

18 December 2023

Governance & Cross-Cutting Standards Policy Team  
Financial Conduct Authority  
12 Endeavour Square, London

Submitted via email: [CP23-20@fca.org.uk](mailto:CP23-20@fca.org.uk)

Dear Sir/Madam:

State Street, including its asset management arm, State Street Global Advisors, (“State Street”) welcomes the opportunity to provide feedback on the proposals<sup>1</sup> issued by the Financial Conduct Authority and the Bank of England / Prudential Regulation Authority (together, “the regulators”).

State Street is one of the world’s leading providers of financial services to institutional investors. With \$40.0 trillion in assets under custody and/or administration and \$3.7 trillion<sup>2</sup> in assets under management, through our investment management arm State Street Global Advisors, State Street operates globally in more than 100 geographic markets and employs approximately 42,000 people worldwide.<sup>3</sup>

Overall, State Street continues to support the objective to increase diversity and inclusion across financial services in the UK,<sup>4</sup> and welcome the regulators’ continued work on developing a regulatory framework. Our detailed comments on the questions set out in the FCA consultation paper can be found further below. In particular, there are certain adjustments that we would consider important to ensure the UK regulatory framework is effective in helping firms foster diversity and inclusion in financial services. These recommendations are as follows:

- Multinational firms should be permitted to apply these proposals at a UK country level as opposed to on a “solo entity basis”, which would better reflect current practice for global firms;

<sup>1</sup> [The FCA and PRA propose measures to boost diversity and inclusion in financial services | FCA](#)

<sup>2</sup> Assets under management as of 30 September 2023 includes approximately \$58 billion of assets with respect to SPDR® products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

<sup>3</sup> As of 30 September 2023,

<sup>4</sup> See State Street’s response to July 2021 Discussion Paper here

- Additional guidance with respect to examples of non-financial misconduct should be provided to ensure consistent implementation across the financial services sector; and;
- Reporting and disclosure should focus on a limited set of mandatory demographic characteristics (i.e., sex and/or gender, ethnicity) with other proposed characteristics only being required on a voluntary basis.

Once again, we appreciate the opportunity to comment on this important topic. Should you wish to discuss any aspect of our submission further, please do not hesitate to contact us.

Yours Sincerely,

**Cuan Coulter**

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Executive Vice President and Country Head of UK and Ireland, State Street Bank and Trust UK

**Alex Castle**

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Senior Managing Director and Chief Executive Officer UK, State Street Global Advisors Limited

## **Consultation questions**

### **Q1: To what extent do you agree that our proposals should apply on a solo entity basis?**

We do not agree that these proposals should apply on a solo entity basis. Consistent with our feedback to the regulators' joint discussion paper in 2021, we believe that large, multinational supervised groups should be permitted to provide consolidated information on a group/UK country-level basis. We recommend that such groups ought to be given the opportunity to determine the appropriate scope in the application of these rules; at a minimum, we consider it reasonable that the proposals are applied at a country level, rather than separately for each subsidiary and/or related entity. This would reflect the current practice in which many financial service firms, including State Street, collect data on diversity and inclusion related information—that is, at the global, or at least country, level.

Additionally, hiring practices are often conducted at a UK-wide, or business-line level rather than at an entity level. Changing the application to ensure the regime only captures UK-based permanent employees of a group would resolve some challenges for business models where employees work across multiple legal entities or groups at international firms. We, therefore, recommend that all elements of the proposals should apply on a group or country level, including in relation to strategy, monitoring, target setting, data collection, reporting, and disclosure.

### **Q2: To what extent do you agree with our proposed proportionality framework?**

We agree that adopting a proportionate approach to the D&I proposals is vital to the success of the framework. To this end, we believe that the matters raised in this response will assist that objective.

### **Q3: Are there any divergences between our proposed regulatory framework and that of the PRA that would create practical challenges in implementation?**

Some divergence in the regulatory approaches adopted by the regulators is reasonable given the slightly different supervisory competencies and scope. However, there should not be any material divergences in the final policy statements. One area in which we observe that there may need to be alignment between the FCA and Bank/PRA is in relation to individual accountability. The Bank/PRA proposes to assign senior manager responsibility to overseeing D&I, whereas the FCA's proposal does not, which could create practical challenges for dual-regulated firms.

### **Q4: To what extent do you agree with our definitions of the terms specified?**

We refer to our response in Q10 regarding definitional concerns with the proposed demographic characteristics.

### **Q5: To what extent do you agree with our proposals to expand the coverage of non-financial misconduct?**

We welcome further clarification on the regulators' expectations as regards non-financial misconduct. In particular, additional guidance in relation to how non-financial misconduct would be factored into regulatory references is required in order to ensure consistent implementation across the industry. Whilst we appreciate that there may always be 'grey areas' when handling disciplinary allegations (particularly with respect to non-financial misconduct), the primary focus should continue to be an emphasis on the requirement of firms to demonstrate that they have appropriate processes, policies, and procedures in place to address such matters.

**Q6: To what extent do you agree with our proposals on data reporting for firms with 250 or fewer employees, excluding Limited Scope SM&CR firms?**

Assuming these proposals could be applied at UK country level, we do not expect that this aspect of the proposal is relevant to State Street, and so we defer to those firms that fall within the scope of this question to respond.

**Q7: To what extent do you agree with our proposals on D&I strategies?**

We agree with the proposals on D&I strategies, which broadly align with our firmwide strategy on diversity and inclusion. Nevertheless, we appreciate the regulators recognise that it may not always be feasible for branches of international firms to establish a fully comprehensive UK D&I strategy where there is dependency on a group approach. Further, we would welcome additional guidance in relation to where firms are required to publish their D&I strategy and other relevant information on company websites.

**Q8: To what extent do you agree with our proposals on targets?**

We agree with the proposed measures to address D&I underrepresentation and understand the rationale behind requiring firms to set specific targets at all levels of a supervised firm in order to accelerate this. The UK regulators' ambition is laudable, but it goes a step further than regulatory approaches taken in other jurisdictions, some of which do require firms to establish 'aspirational goals'. While we are not generally opposed to a more ambitious approach, we are concerned that a requirement to publicly disclose and report progress on fixed targets—especially in the absence of adequate data that identifies actual underrepresentation—could lead to firms implementing positive action initiatives inappropriately. Moreover, we are concerned that in the pursuit of D&I targets some firms may inadvertently treat targets more like quotas which could directly contravene provisions contained in the UK Equality Act 2010.

**Q9: To what extent do you agree with the date of first submission and reporting frequency?**

Whilst the timeframe for first reporting is sensible, we believe that the date for reporting should be flexible within a range, to ensure firms that already have existing D&I deadlines are able to meet the regulators' requirements. For international firms, the approach to D&I may be undertaken on a global basis and the imposition of a specific date could contradict current or future requirements in other countries / jurisdictions, leading to inconsistent data sets and measuring across the firm.

**Q10: To what extent do you agree with the list of demographic characteristics we propose to include in our regulatory return?**

The proposed diversity categories and sub-categories appear to be prescriptive and may require additional clarification. Even in circumstances where certain demographic characteristics are routinely collected by firms, we expect that many global firms may need to undertake a significant mapping exercise to their existing diversity categories and sub-categories in order to bring these in alignment with the FCA's proposals.

Of particular note is the challenge we anticipate many firms will face when obtaining information on the following characteristics:

- **Religion** is a characteristic that is not routinely collected, and there may be reluctance from some employees to provide information, even if publicly disclosed in aggregated form—not to mention that it is not clear whether such data would prove to be useful in the context of the broader D&I objectives;
- **Disability** is another characteristic that is not uniformly captured, and we expect that for certain sub-categories, such as “long term health conditions” (as defined under the UK Equality Act 2010) additional guidance would be helpful to enable firms to map against existing internal definitions of disability; and,
- **Socio-economic background.** We appreciate the regulators' intention to support data collection on social mobility. However, the Social Mobility Commission's background characterisations may be too prescriptive—and, as such, we would recommend that the regulators start with a simpler set of questions in this regard (*e.g., Did you get free school meals? Did you go to State vs Private School?*).

As it pertains to many of the proposed disclosure groups, a prescriptive approach with a limited list (and hence combining minority groups into ‘Other’), could prevent obtaining data of a high and useful standard, which would be counterproductive.

**Q11: To what extent do you agree that reporting should be mandatory for some demographic characteristics and voluntary for others?**

We agree with the proposed approach to require a combination of mandatory and voluntary reporting of demographic characteristics. However, thoughtful consideration should be given to expanding the number of mandatory characteristics and only doing so when there is a strong case.

We, however, do flag that whilst it is necessary to provide employees with optionality to select “Prefer not to say” for all demographic characteristics, such responses could affect the quality of the results and somewhat undermine firms' ability to set clear and meaningful targets addressing actual underrepresentation.

Delineating an appropriate split between mandatory vs. voluntary demographic characteristics that are reportable is key and should be underpinned by consideration to cultural norms as they relate to matters such as privacy, transparency, and workplace relationships. We discuss this further in the following questions.

**Q12: Do you think reporting should instead be mandatory for all demographic characteristics?**

No. We support a limited set of mandatory reporting of demographic characteristics. While this would include sex and/or gender, it is important to understand that even ‘basic’ characteristics can be difficult to obtain voluntarily. In particular, we recommend that religion and disability be moved to the voluntary list of reportable characteristics given common sensitivities associated with them. Where characteristics may be less impactful on “groupthink” and diversity of thought, or where there is an absence of data to demonstrate such a link, we recommend that these are voluntarily reported.

**Q13: To what extent do you agree with the list of inclusion questions we propose to include in our regulatory return?**

We agree with reporting data on inclusion-related questions but do not agree that imposing a prescribed list of inclusion-related questions is the right approach. Many firms, including State Street, have already established their approach to solicit feedback in this area, having carefully calibrated a set of questions based on other, pre-existing public commitments to enhance global inclusion.

Should the regulators proceed with the approach to specify a list of inclusion questions, we recommend a simpler and less prescriptive list that is not solely based upon the Financial Services and Skills Commission's framework.

**Q14: To what extent do you agree with our proposals on disclosure?**

Consistent with our above comments on the reporting requirements, we support the proposals on disclosure generally. However, as mentioned earlier in this response, guidance on the location of these disclosures is important for firms that may not have a dedicated UK company website.

**Q15: To what extent do you agree that disclosure should be mandatory for some demographic characteristics and voluntary for others?**

See comments to Q11.

**Q16: Do you think disclosure should instead be mandatory for all demographic characteristics?**

See comments to Q12.

**Q17: To what extent do you agree that a lack of D&I should be treated as a non-financial risk and addressed accordingly through a firm's governance structures?**

We generally agree in view of recent market events in the UK that a lack of D&I should be treated as a non-financial risk, and firms should therefore integrate a consideration of relevant D&I factors into their appropriate internal governance structures.