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VIA EMAIL: CP23-20@fca.org.uk

December 15, 2023

ATTN: Mr. Nikhil Rathi, Chief Executive Officer, FCA

Governance and Cross-Cutting  
Standards Policy Team  
Financial Conduct Authority  
12 Endeavour Square London  
E20 1JN

Dear Mr. Rathi:

**RE: CONSULTATION PAPER ON DIVERSITY AND INCLUSION IN THE FINANCIAL SECTOR – WORKING TOGETHER TO DRIVE CHANGE (CP23/20)**

British Columbia Investment Management Corporation (BCI) is an investment manager with over CAD \$233 billion in assets under management, and one of the largest institutional investors in Canada. Our investment activities help finance the pensions of approximately 725,000 people in our province, including university and college instructors, teachers, health care workers, firefighters, police officers, municipal and other public sector workers. On behalf of these pension beneficiaries, we provide long term capital to companies around the world that we believe will deliver strong and stable financial returns.

*BCI's Background on Diversity and Inclusion Engagement*

BCI welcomes the opportunity to provide feedback to the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) on their joint consultation for proposals to introduce a new regulatory framework on diversity and inclusion (D&I) in the UK's financial sector.

Through our engagement with regulators and issuers, and by collaborating with our peers, BCI has provided long standing support to voluntary, market-based efforts to address the lack of diversity and inclusion on corporate boards and senior management, similar to the FCA's own support of voluntary initiatives in the UK such as the Parker and FTSE Women Leaders Review. In our case, BCI chairs the Investor Group for the 30% Club of Canada, which through two public statements has supported a goal

to achieve a minimum of 30% representation from women on boards in Canada.<sup>1</sup> We are also signatories to the 2020 Canadian Investor Statement on Diversity and Inclusion.<sup>2</sup>

Signatories to these statements all expect Canadian issuers to provide public disclosures of diversity data with respect to the representation of designated groups on their boards and executive management teams, using voluntary, self-identified information. They also expect issuers to adopt policies to improve representation and to explain how they address challenges and barriers through strong recruitment practices that consider a wider and more diverse pool of candidates. In turn, signatories commit to engaging with Canadian companies to convey these expectations, integrate diversity and inclusion in our investment processes and look at our own organizational efforts to advance best practices.

BCI participates in these initiatives because we believe D&I is a critical component of good corporate governance. Diverse and inclusive boards and executive management teams are more likely to yield positive outcomes for investors and other stakeholders by introducing a broad spectrum of perspectives, skills, and experience. Furthermore, recent research effectively demonstrates the business case for improving D&I across a firm.<sup>3</sup> While our activities and focus began with increasing the representation of women on boards in Canada, we have broadened our focus to include other forms of diversity to address historically underrepresented groups.

BCI's proxy voting guidelines have included a gender diversity guideline since 2015, and we currently apply an expectation of at least 30% female representation in over 20 markets, including the UK, resulting in numerous votes against Nominating committee chairs that fail to meet our expectations. BCI has also been voting against those committee chairs for lack of racial or ethnic diversity on boards in the US since 2021, in Canada starting this year, and we will expand to the UK in 2024. BCI also generally supports shareholder proposals related to D&I, and we assess D&I factors for relevant industries, such as financials, in our ESG integration process when making investment decisions.

Given that a variety of sources consistently found significant gaps in D&I across the UK's financial sector, and the FCA's Financial Lives Survey data indicated that consumers in minority groups experienced unequal outcomes and barriers to accessing financial services, we are decidedly supportive of moving towards regulatory efforts to improve diversity and inclusion practices and outcomes in the UK's financial sector.

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<sup>1</sup> 30% Club Canadian Investor Group: Updated Statement of Intent (2022): <https://30percentclub.org/wp-content/uploads/2022/03/30-Club-Canadian-Investor-Statement-of-Intent-Update-2022-FINAL.pdf>

<sup>2</sup> Canadian Investor Statement on Diversity & Inclusion (2022): <https://www.riacanada.ca/investor-statement-diversity-inclusion/>

<sup>3</sup> Diversity Wins: How inclusion matters, McKinsey & Company report (2020): <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

## *BCI's Consultation Responses*

Below, we are responding to select questions where we believe we have relevant input to share with the FCA and offer further summary comments that we hope will assist the FCA in its development of D&I regulations for the UK's financial sector.

### *Consultation Questions*

#### **Q7 (5.6 – 5.14): To what extent do you agree with our proposals on D&I strategies?**

BCI response: We support the FCA's decision to use the term "strategies" instead of "policies" as it will likely provide an implementation focus instead of a compliance mindset. The proposed minimum components of a D&I strategy appear to be sufficient and reasonable in driving progress on D&I. These components would provide more consistent disclosures and meet investor needs for effective benchmarking of firms without prescribing what D&I goals or objectives a firm sets for itself, striking an appropriate balance. However, since these are proposed as a D&I strategy's basic set of criteria, the FCA should consider providing guidance on additional components of D&I strategies that leading firms are disclosing and implementing, since this could potentially facilitate and encourage many firms to go significantly beyond the minimum criteria proposed. For example, regulatory guidance could note the importance of establishing D&I committees comprising or reporting to senior executives and incentivizing implementation of the strategy with related metrics in management remuneration. We also support assigning the firm's board the responsibility for the maintenance and oversight of the D&I strategy as part of its overall responsibility for human capital management. The proposed flexibility on frequency and nature of the board's review is reasonable, but we believe there should be clear evidence a review has taken place, such as a statement from the board chair and their signature on the review, and that the strategy must be disclosed on its website.

#### **Q8 (5.15 – 5.29): To what extent do you agree with our proposals on targets?**

BCI response: We support the FCA's proposal to require diversity targets to address firms' underrepresentation across the board and senior management levels, but we are skeptical that targets across all employees would be meaningful given that there are already widespread claims of diversity across firms but limited success in retaining and promoting diverse employees into senior roles. We also agree with the 'comply or explain' approach for target setting to give companies time to develop data collection capacities, but we question the short time frame of one year given the sensitivity of the information, the need to build trust for self-identification, the importance of developing training programs, etc. As a result, we encourage the FCA to consider a longer 'comply or explain' period of two to three years. We are supportive of the proposal that firms can voluntarily set inclusion targets in addition to the required diversity targets. We also find the proposed exemption on target setting for firms based overseas with regard to board and senior management to be reasonable. Finally, we agree with the proposed board oversight of target setting and that the FCA should avoid prescribing specific timelines for updating targets, allowing firms to assess progress and adjust targets as needed.

**Q17 (5.87 – 5.92): 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?**

BCI response: We agree with the premise that a lack of D&I could pose a risk to companies and that this risk should be addressed through governance structures and accompanying oversight mechanisms. However, we are cautious about characterizing this type of risk as financial or non-financial and suggest considering it a material risk instead. We question the use of ‘non-financial’ in this context as the lack of D&I could be financially material to a firm if it results in higher turnover or inability to attract new talent, for example. However, we realize this definition may be a function of the Internal Audit’s terminology and resulting implications.

We thank the FCA for the opportunity to provide comments on this important topic and appreciate ongoing efforts to enhance diversity and inclusion in the UK’s financial sector.

For any clarifications related to this submission please contact Susan Golyak, Director, ESG at [susan.golyak@bci.ca](mailto:susan.golyak@bci.ca).

Sincerely,



Daniel Garant  
EVP & Global Head, Public Markets  
cc Susan Golyak, Director, ESG