

Bank of England PRA

Dame Harriett Baldwin MP
Chair, Treasury Committee
House of Commons
London
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Dear Harriett

PRA response to the Report of the Treasury Committee on Sexism in the City

I am writing in response to the Treasury Committee's (Committee) report published on 8 March "Sexism in the City", and particularly with respect to comments on our consultation paper [CP23/20: Diversity and inclusion in the financial sector – working together to drive change](#)¹. I welcome the Committee's report and the recognition that regulators have a role to play to help support improvements in this important area, not least given the many very concerning examples of poor industry practices and culture highlighted in the Committee's report. I also appreciated the opportunity to discuss our work with the Committee at your hearing in January.

I thought it would be helpful to start by setting out where we are in our consultation process, before responding to the specific recommendations from the Committee relating to the PRA's work.

The legal basis for our CP proposals are the powers we have been given by Parliament under the Financial Services and Markets Act 2000 (including as amended by the Financial Services and Markets Act 2023) (FSMA). The PRA's primary objectives under FSMA are promoting the safety and soundness of PRA-authorized persons and, in the case of insurers, contributing to securing policyholder protection. The PRA's secondary objectives relate to facilitating competition, growth and international competitiveness. With this in mind, the overarching purpose behind our proposals is to advance these objectives. As a result, our work has focused specifically on the role the PRA might be able to play to help ensure firms' practices support prudent decision-making.



The CP explained our view that more diverse and inclusive firms could help to reduce potential ‘groupthink’, supporting more effective and prudent decision-making and risk management, and thereby supporting our primary objectives of promoting safety and soundness and contributing to policyholder protection. The consultation also sets out our view that the proposals would facilitate our secondary objectives in relation to effective competition between firms, international competitiveness and growth. We explained our view that improvements in diversity and inclusion could help firms understand better the markets in which they operate and the customers they serve, thereby informing greater innovation. The CP also noted our view that the proposals could help firms to attract and retain a wider range of high-quality staff, supporting competitiveness.

Throughout the development of our proposals in this area, culminating in the CP, we have fully recognised the need to explore the issues carefully with an extensive range of external stakeholders. To engage as wide a range of stakeholder views as possible and to inform our views, the PRA and FCA published a [Discussion Paper](#) (DP) in July 2021. This received 184 responses from firms, industry organisations, consultancy firms, thinktanks, interest groups, academics and other individuals. In addition, in October 2021, the PRA and the FCA conducted a survey of how different types of firms currently approach diversity and inclusion including data collection, which received 278 responses from firms regulated by both the PRA and FCA.

Most respondents to the DP were supportive of the case for regulators to take action to help improve firms’ diversity and inclusion, and supported many of the ideas explored in the DP on how the regulators could contribute. Evidence from the DP responses, the survey, research, and evidence from other Government initiatives (such as the Women in Finance Charter and the Parker Review) were all carefully considered when formulating our CP policy proposals and we explained in our CP how we had taken the DP feedback into account.

We are currently considering 78 responses to the CP and a further 16 that were sent to the FCA by firms regulated by both the PRA and FCA. In addition, we are considering feedback from industry roundtables and other engagement with stakeholders during the consultation period. Alongside this other feedback, we will carefully consider the Committee’s recommendations in determining any next steps, about which no decisions have yet been made.

Let me now address the report's specific recommendations that relate to the PRA:

We recommend that the regulators drop their plans for extensive data reporting and target setting. In our view, a lack of diversity is a problem that the market itself should be able to solve without such extensive regulatory intervention. Boards and senior leadership of firms should take greater responsibility for improving diversity and inclusion given that it should lead to a competitive advantage in the development of talent. Firms that perform best on diversity and inclusion and have the best cultures should be able to benefit from the clear business advantages this provides, leaving those that perform badly in these areas to suffer the consequences for their reduced competitiveness and profitability.

We thank the Committee for its recommendations in relation to data and target setting, which were one part of the wider package of proposals in the CP. We will consider these recommendations carefully alongside the other responses to the CP when finalising our policy.

In the meantime, I can perhaps usefully clarify the motivation for our proposals in relation to data collection and reporting, target-setting and culture, given the Committee's focus on whether firms should be left to make their own improvements in this area.

Our data collection, disclosure and reporting proposals had two main aims. First, we proposed to use reported data to produce an aggregated industry-wide benchmarking report to help firms, supervisors and other stakeholders assess where firms stand in terms of their progress relative to peers. Alongside our proposed firm diversity and inclusion disclosure requirements, this has the aim of improving diversity and inclusion practice, market discipline and transparency. Second, we proposed that reporting of data to us could help build an evidence base that could improve the effectiveness of any regulatory intervention on our part. We recognised in the CP that, while there is evidence on the benefits of diversity, not all of it is conclusive, and that the evidence base is limited in part due to a lack of detailed, consistent and accurate data.

Our assessment when considering potential options for consultation in this area was that the market was finding it difficult to improve diversity and inclusion. The DP notes that data on many aspects of diversity are poor in the financial services sector, making it challenging for individual firms to assess their own position¹.

Several organisations and reports have also emphasised the value of data collection. For instance, the recently published report by the Inclusion at Work Panel, commissioned by the Minister for Women and Equalities, outlines a recommended framework for diversity and inclusion success and notes that gathering evidence systematically and comprehensively is a criterion for embedding evidence-informed practice. The report outlines that gathering data "*allows organisations to identify*

¹ Many firms are not collecting data that could help them understand what steps they may want to take to improve their diversity - The Inclusion at Work report outlines that one of the barriers, cited by firms, to doing "...the right thing" was little or no data.

context-specific problems within their own organisation”, which “allows employers to target interventions proportionately to address problems, while reducing the use of resources on addressing inconsequential or absent issues.” In another example, the Women in Finance Charter’s Blueprint outlines that embedding DEI involves “a... *data-led approach*” reliant on “*high-quality data*.”

Data reporting was one area where our proposals were informed by evidence drawn from experience in other sectors. For example, the Solicitors Regulation Authority has required law firms to collect, and report, diversity data for about twelve years. This period has seen an improvement in the diversity of the solicitors’ profession.² In addition, the SRA produces a [diversity data tool](#) which outlines the diversity of the profession, enabling firms to benchmark their progress and informing other stakeholders.³

In relation to targets, the CP proposed that the largest firms would be required to set their own targets where they identify under-representation, subject to an expectation of targets being in place for women and ethnicity if under-representation was identified. In relation to targets, there were 89 responses to our DP questions relating to target-setting, 71% of which agreed that targets were important for driving progress on diversity and inclusion. A further 16% respondents had a balanced view as to the pros and cons of setting targets, whilst 13% were opposed. Many DP respondents considered that it would be useful for regulators to set out consistent principles for setting targets. However, they also noted – and we agree – that firms should have autonomy to set their own targets. Importantly, the CP made clear that under our proposals, it would be up to firms to decide what targets were appropriate to their specific context. None of the proposals in the CP included the regulator setting numerical targets or quotas for any firm. Further, we proposed to set no requirements on individuals to provide data to their employer firms. Where firms report or disclose on ‘gender’ and ‘gender identity’ we proposed to leave it to firms to consider how to define these characteristics for themselves and their employees. This is of course a particularly sensitive area where we will continue to consider the position carefully, including in light of the Committee’s recommendations.

² See the Solicitors Regulation Authority [Diversity in the profession](#) page

³ The firms who are using diversity data have said that they are better able to: identify barriers that prevent the development of all available talent; win business by showing their commitment to diversity; prevent costly discrimination claims by identifying problems early and strengthen their reputation. [SRA | Benefits of diversity in the profession | Solicitors Regulation Authority](#) The SRA law firm diversity data tool can be found here [SRA | Law firm diversity data tool | Solicitors Regulation Authority](#)

We recommend that the Government and regulators encourage all firms to consider equalising their offer of parental leave for men and women, and to actively encourage more men to take it up. We also recommend that the Government and regulators encourage firms to be transparent about their maternity and parental leave policies, including when advertising roles, by publishing them on their company websites.

We recommend that the Government and regulators encourage firms to undertake equality impact assessments on their flexible working policies and the interaction with diversity and inclusion within their firm.

We recommend that the Government and regulators encourage firms to advertise as many roles as possible to be available on flexible and part-time bases, as a way to attract and retain as wide a talent pool as possible, especially women.

We agree with the Committee that firms' policies on parental leave and flexible working could help firms improve diversity and inclusion. We also note the changes to Flexible Working Act 2023 and the Carers' Leave Act 2023 which came into force 6 April 2024 and which will assist many with improved flexible working and caring responsibilities⁴. In developing our consultation proposals, we were nevertheless careful to focus on the outcomes that we expect firms to deliver rather than specifying how firms should look to make improvements, so that firms could choose the interventions that were most likely to improve outcomes for their own situation. The proposals within the CP made it clear that firms should examine their own data to see whether or not any barriers exist to securing benefits from enhanced diversity and inclusion and that, where such barriers are found, they should then identify and target interventions accordingly – potentially including flexible working initiatives. That said, we will support industry and Government where a regulatory view is needed.

Given that gender bonus gaps are typically even larger than gender pay gaps, we are concerned that the removal of the bankers' bonus cap could increase the difference between the overall take-home pay of men and women in financial services, especially given that pay gap reporting appears to provide little incentive against this. We recommend that the PRA and FCA monitor this closely, and formally review the impact of the bonus cap removal on gender pay inequality in two years' time.

⁴ The Flexible Working Act allows for the right to request flexible working from the first day of employment. Employees can make two rather than one request a year for flexible working; and the deadline for employers to respond to the requests has been reduced from three to two months. The Carers' Leave Act entitles employees to take one week of unpaid leave a year if they have caring responsibilities (which include children); this is also available from the first day of employment.

The PRA has committed to monitor the effects of the removal of the bonus cap on the remuneration structures in PRA-authorized firms. This is with the intention of monitoring the prudential impact of incentives as well as individual and collective accountability in firms.

In addition, in [Policy Statement 9/23](#), the PRA reminded firms that they continue to be required to establish, implement, and maintain remuneration policies, procedures, and practices that are consistent with, and promote, sound and effective risk management. While the removal of limits on the ratio between fixed and variable components of total remuneration gives greater flexibility to firms, we expect firms to take care to avoid adverse impacts on pay gaps when using this increased flexibility.

The Government Equalities Office and the Equality and Human Rights Commission are responsible for monitoring compliance with, publishing inquiries on, and enforcing relevant legislation concerning gender pay gap issues for firms, including those in the financial services sector. We would be happy to work with the FCA, GEO and EHRC to assess whether the policy change has affected gender pay gaps. While it will take time for the effects of the policy to be embedded within firms, as for example they may need to change employment contracts, we will seek to review the policy at the earliest opportunity that sufficient evidence is available.

We recommend that the FCA launches an awareness campaign to publicise the availability of its whistleblowing line and clarify the circumstances in which it can be used, including that nothing in a non-disclosure agreement can prevent an individual from reporting harassment to the FCA. This could be part of a wider campaign to map out the different options available to women suffering abuse or harassment in financial services.

I note that this recommendation from the Committee was directed to the FCA. Given that the PRA also provides an approachable, confidential whistleblowing line, providing in-person and online guidance on all whistleblowing matters, we will continue to work closely with the FCA across all aspects of our whistleblowing services.

I thank the Committee once again for the report and recommendations and let me reiterate in closing that we will carefully consider the recommendations as we determine any next steps in relation to our proposals.

Yours sincerely



Sam Woods
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