

30 September 2021

## **FIA EPTA response letter to the Discussion Paper on Diversity and inclusion in the financial sector – working together to drive change (DP21/2)**

The FIA European Principal Traders Association (FIA EPTA) appreciates the opportunity to provide feedback to the Bank of England (BoE), Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) Discussion Paper regarding Diversity and inclusion in the financial sector – working together to drive change.

FIA EPTA represents 30 independent European Principal Trading Firms (PTFs) which deal on own account. Our members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (70% of our members having been licensed by the FCA).

FIA EPTA members would like to acclaim the BoE, PRA and FCA's work on including Social and Governance components of ESG in their work to create a sustainable and resilient financial sector. We believe this is an essential transformation towards inclusive and diverse capital markets.

FIA EPTA members believe that it is inevitable to collect industry-wide data on diversity and inclusion voluntarily which will help create a benchmark for firms. To start with this exercise, FIA EPTA members believe that it is important, to continue with, voluntary data gatherings to create achievable benchmarks as outlined in 4.2 of the discussion paper before mandatory data gathering is implemented. The data that will be collected should be calibrated in a way that makes sure that it is compatible between firms. In principle, all characteristics and socio-economic background data should be in scope, we believe that this creates a positive message that all diversities enshrined within the equality act 2010 carry weight, and one should not be prioritised over the other.

FIA EPTA members believe that the collection of this kind of data is new and has not yet proven its effectiveness. Therefore, FIA EPTA members would suggest starting with an anonymised (voluntary) trial period in which firms explore the success and usefulness of the collection of this data, after the trial period, the regulator, together with the industry should evaluate the effectiveness of gathering this data. We would also like to note that the data that is being collected should be well protected and need to meet the highest GDPR requirements, which should be prioritised which can also be examined during a trial period.

Not all firms are equal and can implement the same rules at the same time, proportionality will be key. Targets at the board and senior management need to be proportionate to the size and complexity of the business, with a note to very small firms, who operate without a board in partnerships who serve no clients who can view this as a regulatory burden rather than an initiator of change.

FIA EPTA members would suggest drafting guidelines that could become part of the decision-making process of the firm and has to be proved against the goals of profitability, managed risk and employee well-being. This way the diversity and inclusion will become part of the company's everyday decisions, long-term strategy and overall culture.

FIA EPTA members believe that the board of a firm, including its senior managers, should have responsibility for delivering results and identifying barriers to change. If change is to be embedded in a firm's culture it needs to be supported and promoted at all levels. This also means that firms should have a clear allocation of responsibilities on diversity and inclusion measures and not make it just an HR issue. At a later stage, linking remuneration in part to diversity and inclusion metrics could be an important part of ensuring ongoing responsibility and support for change. This could also be explored during a trial period and if that is proven successful FIA EPTA members would welcome the development of regulatory guidance on how metrics linked to advancing diversity and inclusion can be used as part of non-financial criteria when setting variable remuneration rewards.

As this is new terrain of how firms operate, the regulator will have a role to play, firms will look to the regulator for guidance and a comparable approach. FIA EPTA members believe that a (voluntary) trial period will help firms to adjust the way they operate and if the trial period is successful it will help create a broader base to implement the collection of this kind of data. FIA EPTA members believe that setting short, medium and long term expectations may be helpful. In the short term, a firm should identify limitations in its diversity and inclusion factors. In the medium term, it should create plans to address these limitations. In the longer term, it should identify ways to engage with stakeholders to find ways of moving the firm's culture forward.

FIA EPTA members appreciate the BoE, PRA and FCA's considerations of our comments and stand ready to provide any further input as required.

**About FIA EPTA:**

FIA EPTA represents 30 independent European Principal Trading Firms (PTFs) which deal on own account, using their own money for their own risk, to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of financial instruments, including shares, options, futures, bonds and ETFs. Our members are independent market makers and providers of liquidity and risk transfer for exchanges and end-investors across Europe, including the UK. FIA EPTA's members are based in the Czech Republic, Germany, Ireland, The Netherlands and the UK (70% of our members having been licensed by the FCA).

Market making and liquidity provision (also referred to as principal trading or dealing on own account) is a distinct activity that is undertaken by non-systemic investment firms rather than banks, in a highly dispersed and varied ecosystem of independent Principal Trading Firms. These firms operate in an innovative and competitive fashion leading to a vibrant, dynamic and diverse ecosystem which massively reduces interconnectedness and increases substitutability. This fundamentally reduces systemic risk whilst improving market quality and lowering costs for retail and institutional investors alike.