

Diversity and Inclusion

Of particular interest to: All regulated firms with a Part 4A permission

In brief

The FCA is consulting on 'Diversity and Inclusion' which, in addition to changes to the Handbook, will impose **new data reporting requirements** on firms.

Summary

Consultation Paper **CP23/20** ("Diversity and inclusion in the financial sector – working together to drive change") uses as its foundation the principle that "greater diversity and more inclusion can improve outcomes for consumers and markets by reducing groupthink, supporting healthy work cultures, unlocking diverse talent and improving understanding of and provision for diverse consumer needs". For the record this is a joint consultation in that the PRA has also issued similar proposals (CP18/23 – see 'Useful Links').

The major change to the Handbook will be to SYSC, including the introduction of **SYSC 29 'Diversity and inclusion'** (which can be found in Annex B of Appendix 1 of CP23/20), although there will be amendments elsewhere including, but not limited to, the Code of Conduct sourcebook (**COCON**) and to the Fit and Proper test for Employees and Senior Personnel sourcebook (**FIT**).

The new (annual) data reporting requirements are addressed in SYSC 29.4 ('Reporting'). The FCA has developed an 'indicative draft' of what this return might look like – see 'Useful Links' – although when the reporting obligation goes live all submissions will be by way of RegData. The report as it is currently drafted consists of the following five parts:

- Part 1 Number of employees
- Part 2 Target setting and progress
- Part 3 Understanding the composition of your firm (mandatory)
- Part 4 Understanding the composition of your firm (voluntary)
- Part 5 Culture and inclusion in your firm

All firms (excluding limited scope SMCR firms – see 'Useful Links') will be required to complete Part 1 and report their number of employees. In addition **large firms** (for this purpose this is a firm with 251 or more employees – the 'diversity and inclusion employee number threshold') will also have to complete Parts 2 – 5 (bearing in mind the voluntary nature of part 4). Such large firms should also note the need to

establish a '**Diversity and inclusion strategy**' (SYSC 29.2) and to **set targets** to address any underrepresentation found (SYSC 29.3).

For large firms **public disclosure** based upon the data submitted to the FCA will be required – see SYSC 29.5 for further information on the required disclosures. The FCA expects that such disclosures will be via a firm's website but if this is not possible then the firm is required to decide on a suitable alternative method of disclosure (SYSC 29.5.8).

Annex 4 of CP23/20 contains **draft guidance** on the completion of the return e.g. the definition of 'employee' and how the number of employees should be calculated. It also confirms that the return applies on a **solo entity basis** corresponding to the firm reference number (FRN).

Elsewhere in the Handbook both the **FIT** and **COCON** sourcebooks will be amended so that '**non-financial misconduct**' (NFM) becomes a consideration when complying with the relevant obligations arising under them. Both sourcebooks provide guidance on aspects of NFM e.g. FIT 1.3.8 and COCON 1.3.1(4).

The consultation period ends 18 December 2023.

A Policy Statement containing final rules will be published in 2024 with those rules coming into force **12 months** from the date of that publication.

Useful Links

[CP23/20 \(FCA\)](#)

[CP18/23 \(PRA\)](#)

[Draft Regulatory Return](#)

[Limited Scope SMCR Firm](#)

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Our mailing address is:
126-128 Buckingham Palace Rd, London SW1W 9SA