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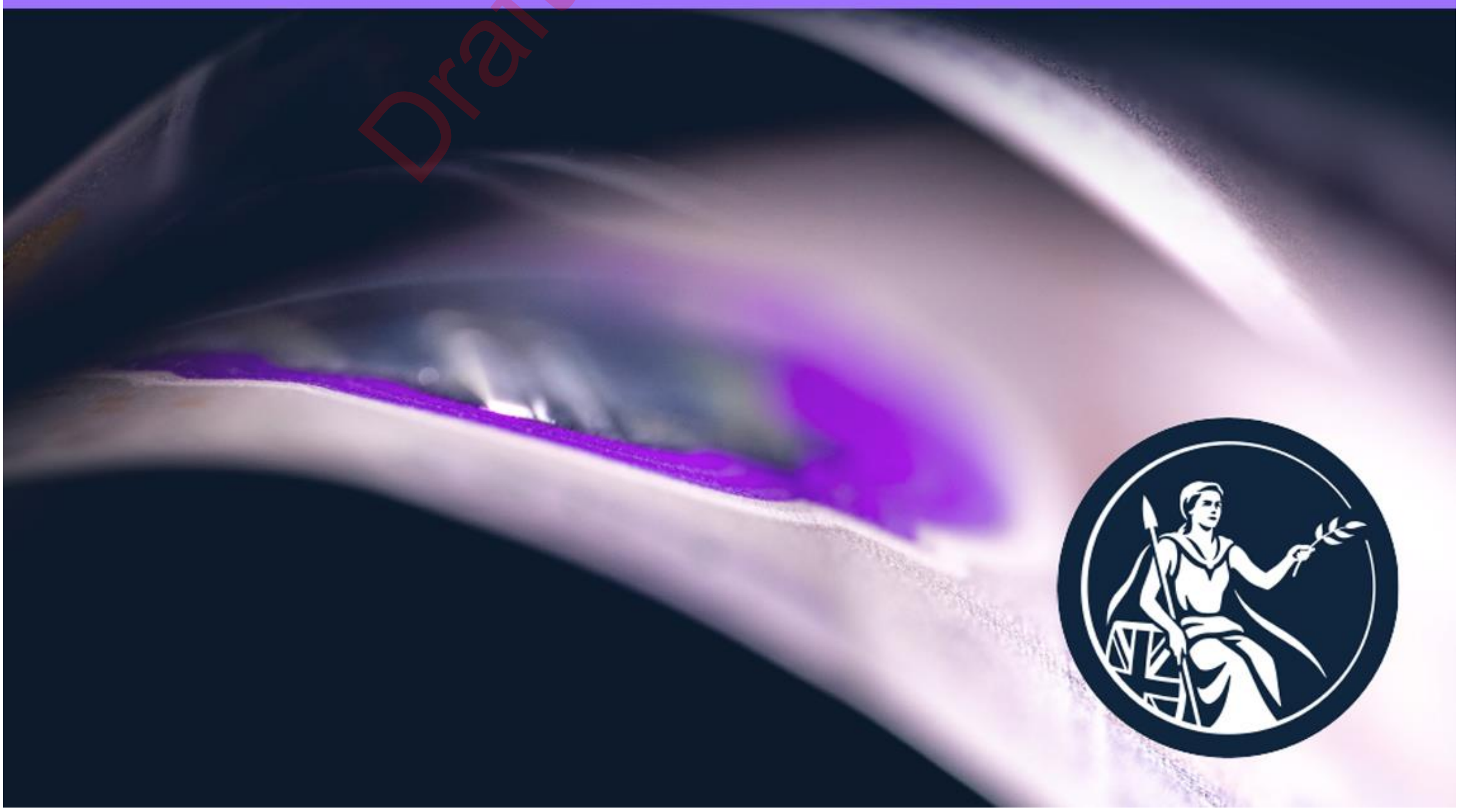
Bank of England PRA

Appendix 6: Draft supervisory statement – Diversity and inclusion in PRA-regulated firms

Draft for consultation

Supervisory statement | SSXX/XX

September 2023



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Draft supervisory statement – Diversity and inclusion in PRA-regulated firms

Supervisory statement | SSXX/XX

Draft for consultation

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1: Introduction

1.1 This supervisory statement (SS) sets out the Prudential Regulation Authority's (PRA) approach to improving diversity and inclusion in PRA-regulated firms. The PRA considers that diverse and inclusive firms are likely to have more diversity of thought, and consequently sounder decision-making and better risk management. Diverse and inclusive firms may also unlock a wider talent pool in competitive labour markets and generate more innovative products and services by accessing broader perspectives. Combined, this benefits safety and soundness, policyholder protection, effective competition, international competitiveness, and growth of the UK economy, in line with the PRA's objectives.[1]

1.2 This SS is relevant to all PRA-authorised banks and insurance firms, building societies, PRA-designated UK investment firms, and their qualifying parent undertakings, which for this purpose comprise UK-headquartered financial holding companies and mixed financial holding companies. The rules referred to in this SS apply to Capital Requirements Regulation (CRR) and Solvency II firms, and third-country branches where specified, with respect to their activities carried on from an establishment in the UK. The expectations do not apply to credit unions and non-directive firms. The application of specific rules and expectations is explained in each chapter.

1.3 This SS should be read in conjunction with:

Table 1: Essential PRA rules and expectations

Banks (CRR firms)	Insurance (Solvency II firms)	Cross–cutting
Chapters 6–8 in the General Organisational Requirements Part of the PRA Rulebook ('Part')	Chapters 2 and 13 in the Conditions Governing Business Part	Glossary Part
Chapter 24 in the Regulatory Reporting Part	Chapter 17 in the Group Supervision Part	SS5/16 – Corporate Governance: Board responsibilities[2]
Chapter 4 in the Public Disclosure Part	Chapters 9 and 10 in the Reporting Part	
	Chapters 7 and 9 in the Third Country Branches Part	

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1 The Financial Services and Markets Act 2023 introduced a new secondary objective on competitiveness and growth for the PRA.
2 SS5/16 – Corporate governance: Board responsibilities: www.bankofengland.co.uk/prudential-regulation/publication/2016/corporate-governance-board-responsibilities-ss.

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SS28/15 – Strengthening accountability in banking[3]	SS35/15 – Strengthening individual accountability in insurance[4]	

1.4 This SS sets out the PRA's expectations of how firms should achieve the intent of its diversity and inclusion rules, noting that the best outcomes for progress on diversity and inclusion are likely to be achieved when the different measures are applied holistically as a package. Figure 1[5] explains the key outcomes that the PRA aims to achieve through the diversity and inclusion policy package, and the levers that it is using.

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[3] SS28/15 – Strengthening individual accountability in banking: **www.bankofengland.co.uk/prudential-regulation/publication/2015/strengthening-individual-accountability-in-banking-ss**.

[4] SS35/15 – Strengthening individual accountability in insurance: **https://www.bankofengland.co.uk/prudential-regulation/publication/2015/strengthening-individual-accountability-in-insurance-ss**.

[5] Readout of text in Figure 1 for screen readers: Desired outcome: To improve diversity and inclusion (D&I) across PRA-regulated firms, as the PRA considers that it supports prudent decision-making and better risk management, through reducing the risk of groupthink. There are three ways this outcome can be achieved, and levers that will turn the dial for each. 1. Improved diversity and inclusion for board and senior management, to support discussion and debate on prudential risk issues, reflecting a range of viewpoints &experiences. Levers that will drive improvements are: (a) diversity and inclusion embedded in firm culture and strategy; (b) board responsible for diversity and inclusion strategy; (c) targets; and (d) succession planning. 2. More inclusive and diverse firms, where individuals can speak up and raise concerns on issues relevant to the firm's business and risk profile. Levers that will turn the dial are: (a) firm-wide diversity and inclusion strategy and (b) monitoring diversity and inclusion and using the evidence collected to inform action; 3. Accountability - at firm and individual level, to provide incentives to make progress.Levers that will make progress are: Senior Manager accountability for diversity and inclusion as part of firm culture; (b) diversity and inclusion as a risk considered by internal control functions; (c) regulatory reporting; (d) disclosure; and (e) industry benchmarking.

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Figure 1: Policy outcomes and levers to make progress

Desired outcome	To improve diversity and inclusion (D&I) across PRA-regulated firms, as the PRA considers that it supports prudent decision-making and better risk management, through reducing the risk of groupthink		
How can this outcome be achieved?	Improved D&I for board and senior management, to support discussion & debate on prudential risk issues, reflecting a range of viewpoints and experiences	More inclusive and diverse firms, where individuals can speak up and raise concerns on issues relevant to the firm's business and risk profile	Accountability - at firm and individual level, to provide incentives to make progress
What levers will make progress?	• D&I embedded in firm culture and strategy • Board responsible for - D&I strategy - Targets - Succession planning	• Firm-wide D&I strategy • Monitoring D&I: using evidence to inform action	• Senior Manager accountability for D&I as part of firm culture • D&I as a risk considered by internal control functions • Regulatory reporting • Disclosure • Industry benchmarking

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2: Key terms

2.1 The PRA considers it important to explain some key terms to ensure clarity and consistent understanding across the PRA's policies. To achieve the desired policy outcomes, improved diversity of thought, supported by better diversity of demographic characteristics is needed, in turn supported by firm practices that foster inclusion. To bring about benefits for decision-making, including via effective challenge[6], firms should view these elements as interdependent and complementary.

2.2 Diversity in organisations usually means three things: (i) demographic diversity, (ii) experiential diversity (different experiences), and (iii) diversity of thought (also called cognitive diversity). The PRA considers that a combination of demographic diversity and experiential diversity (hereafter referred to as simply 'diversity') are likely to foster greater diversity of thought in firms and help reduce groupthink, and support attaining the policy outcomes.

2.3 Demographic characteristics can include not only the nine protected characteristics defined in the Equality Act 2010 (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation), but can also include other factors, such as socio-economic background, gender, gender identity, and parent or carer status. The PRA considers that potential interactions between these characteristics (often referred to as 'intersectionality'[7]) can also influence factors that lead to diverse thinking. Unless otherwise specified (eg in relation to targets, reporting, and disclosure), it is up to firms to consider whether all or a subset of these demographic characteristics should be reflected in their approach to diversity and inclusion, given the desired outcomes set out in Figure 1.

2.4 Inclusion happens when people in an organisation feel a sense of belonging and are empowered to achieve their full potential. In a fully inclusive organisation, all staff at all levels feel empowered to speak up and express their views. Staff feel comfortable challenging peers and seniors to achieve the optimal outcome. They are confident that their views will be heard and considered, and that there will never be negative repercussions for speaking up against prevailing views. To foster inclusive working environments, there needs to be

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[6] Effective challenge is where '…decision-making processes encourage a range of views; allow for testing of current practices; stimulate a positive, critical attitude among employees; and promote an environment of open and constructive engagement.' Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture: **www.fsb.org/wp-content/uploads/140407.pdf**.

[7] Intersectionality is commonly understood to mean the network of connections between social categories such as race, class and gender, especially when this may result in additional disadvantage or discrimination (Oxford Learner's Dictionaries).

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appreciation of differences and support in the integration of all employees. The role of leaders is to facilitate such an environment in day-to-day work and among other aspects, this involves demonstrating inclusive leadership. As such, the PRA expects individuals chairing meetings, including board meetings, to facilitate effective challenge by creating a safe environment to do so. Inclusive leaders are those who can empower individuals to speak up, and challenge dominant opinions, bringing the benefit of their diverse perspectives into the workplace, where they can help inform a broader view of prudential risks and potential mitigants, as well as innovative opportunities.

2.5 To support the improvement of diversity and inclusion, it is also important to consider equity, which seeks to remove barriers for disadvantaged groups. [8] Firms should collect data, monitor diversity and inclusion, and take appropriate actions where needed, in line with the PRA's rules, which have been designed to support the desired outcomes listed above. Without equitable approaches, it can be difficult to achieve diversity, as a lack of equity may create barriers to achieving the objectives of firms' diversity and inclusion strategies, particularly with regard to employee recruitment, retention, and progression.

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[8] Equity is commonly understood to involve the recognition that individuals have varying access to resources and privileges, which may require targeted interventions to help those who need more support to access opportunities which may be more easily available for some.

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3: Governance

A firm-wide strategy

3.1 The requirement to produce a firm-wide diversity and inclusion strategy applies to all CRR and Solvency II firms, including third-country branches. A third-country branch would satisfy the requirement if it was covered by a diversity and inclusion strategy at international group level. The rules also require firms in scope to publish their diversity and inclusion strategy.[9] The strategy must be published in a manner easily accessible to the public, and the PRA's expectation is that it would usually be available on a firm's website where this exists.[10] While the rules refer to a single 'strategy', it is also acceptable for the full strategy to be comprised of multiple linked documents and/or to be combined with the board diversity and inclusion strategy if firms prefer.

3.3 While it is ultimately up to firms, and the board, to develop and own their diversity and inclusion strategy, the PRA expects a strategy to include:

- the firm's core values, the culture that it is trying to create, and its commitment to diversity and inclusion;
- clear objectives and goals for improving diversity and inclusion in the firm and a plan for meeting these;
- ways of measuring progress against the objectives and goals; and
- the role of the firm and staff in fostering an open and inclusive environment, including empowering colleagues to speak up and express their views.

3.4 The diversity and inclusion strategy should be clearly linked to the needs of each business, considering the current profile of diversity and inclusion in the firm. The PRA expects firms to regularly review the quality and effectiveness of the firm's diversity and inclusion strategy and update it as appropriate. This is to help measure their progress against the strategy and, if necessary, to update the firm-wide strategy accordingly to reflect the firm's evolving approach to diversity and inclusion. The PRA expects that the strategy must have, and be seen to have (for example, via internal communications), the full support of the senior leadership and the board.

3.5 Taking into account the differences between PRA-regulated firms, the PRA expects the strategy for smaller firms to be proportionately simpler, less specific, and contain fewer

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[9] General Organisational Requirements 8.2; Conditions Governing Business 13.1.
[10] If a firm does not have a website, it is required to make the policy available in a manner easily accessible to the public.

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details than those for larger firms. For third-country branches that are covered by a diversity and inclusion strategy at international group level, it may not be practical for their strategy to cover all the points above. However, the PRA would expect relevant aspects to be considered with regard to the UK operations.

3.6 A less frequent review of the strategy may also be justified for smaller firms and third-country branches (eg on a triennial basis); however, material events or adverse developments in a firm's culture or quality of decision making may prompt a firm to review its approach to diversity and inclusion more regularly.

3.7 Firms should explain what measures they plan to use to foster an inclusive environment across the firm. For smaller firms, where representation across a wide range of demographic characteristics can be more challenging, the focus may be more on inclusive practices. To support inclusion, the PRA expects that the firm-wide strategy outlines the type of work environment firms aim to create, with the objective of individuals being able to speak up, provide constructive challenge, and contribute a wide range of views without fear of repercussion. Firms should consider how to ensure all staff understand their roles in supporting the diversity and inclusion strategy and promoting an inclusive culture within the institution.

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3.8 The PRA considers that a key part of making progress on diversity and inclusion is firms attracting a wider range of applicants to increase the diversity of the talent pool. The PRA therefore expects firms to consider and, where appropriate, implement hiring practices that decrease the likelihood of bias and attract a wider range of candidates from a wider range of backgrounds. As part of its plan for meeting its objectives and goals in its diversity and inclusion strategy, a firm should set out the key measures (current and planned) to support recruitment, retention, and career progression.

3.9 To support diversity and inclusion in the firm, firms with 251 or more employees should also explain in their strategy, as part of how they are measuring progress, how they plan to target interventions for any issues identified by their data collection and analysis. An example of what could be included might be the measures the firm is putting in place to support retention and career progression.

Board composition and strategy

3.10 The PRA requires CRR and Solvency II firms to engage a diverse set of qualities and competences when recruiting members of the board.[11] The PRA also requires firms to have and publish a strategy that promotes diversity and inclusion on the board.[12] The PRA expects

[11] General Organisational Requirements 6.2(1) and 6.3, and Conditions Governing Business 2.7.
[12] General Organisational Requirements 8.3, and Conditions Governing Business 13.2.

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that firms review and, if necessary, update the board strategy every two years, alongside the firm-wide diversity and inclusion strategy.

3.11 The PRA considers the composition and practices of both the board and its sub-committees to be crucial, as these set the tone for the organisation-wide inclusive culture, which can have implications for the behaviours and norms across the different functions and business units. Board and board sub-committee composition is particularly important given their role in decision-making, setting of a firm's strategy, and oversight of its implementation, and, particularly in the case of non-executive directors, providing effective challenge to the executives.

3.12 The PRA's expectations around succession planning, which are set out in SS5/16,[13] state that upcoming appointments should be considered in the context of diversity. This might involve engaging more actively with recruitment firms in seeking a diversity of candidates for future directorships, including developing a strategy to access a more diverse pool of candidates. Succession planning, considered in the context of diversity, can be thought of as part of the implementation of board and firm-wide diversity and inclusion strategies and targets. This can help ensure that a firm takes a holistic, rather than a piecemeal, approach to embedding diversity and inclusion in its organisation, recognising the importance of the tone from the top and the role of inclusive leaders.

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Targets

3.13 The rules require CRR and Solvency II firms with 251 or more employees to set appropriate targets for underrepresented demographic characteristics, in areas identified by the firm.[14] The requirements are limited to employees who predominantly carry out activities from a UK establishment, so UK-headquartered firms must set appropriate targets for the board, senior leadership, and employee populations respectively, while third-country branches are only required to set targets for UK-based senior leadership and employees. Table 2 explains which individuals fall within the respective role categories.[15]

Table 2: Role categories

Board targets include:	Senior Leadership targets include:	Total employee population targets include:

13 SS5/16 paragraph 10.1 (proposed change).

14 General Organisational Requirements 8.4 and Conditions Governing Business 13.3.

15 See definitions of senior leadership and employee in the Glossary Part of the PRA Rulebook.

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Non-executive director members of the board	Executive members of the board	Board members (including non-executive directors)
Executive members of the board	The members of the most senior executive committee below the board, or if there is no such senior executive committee, the most senior level of managers reporting to the executive members	Senior leadership
	Employees who directly report to the those in the row above (except administrative staff)	All other employees

3.14 The PRA requires firms in scope to set at least one quantitative target for each role category if possible (ie one for the board, one for senior leadership, and one for the total employee population). This should focus on areas where a firm's data collection and subsequent analysis has identified there are issues. If firms consider it inappropriate to set at least one target per role category, they should be able to explain why. Given that other diversity initiatives have shown that women and individuals from a minority ethnic background are often underrepresented among the senior leadership of firms, the PRA expects firms to set targets in relation to women and ethnicity as a minimum, unless they can demonstrate that there is no evidence of underrepresentation for those characteristics. Firms can also choose to additionally set other quantitative or qualitative targets, focusing on either demographics or inclusion, where they judge there is scope for improvement.

3.15 When setting demographic targets, the PRA expects firms to consider what demographic diversity looks like in the context of their own businesses. This could vary between different firms, depending on a range of factors, such as size, location, and (where applicable) home jurisdiction. Firms may also choose to set inclusion targets based on the inclusion data they are required to collect for the purposes of the regulatory reporting and disclosure (see Chapters 6 and 7). For example, if a low percentage of employees 'agree' that they 'feel safe to express disagreement with or challenge the dominant opinion or decision without fear of negative consequences', a firm could set a target to improve the percentage of employees that agree with that statement. Another approach that firms could take would be to set qualitative targets; for example, by planning to develop their approaches to recruitment, retention, and career progression to support better diversity and inclusion across the firm. The PRA's requirement to set targets does not require firms to engage in

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positive discrimination or to breach any of their obligations under the Equality Act 2010 or any other relevant legislation. They are instead designed to support lawful positive action.[16]

3.16 The PRA expects firms to consider timetables for achieving their targets which are both realistic and stretching. The targets should take account of the firm's wider business strategy, size, and location. Over time, firms should use data they collect on diversity and inclusion to support their rationale. Firms may use a wide range of data for this purpose, in line with the requirement for them to monitor diversity and inclusion (see Chapter 5) – it is not limited to only the data requested via the regulatory reporting requirements. Targets should be reviewed and, if necessary, updated at least every two years, at the same time that firms review (and, if necessary, update) their diversity and inclusion strategy. Firms should be able to explain why they have set the targets they have chosen, and why they might not have set targets in relation to any problem areas identified.

3.17 Irrespective of the size of the firm, the PRA does not consider targets to be a sufficient rationale for increasing the size of the board. The PRA considers that diverse boards can be achieved over time through firm and sector-wide diversity and inclusion initiatives. Targets should be set with reference to the existing or planned board size and related succession planning (see SS5/16 for more information on this).

3.18 The PRA recognises that targets might not always be achieved and that achieving a target does not indicate completion of the firm's diversity and inclusion journey. Firms should reflect on progress against targets qualitatively as well as quantitatively, using this as a tool for setting strategy, identifying key challenges, and targeting interventions for employee groups at all levels on an ongoing basis.

3.19 Firms are required to prepare and publish a strategy on how to achieve their targets. Firms are also required to disclose their targets publicly, along with the rationale for setting the targets and, over time, progress against them.[17] Although firms do not need to update their targets every year, they must disclose their progress against the targets on a yearly basis.

3.20 Targets should be set based on evidence that the firm has gathered, including through the requirements on monitoring (see Chapter 5) and regulatory reporting (see Chapter 6). Firms should also consider the content of their diversity and inclusion strategy when designing their targets. Firms may also find it useful to consider the context within which they

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16 For a useful guide, please see Government Equalities Office (2011), Equality Act 2010: What do I need to know? A quick start guide to using positive action in recruitment and promotion: **www.gov.uk/government/publications/employers-quick-start-guide-to-positive-action-in-recruitment-and-promotion**.

17 CRR Firms: Public Disclosure Chapter 4; Solvency II Firms: Reporting Chapter 10.

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operate, including available data on the diversity profile of the UK population and their local area.

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4: Culture and allocation of responsibilities

4.1 The PRA's rules require that all CRR and Solvency II firms must establish, implement, and maintain an effective diversity and inclusion strategy aimed at promoting diversity and inclusion among their employees and board. The rules also apply to third-country branches, except for the requirement in relation to boards (which would not be compatible with the organisational structures in the UK).[18] Inherent in the setting of strategy is the role of senior leaders at the firm in setting the tone from the top and developing the firm's culture.

Role of the board and responsible Senior Managers

4.2 The PRA expects firms to have a culture of prudent management.[19] This, among other aspects, includes having a culture of risk awareness, ethical behaviours, and appropriate incentives that align with the firm's values, business goals, and its safety and soundness. Diversity and inclusion are a key part of a firm's culture, given that poor practices and behaviours can lead to organisational norms that contribute to a culture where misconduct is tolerated, and adequate risk management and safety and soundness is put at risk. The PRA therefore expects firms to embed diversity and inclusion as part of their culture, to support firms' prudent management, decision-making, and risk-taking. To this end, as with other elements of culture, there is a role for both the board as a collective, and responsible Senior Managers.

4.3 The board has responsibility for a firm's strategy in relation to the firm's diverse and inclusive practices (including the firm's approach to developing diverse talent internally), and (where applicable) the targets that the firm sets.[20] The PRA considers it to be a part of the board's responsibility to articulate, embed, and maintain firm culture. SS5/16 provides more detail on board responsibilities for culture, including with reference to diversity and inclusion.

4.4 SS28/15 (for banks) and SS35/15 (for insurance firms) set out the PRA's expectations on allocation of responsibility for diversity and inclusion to appropriate Senior Management Functions (SMF).[21] As such, for UK firms, the individuals holding the Prescribed Responsibilities for culture will, by extension, have complementary responsibility for diversity

[18] See Allocation of Responsibilities 6 and Insurance – Allocation of Responsibilities 3A for Prescribed Responsibilities applicable to third-country branches.
[19] The Prudential Regulation Authority's approach to banking supervision: **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/banking-approach-2018.pdf**, paragraph 45; The Prudential Regulation Authority's approach to insurance supervision: **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/insurance-approach-2018.pdf**, paragraph 53.
[20] SS5/16, paragraph 2.3:
[21] SS28/15, paragraph 2.44 and SS35/15, 2.55 (proposed changes – see Diversity and Inclusion CP appendices).

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and inclusion. For third-country branches and CRR firms with assets less than £250 million, the PRA expects this responsibility to be allocated to at least one SMF responsible for UK operations.

4.5 The chair is responsible for leading the board's development of the firm's culture, which includes the development of the firm's diversity and inclusion strategy. The CEO should oversee the adoption of the firm's culture in the day-to-day management of the firm, including the diversity and inclusion strategy,[22] as decided by the board. The board should consider and formally approve the diversity and inclusion strategy, both at the point of creation and when it is reviewed.

Firm-wide culture

4.6 As set out in the PRA's approach to supervision (and in SS28/15 and SS35/15), the PRA expects firms to have a culture that supports prudent management, which among other aspects includes: an understanding 'of the circumstances in which the firm's viability would be under question, whether accepted practices are challenged, and whether action is taken to address risks on a timely basis'.[23] Firms must ensure that individuals are fit and proper to perform their roles in a way that enables sound and prudent management of the firm.[24]

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[22] SS28/15, paragraphs 2.42–2.45; SS35/15, paragraphs 2.53–2.56; and SS5/16, paragraph 1.6.
[23] See PRA's approach to supervision of the banking and insurance sectors, paragraphs 45 (banking) and 53 (insurance): **www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors**.
[24] SS28/15, paragraph 5.6A and SS35/15, paragraph 3.8A (proposed).

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5: Monitoring diversity and inclusion

5.1 The rules require that CRR and Solvency II firms (including third-country branches) monitor their diversity profile and the extent to which they achieve an inclusive culture with respect to their UK establishment.[25] As required, these firms must then take appropriate actions to improve their diversity and inclusion, and record what they have done. The PRA considers it important for all firms to monitor their own diversity and inclusion to enable them to assess the effective implementation of their related strategy and to establish where remedial action is required.

Firms with 251 or more employees

5.2 For firms, including third-country branches, with 251 or more employees, the PRA expects that the information that will be monitored will include what is reported to the PRA as part of the regulatory reporting requirements (see Chapter 6), as a minimum. This includes information on the demographics of the firm and several metrics intended to measure inclusion. Firms may also choose to monitor a wider range of data that they judge to be relevant. Firms' internal data collections should be used as evidence to help set their diversity and inclusion strategy and targets, and to help them measure progress over time. As firms' strategies develop, they may want to consider how to deepen the analysis they do on the data they collect – for example, by looking at intersectionality and how this affects inclusion at the firm. Boards should use this information to effectively oversee firm-wide diversity and inclusion strategy and progress. The executive SMF responsible for diversity and inclusion at the firm is accountable for ensuring that firms enact their strategy, monitor progress, and take action to address any deficiencies.

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5.3 The PRA considers that diversity data are essential for organisations to assess the current composition of their workforce, which in turn can help in setting relevant targets. It is also important to understand the composition of the board and senior leadership. The data that the largest firms report via the regulatory return aim to establish how many individuals with different characteristics are employed in firms, and in what position. These metrics, termed 'outcome' metrics, are important as they are a useful potential indicator of broader diversity and inclusion performance and can be useful in establishing a baseline against which progress can be measured. They are also necessary for assessing the effectiveness of various interventions.

5.4 In addition to considering outcome metrics, the PRA expects firms to develop 'process' metrics, which can help them assess why issues identified in their outcome metrics may be

[25] General Organisational Requirements 8.5 and Conditions Governing Business 13.4.

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arising, and how they might be addressed. Firms are not required to submit these to the PRA as part of the regulatory reporting but may consider using these metrics to identify problems in employee-management processes, such as performance measurement, recruitment, promotions, attrition, disciplinary proceedings, and dismissals within a firm. Reliable employee process metrics, analysed at different levels of seniority, can help firms identify where unconscious biases or discrimination in people processes are not necessarily immediately obvious and where interventions may be best focused. Tackling such issues throughout the employee lifecycle can help widen the pool of candidates for key decision-making roles at senior leadership and board level.

Firms with 250 or fewer employees

5.5 To exercise proportionality, for firms with 250 or fewer employees (including third-country branches), the PRA is less prescriptive regarding which aspects of diversity and inclusion they should monitor for the purposes of complying with the rule. The data collected by the regulatory reporting return from larger firms can be taken as a useful guide of the sort of things a smaller firm may consider it appropriate to monitor, but a firm could choose to monitor fewer or different metrics and measures. A smaller firm should consider its size, location, and business model when deciding what it should monitor. The PRA expects these firms, and particularly responsible Senior Managers, to be able to explain, if asked, why they have chosen to monitor certain aspects of diversity and inclusion, and how this monitoring enables them to take appropriate actions to improve the firm's diversity profile and inclusive culture. While these smaller firms are out of scope of any requirement to set targets, these firms could nevertheless choose to set targets (quantitative or qualitative) and monitor progress against them as one way to establish compliance with this rule.

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The role of control functions

5.6 The PRA expects the development, monitoring, and review of the diversity and inclusion strategy to be supported by appropriate risk and control functions at the firm. Given the link between diversity and inclusion, effective decision-making, and risk management, the PRA expects that the risks involved in having poor diversity and inclusion are managed alongside other business risks, with the second and third lines providing appropriate challenge and oversight. Risk and control functions can not only help ensure compliance with regulatory and legal requirements, but also can consider how effectively diverse and inclusive practices are embedded with respect to the firm's own strategy and values. They can support accountability by ensuring that findings are being appropriately reported to senior leadership and the board such that they can be used to monitor progress, inform improvements to strategy over time, address any deficiencies, and make targeted interventions as appropriate.

5.7 As noted in PS24/15 Whistleblowing in deposit-takers, PRA-designated investment firms and insurers, 'firms may encourage speaking up internally by creating a culture that

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welcomes criticism: they should not seek to force people to raise concerns through one channel only.' The PRA therefore added a rule, within PS24/15, to prevent firms instructing their employees to raise concerns through their internal whistleblowing channel before contacting the PRA or the FCA.[26] The ability to speak up via whistleblowing without fear of repercussion is also an important aspect of risk management and indicative of an inclusive culture. Risk and control functions have an important role to play in ensuring there are systems and processes in place to support whistleblowing.

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[26] Whistleblowing in deposit-takers, PRA-designated investment firms and insurers: www.bankofengland.co.uk/prudential-regulation/publication/2015/whistleblowing-in-deposit-takers-pra-designated-investment-firms-and-insurers-ss.

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6: Regulatory Reporting

6.1 The rules require CRR and Solvency II firms (including third-country branches) with 251 or more employees to report certain diversity and inclusion data, along with information on the targets firms have set for themselves, on an annual basis.[27] The report must reflect a firm's position as at a particular reference date [to be set upon publication of final policy], using information reasonably available to the firm on that date. Firms must submit their reports during a three-month window [which will be specified upon publication of final policy].

6.2 The rules require only that the data reflects information reasonably available to report on the reference date. In general, the PRA considers that it is reasonable for firms to collect information from employees annually. The data submitted should accurately reflect the data held by the firm as at [reference date to be confirmed upon publication of final policy] of the relevant year. Where demographic data is already held on firm systems, firms would not be expected to require employees to report this afresh each year. For the purposes of the PRA's requirements, employees should be encouraged but not required to check their data is up-to-date and update as necessary. However, some aspects of the regulatory return (eg on culture and inclusion) do require yearly data collection. It is for firms to decide the best way to collect data from their employees such that the data accurately reflects the current diversity and inclusion reporting year.

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6.3 CRR and Solvency II firms that have 250 or fewer employees are required only to report their number of employees, on a rolling three-year average basis, to establish that they do not meet the threshold for reporting the full suite of data. However, these firms could choose to complete other sections of the reporting return on a voluntary basis, to assist the PRA by providing additional data to be included in the regulatory benchmarking report.

6.5 Firms with 251 or more employees are required to report on workplace inclusion, which can be seen as a measurement of the culture of a firm and whether it is inclusive. Such reporting captures whether individuals are comfortable to speak up, raise concerns, and provide challenge without fear of repercussion. The PRA's expectation is that firms will collect the information on inclusion by conducting inclusion surveys, collecting feedback on the employee experience, reporting the information to the regulator, monitoring this information, and taking appropriate actions for the improvement of an inclusive culture.

[27] Rule 2.12 and Chapter 24 in the CRR Firms: Regulatory Reporting Part of the PRA Rulebook; Chapter 9 in the Solvency II Firms: Reporting Part of the PRA Rulebook. See also [final SS to link to regulatory reporting return and technical instructions]. Note that third-country branches are not required to report on their boards due to these not having stand-alone boards in the UK.

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6.6 To help firms in collecting the data for reporting, the PRA has provided an example employee survey template on its website (see link in Appendix 1). The PRA considers that this example template could help firms collect relevant data (including where data that can be used for reporting to the regulators is not already available in-house). However, using this example template for collecting data from employees is voluntary. It is up to firms to determine how they wish to collect the data they need alongside any other information they may consider collecting for internal monitoring purposes.

6.7 In collecting and reporting data on individuals within the firm, firms need to have regard to their obligations under applicable data protection and privacy law. In particular, where firms are collecting and otherwise processing 'personal data' within the meaning of UK data protection legislation, firms should ensure they comply with the principles of data protection set out in the UK General Data Protection Regulation (UK GDPR) and the Data Protection Act 2018, and that they have a relevant 'lawful basis' for their processing activities. This includes that firms should make it clear to their employees the purpose for which they collect personal data, explain how the data will be used, and who the data may be shared with. Firms may wish to refer to the website of the Information Commissioner's Office[28] to assist in their compliance with the data protection aspect of the proposals. Where information reported to the PRA contains 'personal data', it will be processed by the PRA and the Bank in accordance with its Privacy Notice.[29]

6.8 The reporting return includes information on how many employees chose 'prefer not to say' in response to questions asked, as well as how many employees did not complete the survey or question. The PRA considers that having a high number of such responses in one or more demographic groups may be a cultural indicator. In such cases, firms should consider whether they may need to improve inclusion and/or their strategies for communicating with their employees on the purposes of diversity and inclusion data collections. Firms would be expected to explore whether firm culture might be discouraging people from self-disclosure through, for example, a lack of psychological safety. They could also explore whether their internal communications about diversity and inclusion were making clear the firm's position and the reasons for collecting diversity and inclusion data from employees.

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28 Available at: **www.ico.org.uk**.
29 Available at: **www.bankofengland.co.uk/legal/privacy**.

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7: Disclosure

7.1 As per Chapter 3, all firms must publish on an ongoing basis, in a manner easily accessible to the public:

- a firm-wide diversity and inclusion strategy; and
- board diversity and inclusion strategy (except for third-country branches).

The strategies can be separate documents or combined into one if firms prefer.

7.2 Additionally, CRR and Solvency II firms (including third-country branches) with 251 or more employees are required to disclose data annually on:[30]

- demographic and inclusion data in line with the rules in the Public Disclosure and Reporting Parts of the PRA Rulebook; and
- their targets that they set for themselves, their policy for achieving their targets, their rationale for setting their targets and, over time, progress against them.

7.3 These annual disclosures must occur at the same time as the firm publishes its annual report and accounts, or if the firm does not produce these, within 6 months of the end of its financial year. Firms may choose where to publish their targets and data disclosures; for example, they could present them in their annual reports, in a dedicated diversity and inclusion report, or on their website. Firms can choose a reference date for their annual disclosure, and the demographic and inclusion data disclosed should reflect the position of the firm on that reference date, using information reasonably available to the firm on that date. The reference date chosen must be no earlier than the reference date of the firm's most recent diversity and inclusion report to the PRA; therefore, firms could base their disclosure on the same data as used in that report or use more recent data if available.

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Demographic data

7.3 As specified in the Public Disclosure and Reporting Parts of the PRA Rulebook, firms must disclose aggregate data on the following demographic characteristics:

Mandatory

- age;

[30] Chapter 4 of the Public Disclosure Part of the PRA Rulebook; Chapter 10 of the Reporting Part. Note that third-country branches are not required to make disclosures on their boards due to them not having stand-alone boards in the UK.

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- sexual orientation;
- sex or gender;
- long-term health condition;
- ethnicity; and
- religion.

Firms can choose whether to disclose sex or gender data, or may choose to disclose both.

The rules provide that firms may also disclose data on the following demographic characteristics:

Voluntary

- gender identity;
- parent responsibilities;
- carer responsibilities; and
- socio-economic background.

The inclusion of these voluntary characteristics in the PRA Rulebook does not prevent firms from disclosing data on other demographic characteristics.

7.4 For sex, gender and ethnicity, firms are usually expected to split their disclosures into three categories: board, senior leadership, and the total employee population. Firms can choose to group the board and senior leadership into one category when disclosing on the remaining characteristics.

7.5 The rules provide that firms are not required to comply with disclosure obligations where to do so would breach any laws applicable to them. Firms should therefore consider whether information they would be disclosing would constitute 'personal data' within the meaning of UK data protection legislation, or a breach of other privacy laws applicable to them. Firms are encouraged to consider how personal data may be anonymised and to seek to disclose or publish data in aggregated or anonymised form. Firms may wish to refer to the website of the Information Commissioner's Office for further information on the anonymisation of personal data.[31] Firms should not disclose demographic data where there is any risk that individuals could be publicly identified via the data disclosed. It is up to firms to undertake a risk assessment of their disclosures related to demographics and assure themselves of their adherence to data protection laws. In the specific circumstances set out in Rules 4.9 and 4.10 of the Public Disclosure Part, where disclosure in separate categories would reveal information about an individual, firms must aggregate those categories. Where firms judge

31 Available at: www.ico.org.uk.

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that certain disclosures would not be lawful, they are expected to disclose the reasons for this decision.

Inclusion data

7.6 Firms with 251 or more employees are required to publish inclusion data based on an anonymous employee survey asking to what extent employees agree that they:

- feel safe to speak up if they observe inappropriate behaviour or misconduct;
- feel safe to express disagreement with or challenge the dominant opinion or decision without fear of negative consequences;
- feel as though their contributions are valued and meaningfully considered;
- have been subject to treatment (for example actions or remarks) that have made them feel insulted or badly treated because of their personal characteristics;
- feel safe to admit an honest mistake; and
- think their manager cultivates an inclusive environment at work.

7.7 Firms should disclose the number of employees that strongly agreed, agreed, neither agreed nor disagreed, disagreed, strongly disagreed, preferred not to say, or did not respond to each question in the employee survey. As with the demographic disclosures, this should also be split by role category.

Targets

7.8 Firms with 251 or more employees are required to disclose information on the targets they have set for themselves. The rules require that the disclosure includes a strategy for achieving the targets, a rationale for setting the targets and, over time, progress against targets. The PRA expects that the disclosure will include the following information in relation to each target that the firm has set:

- the demographic characteristic or inclusion metric that has been used for each target;
- which role category the target has been set for;
- what percentage each target has been set at;
- the year each target was originally set;
- the year the firm is aiming to meet the target; and
- the firm’s current level of representation against each target, expressed as a percentage.

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Appendix 1: Summary of policy application

Key:

✓= Requirement **E** = Expectation **X** = No requirement or expectation

	Firms with ≤250 employees	Firms with ≥251 employees[32]	Relevant rules/expectations
Firm-wide diversity and inclusion strategy	✓	✓	• General Organisational Requirements (GOR) 8.2 • Conditions Governing Business (CGB) 13.1 • Paragraphs 3.1–3.9 of this SS
Board composition and strategy	✓	✓	• GOR 6.2(1), 6.3, and 8.3 • CGB 2.7 and 13.2 • Paragraphs 3.10–3.12 of this SS • Paragraph 2.4 of SS5/16
Targets	**X**	✓	• GOR 6.2(4) and 8.4 • CGB 13.3. • Paragraphs 3.13–3.20 of this SS
Culture and allocation of responsibilities	E	E	• Chapter 4 of this SS • Paragraphs 2.43A–2.44 of SS28/15 • Paragraphs 2.54A–2.55 of SS35/15
Monitoring diversity and inclusion	✓	✓	• GOR 8.5 • CGB 13.4 • Chapter 5 of this SS
Regulatory reporting	**X**[33]	✓	• Chapter 24 of CRR Firms: Regulatory Reporting • Chapter 9 of SII Firms: Reporting • Chapter 6 of this SS
Disclosure	**X**	✓	• Chapter 4 of CRR Firms: Public Disclosure • Chapter 10 of SII Firms: Reporting • Chapter 7 of this SS
Fitness & Propriety	**E**	**E**	• Paragraph 5.6A of SS28/15 • Paragraph 3.8A of SS35/15

32 Third-country branches are not required to: (1) create a board diversity and inclusion strategy; (2) set board targets; (3) undertake regulatory reporting related to board members; or (4) make disclosures related to board members.

33 All firms are required to report average employee numbers to establish scope, but no further reporting is required.

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Appendix 2: Voluntary data collection template

[See Appendix 8 of CP18/23]

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