsets as possible across the firm.

BlackRock prioritises regular dialogue with its employees about their experiences at the firm in order to

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understand employee expectations and assess the efficacy of its human capital management practices. We use several employee feedback mechanisms, including: (i) employee opinion surveys; (ii) interactive townhalls and communications; and (iii) the sponsorship of employee, professional, and social impact networks. These employee engagement mechanisms provide BlackRock with actionable feedback for each team and for BlackRock as a whole.

In addition, we believe regular engagement with senior management and the boards of regulated institutions should consider matters of diversity and inclusion such that discussions on this topic are incorporated into regular dialogue between the regulators and firms on conduct and culture more broadly.

We would also encourage the regulators to engage in broad industry dialogue on diversity and inclusion, to share details of best practice which they have observed, and to articulate any specific priorities for action in order to deliver a transparent understanding of regulatory appetite and expectations.

Effective auditing of diversity and inclusion can help to maintain inclusive workplaces and assess whether actions are aligned with an organisation's objectives. We believe this could potentially be achieved through:

1. Conducting a culture assessment as part of each audit engagement, and
2. Assessing the completeness and maturity of the firm's DEI framework, including governance over the strategy implementation (e.g., the existence and operation of any DEI Steering Committee), expectations on senior management and on business units to progress DEI, assessing how public disclosures made by the firm can be objectively and accurately tracked, measured and reported upon and the metrics (e.g., any DEI Dashboard and other data produced by HR) used to monitor and measure its effectiveness.

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## **Question responses**

### ***Chapter 1: Overview, including context and desired outcomes***

#### ***Q1: What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?***

The Discussion Paper ("DP") provides a helpful definition of the term "diversity" and "diversity of thought"; bringing in a broader appreciation for legally protected characteristics as set out in the Equality Act 2010. We suggest that within this concept, further emphasis is given to the importance of assessing neurodiversity, which is not specifically classified as one of the protected characteristics under the Equality Act. It would be useful to highlight the advantages of groups of individuals actively assessing the strengths and weakness of their own cognitive styles alongside complementary strengths of other styles.

Although, a broad range of characteristics are referenced in this chapter of the DP, these same considerations do not seem to appear throughout for example:

1. As class and socio-economic diversity seem to be used inter-changeably in different places in the DP, we would recommend the regulators use socio-economic diversity in the future, consistent with the terminology used by the UK Government's Social Mobility Commission.

2. Where the DP refers to gender (including where it does not coincide with sex), we would suggest the regulators use the terms gender and gender identity in this regard

We particularly agree with the importance of recognising “intersectionality”; acknowledging that individuals have multiple aspects that shape their identities and lived experiences that shape their diversity of thought. We would encourage the regulators to ensure that this lens is considered and reflected in any future policies.

BlackRock’s approach and strategy has evolved to include Equity as a key component Diversity and Inclusion. As a firm, we have split what the DP defines as “inclusion” into two separate terms and areas – “equity” and “inclusion. For these purposes, we define “equity” as “everybody having fair access to opportunities to advance, succeed and be their best, authentic selves” and “inclusion” as “the actions and policies we put in place to ensure everyone feels like they belong – to be known, heard and seen”.

## **Chapter 2: The role of the regulator**

### **Q2: Are there any terms in the FCA Handbook, PRA Rulebook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?**

There are no terms in the documents referred to above or other regulatory policies that BlackRock suggest could be more inclusive. There are organisations which provide inclusive language and imagery guidelines and utilising these as best practices in the first instance may be appropriate. We suggest that the regulators focus on mandatory consumer disclosures to ensure that they are relevant to a diverse target audience.

We support the work of the FCA and PRA to review their documentation to ensure it is inclusive and available in accessible formats.

## **Chapter 4: Measuring progress**

### **Q3: Do you agree that collecting and monitoring of diversity and inclusion data will help drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?**

We agree that collecting diversity data is important to help firms understand workforce diversity and identify and address potential under-representation in their employee populations and workforce pipelines. It can also be used to help improve recruitment, people and talent management processes and activities in relation to DEI. Data collection also enables firms to meet applicable legal and regulatory requirements (such as UK gender pay gap reporting obligations) and respond to client queries and requirements in relation to DEI-related matters.

Challenges around voluntary disclosure rates and differences in local requirements and restrictions in the jurisdictions in which firms operate can result in data being inconsistent. Firms operating in multiple jurisdictions also face the challenge of differences in data protection, privacy and legal requirements, as well as culture and market practices, which can restrict their ability to collect the data they would ideally like. Firms may also want, as far as possible, to implement consistent practices across

their organisations on what data is collected and the voluntary provision of data by individuals.

Ongoing monitoring is an important aspect of an effective DEI strategy, allowing organisations to measure and monitor employee views and sentiment in relation to inclusion. Where possible, firms are able to dissect trends based on diversity characteristics, to identify and seek to address any potential areas for improvement (for example, through additional training on topics such as inclusive leadership and development programmes and recruitment initiatives to address any areas of under-representation they have identified).

***Q4: Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub-set?***

Our view is that data should be collected across the protected characteristics, due to the potential benefits of doing so outlined in our response to Q3 above. We also believe it would be helpful to collect data in relation to socio-economic background, as research and data published to date indicates that this is also an area in which the financial services sector as a whole should aim to have greater diversity. Where data collection is not mandatory, we would also emphasise the importance of setting out a clear road map within an organisation on data accountability (e.g. why the data is being asked for, how it will be used and addressing individual concerns about sensitive use of data and the potential benefits for them and others, including colleagues from potentially under-represented groups).

***Q5: What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers' needs?***

The regulators could consider comparing firms' annual business results against the diversity profile of their Boards/ Board Committees/Executive Committee and other key business committees. Research shows that diverse senior leadership teams drive better business results. (Source:

<https://www.frc.org.uk/getattachment/3cc05eae-2024-45d8-b14c-abb2ac7497aa/FRC-Board-Diversity-and-Effectiveness-in-FTSE-350-Companies.pdf>)

Our response to Q19 also touches upon product governance from a DEI perspective, it is also important to recognise that not all firms have direct contact with retail customers.

***Chapter 5: Driving and supporting change***

***Q6: What are your views on our suggestions to approach scope and proportionality?***

We agree with the suggested approach to scope and proportionality. Whilst DEI is relevant for all companies – and not just those in financial services – any regulatory approach must reflect the different types and sizes of institutions which are regulated. A proportionate approach therefore is necessary, as a 'one size fits all' methodology could not operate across the plethora of regulated financial services institutions. However, we would reiterate that, even in applying any requirements proportionately,

every approach should principally seek to achieve the same DEI considerations and objectives, irrespective of the size, type or complexity of the firm or its regulatory status.

For consistency of approach and effectiveness of implementation, we consider that overseas firms providing services via a branch in the UK should be in scope of any requirements to the extent to which respective home state regulation(s) allow. However, any such requirements should only be applicable to the relevant UK branch(es) and not the underlying overseas firms themselves. As stated above, firms operating in multiple jurisdictions will be challenged by local legal and cultural differences, with the consequence being that it would be difficult to impose UK standards on non-UK firms. Any regulatory obligation must be cognisant of these challenges.

***Q7: What factors should regulators take into account when assessing how to develop a proportionate approach?***

We consider that a proportional approach is best achieved through a set of guiding principles. We note the recent letter from the FCA to the chairs of authorised fund managers on the design, delivery and disclosure of environmental, social and governance (“ESG”) and sustainable investment funds. The approach taken by the FCA in this instance has been to develop a set of guiding principles to help firms apply existing rules. We consider a similar approach on DEI would be beneficial – given that there are already pre-existing obligations on diversity and inclusion, and that this remains an area which involves subjectivity and continues to evolve – complemented by supervisory scrutiny and challenge, to ensure regulated institutions are acting appropriately and making positive changes to support greater DEI within their organisations.

This approach should be supported by the regulators publishing examples of good practice, with regular industry interactions to further formulate discussion and advance collective thinking on this topic.

We do not think that the Part 4A permission under the Financial Services and Markets Act held by a regulated institution is an appropriate determinant here. For example, a small firm can have complex and multiple permissions, whereas a large firm can have simplistic permissions. However, the latter would likely be able to address DEI more robustly and in more detail than the former, which may have less scope to do so given its smaller size and resources.

Given the proposed scope, i.e. that any requirements are imposed on all regulated institutions in the UK, albeit in a proportionate manner, we consider that size would be a more appropriate determinant of how any requirements are imposed. Consequently, we believe the current differentiators in the Companies Act, whereby UK incorporated companies are categorised by size into micro-entity, small, medium-sized and large, would be a suitable determinant of which approach to impose on which regulated institution. This is a standard categorisation using readily available data by which regulated institutions, from all sectors, could be split for the purposes of imposing a proportionate approach.

We also note the concurrent FCA consultation paper for listed companies (CP21/24). While there are likely to be differences in the way DEI is considered in the context of potential changes to the Listing Rules (compared to the how the issue is framed in this Discussion Paper), we nonetheless consider that it may be helpful to draw on the responses the FCA receives to CP21/24 to inform the regulators’ thinking here.

**Q8: Are there specific considerations that regulators should take into account for specific categories of firms?**

We consider that the same high-level principles on firms, and across employees and governance arrangements, should apply to all regulated institutions. Proportionate application of the requirements can thereafter apply.

**Q9: What are your views on the best approach to achieve diversity at Board level?**

In our engagement with investee companies, BlackRock takes a multifaceted approach towards evaluating board diversity and the steps companies are taking to develop it. We regularly engage with members of the relevant nominating and/or governance committees to understand the director recruitment process and efforts to facilitate a diverse and thoughtfully vetted pool of qualified candidates. We expect boards to disclose their approach, actions, and progress towards achieving a diverse board composition, including the demographic profile of the incumbent board. Investors and other stakeholders can then assess whether they consider the approach taken by a company to be appropriate given the business and broader context in which the company operates. In identifying potential candidates, boards should consider the full breadth of diversity, including but not limited to personal and professional factors.

When considering the extent to which investee companies are demonstrating a commitment to diversity, BlackRock looks at factors such as alignment with market-level expectations (for example, in the UK, whether they have met or have committed to meet targets set by the Hampton-Alexander Review and the Parker Review of 33% female representation at board level and the appointment of one director from an ethnic minority background, respectively); the appointment within the previous year of a director from an under-represented diverse group on the board; the existence of time-bound targets for increasing board diversity; average board tenure; and public statements that focus on efforts to advance diversity, equity, and inclusion in the boardroom.

The approach taken within BlackRock is that the respective boards of our individual group companies are generally responsible for the promotion of diversity on the board. Typically, the relevant Nomination Committee has responsibility for leading the process for board appointments and for identifying and nominating, for approval by the boards of directors, candidates for appointment to the boards. Integral to the role of the Nomination Committee, is the promotion of diversity on the boards. Many of our boards have adopted diversity policies, which reflect our belief that inclusion and diversity are key to BlackRock's success – it is dependent on our ability to leverage our differences, to use our collective experiences, backgrounds and knowledge to achieve more for our clients and our business. BlackRock's business requires strong, talented people with diverse skill sets, backgrounds and points of view to drive innovation. This applies equally to the boards. BlackRock regards effectiveness of its group company boards as a crucial element of governance and board composition is a vital factor in ensuring that effectiveness. Our firm principle is that each member of the boards must have the skills, experience, knowledge and overall suitability that will enable them to contribute individually, and as part of the board team, to the effectiveness of the board they sit on. Subject to that overriding principle, BlackRock believes that diversity of experience and approach, including educational and professional background, gender, age and geographic provenance, amongst board members is of great value when

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considering overall board balance in making new appointments to the boards. Our priority is to ensure that the boards continue to have strong leadership and the right mix of skills to deliver the business strategy.

***Q10: What are your views on mandating areas of responsibility for diversity and inclusion at Board level?***

In terms of our approach to the companies we invest in on behalf of clients, BlackRock has long considered corporate governance as critical to the success of a company, the protection of shareholders' interests, and long-term shareholder value creation. In our experience, companies with engaged and experienced board directors with a diverse range of backgrounds, experiences and skillsets, who actively advise and oversee management, have a competitive advantage. Specifically, we believe that strong management and oversight practices help companies deal effectively with material ESG factors relevant to their businesses. Companies can demonstrate such a robust approach through the establishment of corporate governance structures which facilitate proper board oversight of issues that are material to the creation of sustainable long-term value, including the fostering of DEI.

In our engagements with investee companies, we therefore may discuss with board members topics such as the board's diversity evaluation process, including how it impacts both the board's own succession planning (i.e. the director appointment or nomination process) and succession planning within the wider business. Within this, we may address the steps the nominating committee (or equivalent) is taking to enhance diversity – for example, what oversight it has over the inclusion of diverse candidates on slates for open roles. We expect boards to be able to address a range of questions on these topics and be in a position to provide informed and credible responses on behalf of the company.

From an internal perspective, BlackRock Inc.'s Board of Directors plays an important role in the oversight of human capital management and devotes an annual board meeting to an in-depth review of our culture, talent development, retention and recruiting initiatives, DEI strategy, leadership and succession planning, and employee feedback.

Alongside this, the partnership between Human Resources and the business is critical to enabling the firm's DEI vision and strategy. Specifically, BlackRock's Global Executive Committee's Talent Subcommittee, the Human Capital Committee (which is comprised of over 35 senior leaders) and HR work together to shape and implement our talent, culture, and diversity priorities across the firm.

***Q11: What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?***

We see potential benefit in allocating responsibility for DEI to senior management. However, it may be appropriate that each senior manager is given responsibility for DEI across and with reference to their specific individual areas of responsibility, rather than overall responsibility for DEI for the firm being allocated to a single individual.

However, we also believe that any individual obligations going forward would need to operate alongside a broader, collective responsibility for the governing body of that

entity given that the Senior Managers and Certification Regime does not apply to all regulated institutions.

We also note that, as a global firm with employees constantly working with each other across jurisdictions we believe that it is critical to be able to articulate a common set of expectations for all employees across the world. A proportionate approach to Senior Manger accountability would also take into account how firms set DEI policies and expectations globally to ensure that UK operations are not carved out from a firm's wider operations but rather effectively incorporated within wider internal policies. We also remain conscious of the need for multi-jurisdictional firms to react appropriately to different local circumstances.

***Q12: What are your views on linking remuneration to diversity and inclusion metrics as part of non-financial performance assessment? Do you think this could be an effective way of driving progress?***

BlackRock's view is that there is potential value in linking part of discretionary variable remuneration to progress against specified DEI metrics as part of an assessment of relevant individuals' non-financial performance. This would potentially reflect the importance a firm places on its DEI efforts, and may help motivate employees (and particularly relevant senior individuals) to focus on and think strategically about DEI-related matters. This view mirrors the approach we take to reviewing remuneration at investee companies, where we look for key strategic metrics to be embedded in remuneration arrangements. If these key strategic measures include sustainability factors such as DEI, we expect remuneration to be linked to the company's specific sustainability metrics and targets as outlined in its disclosures.

DEI-related outcomes could potentially be linked to part of discretionary variable remuneration for relevant individuals by including an assessment of progress against DEI-related goals. For example, at BlackRock, the senior leaders for each business unit across the firm globally are required to conduct Quarterly Business Reviews, which include focused reviews of their business areas' progress and plans to achieve DEI-related goals. In addition, year-end business assessments carried out for each business area globally also include a review of the progress that each business area is making against specified DEI-related goals and may potentially have an influence on individual discretionary variable compensation outcomes for senior leaders with overall responsibility for driving progress against those goals.

***Q13: What are your views about whether all firms should have and publish a diversity and inclusion policy?***

BlackRock believes that transparency to employees, shareholders and other external stakeholders on how firms embed DEI within their business forms a critical component of effective DEI policies. For example, as part of its long-term commitment to DEI, BlackRock has instituted a multi-year DEI strategy that it believes is actionable, measurable, and designed to be relevant and applicable in different parts of the world.

We believe that the publication of DEI policies is a potentially valuable exercise, as it may help drive accountability and clarity around what firms are focused on. Given expectations on how firms report on a variety of corporate sustainability criteria are developing rapidly both at a domestic and international level, at this stage we recommend that the regulators do not prescribe a specific disclosure format, to avoid

the risk of duplicative reporting. For example, non-financial standard setters such as the Sustainable Accounting Standards Board require firms to report on employee diversity and inclusion. Rather firms should consider what is the most useful format for their stakeholders. As practices develop, however it may be helpful for the FCA to issue guidance to support firms in meeting best practice standards. Charters (such as the HM Treasury Women in Finance Charter), can be useful for organisations as they are able to set and publish their own targets as signatories and then report against those targets, generating greater transparency across the industry.

We would also encourage the regulators to engage in broad industry dialogue on DEI, to share details of best practice which they have observed, and to articulate any specific priorities for action in order to deliver a transparent understanding of regulatory appetite and expectations.

***Q14: Which elements of these types of policy, if any, should be mandatory?***

We would recommend the regulators provide guidance on the potential scope of any DEI policy.

Our view (which we believe is shared by others in the asset management sector) is that mandatory items should be kept to a minimum in order to accommodate the broad spectrum of organisations which make up the industry and which fall under regulatory remit.

***Q15: What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?***

Our view is that setting goals for identified areas of under-representation can be an effective way to improve representation. However, target-setting relies on accurate data, and there are likely to be important differences in firms' ability to collect data from and across their broader employee populations when compared with their ability to collect equivalent data from and in respect of members of the Board. For example, the challenges identified above (in the response to Q3) for firms in collecting relevant data through voluntary self-disclosure mean that the employee data available to firms is often not sufficiently complete to give them a representative picture of the relevant population which enables them to identify areas of potential under-representation and set meaningful, effective and measurable targets to address any such representation.

We would also welcome continuing dialogue on wider issues of social policy which can contribute to greater inclusion

Accordingly, our view is that setting measurable, achievable goals and targets for employees who are not members of the Board (without the necessary data to measure progress against them effectively) may well not be effective or practicable for firms.

***Q16: What are your views on regulatory requirements or expectations on targets for the senior management population and other employees? Should these targets focus on a minimum set of diversity characteristics?***

As stated above, we consider it would be appropriate for the regulators to establish a set of guiding principles, complemented by supervisory scrutiny, rather than imposing hard targets for regulated institutions to meet. We believe this would help firms to identify potential changes in DEI which are meaningful, thoughtful and beneficial, rather than being made primarily in order to achieve a regulatory obligation. Any targets should be established internally by regulated institutions and reflect the specificities of the institution and its governance arrangements as well as its employee population and any areas of potential under-representation it identifies through data provided voluntarily by its employees. Further, the timeline within which targets can be met is also important; it may not be possible to instigate immediate change which would deliver compliance with hard targets if these were imposed by regulation. Specificity of targets is also important, to ensure that they are consistently applied across all organisations; creating standardisation of job classification similar to the approach taken by EEO-1 in the US could increase consistency and reduce likelihood of misinterpretation.

Introducing regulatory targets could lead to unintended and sub-optimal outcomes if firms prioritise diversity-related targets over individual experience or the needs of the consumer. However, having a set of guiding principles which articulates expectations of how regulated institutions should address DEI, combined with appropriate reporting and disclosure, should ensure institutions are held to account insofar as their long-term DEI goals are identified and appropriately addressed in policies and promotion and recruitment practices. As an example of where this approach has been adopted elsewhere in regulation, the UK gender pay gap reporting regime focuses on monitoring, reporting and disclosure rather than hard targets imposed by regulation.

Whilst we recognise existing obligations associated with board composition, and the concurrent consultation from the FCA on listed companies, we do not consider that setting regulatory targets will result in cultural developments across the financial services industry that will drive meaningful change in DEI practices. We believe internal targets set by firms, combined with appropriate supervisory challenge and examination, will likely result in more embedded and lasting change which will ultimately benefit markets and consumers. Equally, we consider it more important for senior individuals to be seen as role models, whose actions help drive behavioural changes and encourage other staff to progress, rather than focusing too much attention on regulatory targets for DEI.

***Q17: What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?***

***Q18: What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?***

This response relates to Q17/18

BlackRock's view is that a range of training should be used to effectively promote diverse workforces and inclusive cultures and that such training should reflect, and vary as appropriate to take into account, a range of relevant factors, including the nature and context of the firm, the seniority of the individuals involved and their roles in the firm and the extent to which participants have people management and/or management and leadership responsibilities. All employees- from graduate analysts to the most senior lateral hires - should have training on the firm's approach to DEI.

However, in order to foster inclusive cultures, we believe all employees should take part in regular dialogues and training to equip them to be able to identify and challenge potentially non-inclusive behaviours and language. We believe this approach is effective in holding everybody accountable, setting clear expectations of what is acceptable and expected from employees and clarifying the potential implications and consequences of not operating in that way. Training opens the door, but there needs to be ongoing discussion on collective culture to truly drive behaviour change.

***Q19: What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics?***

Product governance has, broadly speaking, been subjected to a number of significant changes in recent years, including the introduction of target market requirements through MiFID, the FCA's rules on assessment of value, and the ongoing changes which the guidance on vulnerable customers and the new consumer duty will impose. The recent FCA feedback following their review of product governance arrangements in firms also noted that improvements are needed across some firms in their practices to deliver compliance with MiFID's requirements.

The discussion paper notes that the Regulators want firms to focus on consumer outcomes and put customers in a position where they can act and make decisions. The changes which have recently been made, and those which are already being developed, provide an appropriate means through which to achieve these goals without needing further changes relating specifically to DEI. This will also allow a period within which regulated institutions - across all aspects of the value chain, including manufacturing and distribution - can appropriately embed recent, and proposed, regulatory requirements without having to concurrently address further obligations.

If, following a suitable period of reflection, these pre-existing and already proposed regulatory obligations, combined with the broader obligations on DEI, fail to achieve the policy objective then the FCA should review again how policy should be amended to achieve such objectives.

We also touch upon the point in our response to Q29 that it is important to recognise that not all firms have direct contact with retail customers.

Our view also encompasses product governance from an accessibility perspective; not only should we consider suitability of products, but it is important to recognise the accessibility requirements of consumers eg. can this be consumed by those who have language requirements or visibility impairments etc.

**Q20: What are your views on whether information disclosures are likely to deliver impact without imposing unnecessary burdens? Which information disclosures would deliver the biggest impact?**

**Q21: How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?**

**Q22: What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?**

This response relates to Q20/21/22

As noted above in relation to question 9, as an investor in companies on behalf of our clients, BlackRock sees that robust disclosure is essential for investors to effectively gauge companies' business practices and strategic planning related to ESG risks and opportunities, including DEI. When a company's reporting is insufficient, key stakeholders may increasingly conclude that the company is not adequately managing such issues. We recognise that expected disclosures need to be proportionate, but we consider it appropriate to expect companies to provide details of their approach, actions, and progress towards achieving greater diversity in representation. To the extent that a company's approach has included the setting of targets, as highlighted in our response to question 16 we would expect disclosures to outline and explain these targets.

On the format of disclosures, as noted in our response to question 13 as expectations of how firms report on a variety of corporate sustainability criteria are developing rapidly, both at a domestic and international level, at this stage we recommend that the FCA does not prescribe a specific disclosure format, to avoid the risk of duplicative reporting. We would welcome further discussion between the FCA and industry bodies on the most effective way of providing the appropriate level of disclosure and how best to incorporate this into existing and forthcoming sustainability disclosure standards.

In any event, in terms of the substance of disclosures, we expect companies to provide details of their approach, actions, and progress towards achieving greater diversity in representation. To the extent that a company's approach has included the setting of targets, as highlighted in our response to question 16 we would expect disclosures to outline and explain these targets.

**Q23: What are your views on how we should achieve effective auditing of diversity and inclusion?**

Effective auditing of DEI could potentially be achieved through:

1. Conducting a culture assessment as part of each audit engagement, and
2. Assessing the completeness and maturity of the firm's DEI framework, including governance over the strategy and its implementation (e.g., the existence and operation of any DEI Steering Committee), assessing how public disclosures made by the firm can be objectively and accurately tracked, measured and reported upon, and the metrics (e.g., any DEI Dashboard and other data produced by HR) used to monitor and measure its effectiveness.

**Q24: How can internal audit best assist firms to measure and monitor diversity and inclusion?**

We believe Internal Audit can assist firms by ensuring that the firm has appropriate quantitative and qualitative metrics to monitor and measure progress against their stated DEI objectives, along with appropriate reporting to senior management and the board. Internal Audit can help firms by:

1. Assessing the adequacy of the metrics the firm is using to support their DEI initiatives and track progression against those initiatives. A few key categories that we believe such metrics should be focused on are: Headcount, Diversity Representation, Recruiting, Employee Engagement, Talent (e.g., mobility, career progression), Compensation, Development/Training Programs, Belonging.
2. Assessing efforts to make recruitment more diverse through e.g., programmes such as adaptive hiring, efforts to reduce bias from recruiting and embedding DEI into the annual employee performance assessment process and annual compensation and bonus processes.
3. Determining if the firm has an adequate employee opinion survey, which includes key questions to assist in tracking more intangible aspects of the firm's culture, such as inclusion. For example, we believe such surveys should include questions as to whether employees feel they are fairly rewarded and recognised for their contributions and whether they feel as though they work in an inclusive and collaborative environment.

**Q25: Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?**

Fundamentally we agree that an assessment of fitness and propriety should consider non-financial misconduct. Examples from the regulators to illustrate their thinking of how behaviours pertaining to DEI should be interpreted for the purposes of performing a fit and proper assessment would be welcome.

**Q26: What are your views on the regulators further considering how a firm's proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board?**

It is important to note here that data provided by an individual which allows DEI metrics to be analysed will constitute sensitive personal data under the UK General Data Protection Regulation. Whilst a firm's culture can encourage the voluntary sharing of such data, there is no legal requirement for an individual to share such sensitive personal data. Consequently, regulatory approval for a candidate to perform a Senior Manager role or be appointed to a board of a regulated institution, cannot be dependent upon an analysis of data which is voluntarily provided.

For that reason, we consider the obligation to identify whether the appointment of an individual as a Senior Manager or a member of a company board would increase levels of DEI within the regulated institution should be a decision for that institution only. Supervisory scrutiny could thereafter challenge a firm, but the obligation should be placed on a firm to ensure the board is sufficiently diverse and inclusive.

***Q27: What are your views on providing guidance on how diversity and inclusion relates to the Threshold Conditions?***

We support the introduction of additional guidance relating to how DEI should be considered in relation to the existing threshold conditions. Any such guidance would: (a) assist firms in better understanding regulatory expectations associated with threshold conditions; and (b) enable regulatory interjection where firms were found to be acting in a manner inconsistent with the threshold conditions.

***Q28: Do you have any suggestions on which aspects of our supervisory engagement with firms that you think could be improved to help deliver and support greater diversity and inclusion?***

We agree that supervision should include examination of a firm's DEI strategy. As noted in Nikhil Rathi's speech of 17 March 2021, at the launch of the HMT Women in Finance Charter Annual Review, we would be supportive of an additional question being included in the 5 conduct questions which are asked by the FCA of firms. We believe this would provide an appropriate means through which the regulators could potentially challenge firms if they wished and scrutinise their responses.

In addition, we believe regular supervisory engagement with senior management, and the boards of regulated institutions, should consider matters of DEI. This would allow for discussions on the topic to be incorporated in regular dialogue between the regulators and firms on conduct and culture more broadly.

We would also encourage the regulators to engage in broad industry dialogue on DEI, to share details of best practice which they have observed, and to articulate any specific priorities for action in order to deliver a transparent understanding of regulatory appetite and expectations.

***Q29: What impact do you think the options outlined in this chapter, alongside the FCA's proposals for a new Consumer Duty, would have on consumer outcomes?***

Collectively, the new consumer duty, the guidance on vulnerable customers and a focus on DEI should prove beneficial for consumer outcomes. These changes, when combined, should support the FCA in delivering greater focus by regulated institutions on consumer outcomes. However, we would encourage the FCA to consider all parts of the value chain in recognition that not all firms will have direct contact with retail customers, and therefore ensure supervision of firms is cognisant of the nature of customer relationships.