Bank of England
Threadneedle Street
London
EC2R 8AH
By email: dp2_21@bankofengland.co.uk

30 September 2021

Dear Sir, Madam

**Re: Discussion Paper (DP21/2) on Diversity and Inclusion in the financial sector – working together to drive change**

We are writing on behalf of the British Private Equity and Venture Capital Association ("BVCA"), which is the industry body and public policy advocate for the private equity and venture capital industry in the UK. With a membership of over 700 firms, we represent the vast majority of all UK based private equity and venture capital firms, as well as their professional advisers and investors. Between 2016 and 2020, BVCA members invested over £47bn into around 3,500 UK businesses, in sectors across the UK economy ranging from heavy infrastructure to emerging technology. Companies backed by private equity and venture capital currently employ over 1m people in the UK and the majority of the businesses our members invest in are small and medium-sized businesses.

## 1. Diversity and inclusion in private equity and venture capital

**BVCA activities**

The BVCA promotes the participation of people from all socioeconomic backgrounds and of all ethnicities, genders and sexual orientation in the private equity and venture capital ("PE/VC") industry. This includes representation in investment and senior roles. The BVCA does this by using our convening power and profile to champion and actively encourage diversity and inclusion ("D&I") within our industry.

We support and partner with industry groups, including Level 20, Diversity VC, the British Business Bank, UK Business Angels Association, the Rose Review Council and other organisations. We also get involved in relevant government initiatives, most recently the Investing in Women Code. Further detail on the Rose Review into female entrepreneurship and the code is available on our website here. Earlier this year we published best practice guidelines to help increase investment in under-represented founders and drive diversity and returns across the investment sector. The guidance focussed on four key areas: 1) Talent acquisition, retention and development; 2) Internal education, culture and policy; 3) Outreach, access to deal flow, and unconscious investment bias; and 4) Influence, external guidance and portfolio management. Further details can be found here.

The BVCA is a forum for sharing intelligence and educating members on new and topical areas to assist their efforts. We host regular face-to-face and digital networking events which are designed to be inclusive and provide a convivial and open environment to exchange experiences, share best practice, debate the issues in our industry and showcase what firms are doing to improve D&I. More broadly, we are committed to ensuring there is a diverse representation of speakers, including people from all backgrounds, at BVCA events. We have committed to working with our partners and other stakeholders to promote careers in the investment and financial services industry, to influence the next generation. This includes training for interns in the industry and continuously enhancing our training programme.

**Private equity and venture capital D&I research**

In a drive for industry transparency, the BVCA and Level 20 published a survey report in March 2021 after collecting data on diversity across PE/VC. The report revealed some positive progress on gender diversity but indicated further improvements must still be made. The report was also the first of its kind to gather detailed data from firms on ethnicity and the results indicated that much more progress is needed. The ethnicity data provides the industry with a foundation to work from but both the BVCA and Level 20 firmly believe that further transparency is necessary to drive progress.

| **Gender** | **Ethnicity** |
|---|---|
| • The data collected on gender indicates the overall proportion of women in the industry has risen to 38% (PE 2018:29%, VC 2019: 30%).<br>• Encouragingly, 20% of investment team professionals are women (PE 2018: 14%, VC 2019: 20%).<br>• All male investment teams have declined to 12% (PE 2018: 28%, VC 2019: 37%), in what is a noteworthy shift.<br>• The number of women working in investment roles across senior (10%), mid (20%) and junior levels (33%) is improving, in small, mid and mega-sized funds (based on Assets Under Management). | • The number of firms who provided data on ethnicity was lower (73 firms) than on gender (186 firms). The intersection of gender and ethnicity in senior positions in firms requires the most attention as less than 1% of Women at this level are Black, less than 1% are Multi-Ethnic/Mixed and only 1.6% are Asian.<br>• Representation at senior levels regardless of gender is also an area that needs serious improvement as only 1% of individuals are Black, with 1% Multi-Ethnic/Mixed and 11% Asian. This under-representation continues across all levels of seniority in the industry as 54% of firms who provided this data have all-white investment teams. |

To support openness and improvements on this issue, both organisations have committed to encourage firms to provide the gender and ethnicity data going forward, using the template and recommendations within the report. The report also included detailed feedback from focus groups and resources for PE/VC firms to use.

The recommendations from the report are summarised below:

| | |
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| **Data and transparency** | Firms should regularly collect and analyse data to understand and track progress on different diversity metrics within their own organisations. |
| **Recruitment and outreach** | We would encourage firms to recruit women and people from diverse backgrounds from as broad a pool of potential candidates as possible. This includes asking recruitment firms and headhunters to look beyond the industries that have traditionally provided the majority of recruits in the industry. |
| **Retention and progression** | It is essential that the industry retains diverse and talented people and firms can support their employees and partners to develop successful |

| | |
|---|---|
| | and rewarding long term careers. Industry-wide and firm-level initiatives can assist this objective. |
| **Culture and inclusion** | Encouraging a culture that welcomes and promotes diversity of background, experience and thought is critical to addressing imbalances in the industry. Women and people from different backgrounds will join the industry, but an inclusive and collaborative environment will ensure they stay in private equity and venture capital. |

## 2. Overview of BVCA feedback

We are supportive of the regulators work in this area given the BVCA's objectives to promote D&I in the PE/VC industry. We would encourage the regulators to take a proportionate and pragmatic approach when developing specific regulatory requirements as many firms operating in the PE/VC industry are small, owner-managed firms. It is important to note that imbalances cannot be corrected overnight in smaller organisations, it may take time to build a truly diverse and inclusive financial services industry but there are several actions all firms can take now (as discussed above and in the regulators' discussion paper).

We particularly agree with the need for firms to collect D&I data and track progress and as highlighted above, this was a key recommendation from our own work earlier this year. Further discussion is required on the precise data that is collected by the regulators, particularly on protected characteristics and data measuring inclusion, and how it will be used and monitored.

## 3. BVCA responses to the discussion questions

### Introduction

**Q1: What are your views on the terms we have used, how we have defined them, and whether they are sufficiently broad and useful, now and in the future?**

The terms used in the paper seem appropriate to us and they are certainly very broad. Using a broad concept such as "cognitive diversity" could support the regulators' aims of promoting and improving genuine diversity in firms. However, there is also a risk that it could be used as a screen to maintain the status quo. The same risk applies to the broad definition of "inclusion". If the terms are used as defined in the discussion paper, it would be helpful if the regulators could include other guidance clearly signposting the intended direction of travel.

### The role of regulators

**Q2: Are there any terms in the FCA Handbook, PRA Rulebook or Supervisory Statements or other regulatory policies (for any type of firm) that could be made more inclusive?**

We agree with the need for a review to check terms are more inclusive, especially on gendered language which is no longer used in practice. In 2019, we joined The Institutional Limited Partners Association and Cambridge Associates to pledge, and encourage other stakeholders in the PE/VC industry, to employ the term "key person" in all legal references. The gender-neutral term should replace "key man" in all Limited Partner Agreements (used for private fund structures) as well as other documents and best practice discussions which refer to executives vital to the operation of a fund.

## Measuring progress

**Q3: Do you agree that collecting and monitoring of diversity and inclusion data will help drive improvements in diversity and inclusion in the sector? What particular benefits or drawbacks do you see?**
**Q4: Do you have a view on whether we should collect data across the protected characteristics and socio-economic background, or a sub-set?**

Yes we agree with the need to collect and monitor data to drive improvements in D&I. This was a key recommendation from our research with Level 20 published in March 2021. Ideally, data across a wide range of characteristics would be interesting to review, but the volume of data collected needs to be balanced when compared to the size of the firm and how it could be used for comparison purposes. The quality of data is also important, and this may take longer to collect when using survey processes that require consent. As noted earlier, we collected data on gender and ethnicity for the PE/VC industry.

To support the PE/VC industry, as well as their investors who already collect this data, we published a data collection template and a comparison tool based on the Assets under Management of firms included in our survey. The purpose of this was to ensure consistency in data collection as a standard template is helpful for firms and investors alike. More importantly, by publishing aggregated survey data (with some supplemented data from public sources to ensure market coverage), firms and investors have industry data to compare themselves and their investments/fund managers against. This is particularly helpful as the majority of the industry is comprised of small firms and whilst data can be gleaned from websites on the composition of teams, aggregated data that is verified by firms is beneficial for all.

When collecting data on ethnicity, we provided guidance for firms to review as ethnicity is a protected characteristic and firms needed to ensure they complied with their GDPR obligations. If regulators introduce mandatory collection and reporting of D&I data as part of firms' compliance obligations, it is important to ensure appropriate protections or safe harbours are in place for firms in respect of data protection or equalities legislation. For example where data could be sensitive or lead to the identification of individuals, firms should not have to disclose data.

When we collected data on ethnicity, we asked firms to collect this data from employees using a permission-based approach and it needed to be clear why firms were gathering this information e.g. for the purposes of industry research. We referred to government statistical classifications to assist with categories for data collection and gave employees the option to not disclose this information. When devising new regulatory requirements, it is essential that the process for collecting data is inclusive and clear. The reason for collecting this information and what it will be used for should also be stated. Furthermore, if employees do not want to provide information on protected characteristics such as ethnicity, they should be given this option and firms should still be considered compliant with their data provision obligations if they have followed appropriate data collection procedures. These are all issues that could be considered during the regulators' pilot, in particular how the regulators will use this data.

Diversity is often measured through gender and other characteristics such as ethnicity. Inclusion data is harder to define and we would welcome further detail on this as it can be more qualitative and judgemental e.g. the openness of the working environment. We have spoken to Diversio (a people intelligence platform that measures, tracks, and improves diversity & inclusion) and they would be happy to provide the regulators with information on how they measure inclusion. Diversio recently worked with Diversity VC to establish a D&I standard for venture capital firms.

The City of London Corporation's taskforce to boost socio-economic diversity in UK financial and professional services is currently doing some interesting work on data collection and we would refer you to them on the type of data that could be collected.

**Q5: What data could the regulators monitor to understand whether increased diversity and inclusion is supporting better decision making within firms and the development of products and services that better meet customers' needs?**

This is a complex area and it will be difficult to directly link the data to better decision making within individual firms, for example a less gender diverse firm will still perform well if good investment decisions are made. Better decision making can come from differing views around the table as this avoids group think. There is a social impetus to improve D&I and this often drives firms' actions too. If the regulators choose to look into this area, it would be better reviewed across industry segments and research would need to be carried out over a suitable period of time. The data collected on PE/VC firms will also be a smaller part of the overall data set given the relatively small size of PE/VC firms in the UK.

## Driving change: culture and policy

**Q6: What are your views on our suggestions to approach scope and proportionality?**

We agree with the regulators view that they cannot take a one-size-fits-all approach to monitoring D&I. We also agree that it is important to introduce requirements that are appropriate to a firm's size and complexity. It may be best to look at a combination of the existing categorisation of FCA solo-regulated SM&CR firms (Enhanced, Core and Limited Scope firms) and the size of firms based on Companies Act thresholds. The vast majority of PE/VC firms in the BVCA's membership are SMEs.

Requirements will need to be tailored appropriately (e.g. aggregated data for publication requirements) to ensure that sensitive data is not inadvertently disclosed by small firms, especially on protected characteristics.

**Q7: What factors should regulators take into account when assessing how to develop a proportionate approach?**

The majority of UK PE/VC fund managers are typically small owner-managed firms and any compliance requirements will need to be appropriately calibrated for this, or could be made optional for smaller firms. These firms are set up as partnerships and people may be in roles for long periods of time. It can therefore take time for firms to improve representation in senior roles and it is encouraging to see more gender diversity in more junior roles.

Some PE/VC firms in the UK also have overseas parents which may develop D&I standards for their groups at a global level. Any UK standards should be sensitive to approaches taken to promote D&I emanating from other jurisdictions provided they are broadly aligned with UK expectations.

**Q8: Are there specific considerations that regulators should take into account for specific categories of firms?**

Please refer to our answer to question 7.

**Q9: What are your views on the best approach to achieve diversity at Board level?**

In our report with Level 20, we recommended that firms ought to consider targets and the multi-year plans required to achieve these. This latter point is pertinent given the relatively small size of firms as there may be limited opportunities to change diversity levels in the short term. However, firms should develop plans to address shortcomings over the medium term. As the regulators will be aware, many PE/VC firms are set up as LLPs and will have in place appropriate board-level committees. They would be able to determine at which level it would be most appropriate to set targets.

There are many areas firms can review, from looking at the approach to promotions/progression within the firm (e.g. communications, criteria, panel processes, etc), to succession planning (that takes into account D&I considerations) and board-level sponsorship and advocacy. Other important areas include mentoring, training programmes, flexible working and family leave policies, and much more.

Culture is also key (see our comment in question 10).

**Q10: What are your views on mandating areas of responsibility for diversity and inclusion at Board level?**

This appears reasonable to us as efforts to improve D&I should be led "from the top" and sponsorship/advocates for employees needs to be at that level. It is also sensible for the Nominations Committee to be involved, particularly on succession planning for board members.

Senior leadership can set the tone and establish an organisational framework that promotes a positive culture that fosters diversity and inclusion. This includes developing and publicising the D&I strategy within and outside of the firm, allocating time and resources to ensure the strategy's success, and embedding it within the way the firm operates.

**Q11: What are your views on the options explored regarding Senior Manager accountability for diversity and inclusion?**

Express allocation of responsibility for elements of D&I policies to Senior Managers, rather than including them in their general wider responsibilities, seems to be a reasonable approach. In practice, specific individuals may have these responsibilities.

Senior managers should still have responsibility for developing and embedding healthy cultures in their areas of responsibility.

**Q12: What are your views on linking remuneration to diversity and inclusion metrics as part of non-financial performance assessment? Do you think this could be an effective way of driving progress?**

The challenge with linking remuneration to achievement of certain targets or metrics is that it may not necessarily drive the right behaviours, particularly in small firms where targets may be harder to meet in the short term. For example, would firms set softer targets rather than setting stretch goals? Any new requirements would therefore need to be applied proportionately.

As the discussion paper suggests, it would be helpful for the regulators to provide more guidance on how metrics linked to advancing D&I can be used as part of non-financial criteria when setting variable remuneration awards. It is noted that this is not intended to be prescriptive, and would provide firms with insights on good practice at both the individual and firm level to support them on their D&I journey. For example, it might be appropriate to give collective responsibility for the achievement of D&I targets to specific teams/groups within an organisation, and link this to a percentage of variable remuneration.

**Q13: What are your views about whether all firms should have and publish a diversity and inclusion policy?**
**Q14: Which elements of these types of policy, if any, should be mandatory?**

PE/VC firms will have employee policies in place and their approach to D&I is often covered as part of investors' due diligence. More information and guidance on best practices is also increasingly available from different sources. Whilst we don't think the publication requirements will be an issue, there will need to be a level of proportionality in respect of the level of detail that is disclosed (including on data) to accommodate smaller firms. This would be in line with the regulators approach to recent public disclosure requirements under IFPR.

Further detail on good practices and elements to consider would also be beneficial for firms. This guidance/information could also consider how board level requirements apply to different corporate structures including owner-managed firms and partnerships.

**Q15: What are your views about the effectiveness and practicability of targets for employees who are not members of the Board?**
**Q16: What are your views on regulatory requirements or expectations on targets for the senior management population and other employees? Should these targets focus on a minimum set of diversity characteristics?**

Please see our answer to question 9. It is likely to be more appropriate for firms to set their own targets (incorporating a 'comply or explain approach'), particularly for smaller PE/VC firms where small movements in personnel can skew outcomes and to prevent the identification of individuals when protected characteristics are assessed.

**Q17: What kinds of training do you think would be effective in promoting diverse workforces and inclusive cultures?**

The BVCA and Level 20 report refers to the need for training and its importance in many areas. Training on best practices for recruitment and retention, as well as leadership training to support inclusive cultures is highlighted. For example, training for employees that leads to consistent approaches to interviews and other actions helps to remove opportunities for bias in recruitment or promotion processes. To ensure an appropriate level of training, specialists would also need to be involved.

Concerted efforts to raise education levels on D&I topics will help move the industry forward. For example, specific training aimed at senior management that focuses on identifying instances which may lead to a less than inclusive culture and how the tone from the top dictates behaviours of teams. Training can enable senior leaders to talk about race and diversity in an effective manner. Examples include training on stereotypes, microaggressions and using inclusive language and being an ally. These sessions can also be a forum for teams to share their own experiences (which can often be the more eye-opening sessions).

We found that unconscious bias training is often an important component, but this must form part of a broader D&I framework to be effective.

**Q18: What kinds of training do you think would be effective for helping understanding of the diverse needs of customers?**
**Q19: What are your views about developing expectations on product governance that specifically take into account consumers' protected characteristics, or other diversity characteristics?**

These questions are less applicable as PE/VC funds are for institutional investors rather than retail consumers. PE/VC firms are subject to extensive due diligence during fundraising processes and terms and conditions are heavily negotiated.

**Q20: What are your views on whether information disclosures are likely to deliver impact without imposing unnecessary burdens? Which information disclosures would deliver the biggest impact?**
**Q21: How should our approach for information disclosure be adapted so that we can place a proportionate burden on firms?**
**Q22: What should we expect firms to disclose and what should we disclose ourselves from the data that we collect?**

The BVCA and Level 20 report includes templates for data collection on gender and ethnicity. We have recommended collected data split by investment and non-investment teams and by seniority. We have provided definitions to ensure consistency in reporting too. We would recommend the regulators review this template as it asks firms to compile the same data and could help with our objective of collecting and publishing industry-wide PE/VC data. It may be better for this to be published by the industry association rather than the regulator. We have also supplemented the data in the report with information from focus groups and recommendations on best practices.

Most PE/VC firms include details on their team on their websites and given their relatively small size, it would be easier to start with gender data as publishing data on protected characteristics at a firm level could be challenging if consent is not received or if individuals could be identified. Clear guidance needs to be provided on this area. Linked to this point, reducing the thresholds for pay gap reporting would not be appropriate as information could be reverse engineered to identify individuals.

**Q23: What are your views on how we should achieve effective auditing of diversity and inclusion?**
**Q24: How can internal audit best assist firms to measure and monitor diversity and inclusion?**

PE/VC firms are almost all too small in the UK to have internal audit functions so these questions are less relevant for our industry.

**Q25: Do you agree that non-financial misconduct should be embedded into fitness and propriety assessments to support an inclusive culture across the sector?**

We think firms will find it helpful to have guidance from the regulators as to what constitutes 'non-financial misconduct' and this should be embedded into fitness and propriety assessments. The BVCA's member code of conduct promotes the principles of equality and diversity, equal opportunities, anti-discrimination and anti-harassment. Following the recent Frensham case, we also think it should be clear to what extent conduct occurring outside of the regulated firm (e.g. in an individual's private life) will be within scope of the guidance.

**Q26: What are your views on the regulators further considering how a firm's proposed appointment would contribute to diversity in a way that supports the collective suitability of the Board and senior management?**

The proposed approach in the discussion paper seems reasonable.

**Q27: What are your views on providing guidance on how diversity and inclusion relates to the Threshold Conditions?**

We are supportive of guidance that could help prevent bad actors from entering the market and it could act as an added incentive for firms to address significant failings.

**Q28: Do you have any suggestions on which aspects of our supervisory engagement with firms that you think could be improved to help deliver and support greater diversity and inclusion?**

The proposed approach in the discussion paper seems reasonable.

**Q29: What impact do you think the options outlined in this chapter, alongside the FCA's proposals for a new Consumer Duty, would have on consumer outcomes?**

This question is less relevant for the BVCA's membership.

The BVCA is keen to discuss this submission with you further - please contact Tom Taylor (ttaylor@bvca.co.uk) at the BVCA.

Yours faithfully,

Tim Lewis
BVCA Regulatory Committee Chair