

MEMO# 33956

December 14, 2021

DEI: House Financial Services Committee Report and Hearing on Diversity in the Asset Management Industry

[33956]

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TO: Diversity and Inclusion Committee

ESG Advisory Group

ESG Task Force

Investment Advisers Committee

SEC Rules Committee RE: DEI: House Financial Services Committee Report and Hearing on Diversity in the Asset Management Industry

The House Financial Services Committee, Subcommittee on Diversity & Inclusion, recently produced a report[\[1\]](#) and held a hearing[\[2\]](#) on diversity and inclusion in America's largest investment management firms. The report included findings and recommendations based on submissions from thirty-one firms on their diversity and inclusion data and practices. The hearing featured testimony from ICI President and CEO, Eric Pan, along with other industry witnesses.

Overall, the report and hearing focused on the disparate experiences of employees in different racial, gender, and ethnic groups at asset management firms, despite those firms' prioritizing diversity. Recommendations include data collection and instituting a policy to consider at least one diverse candidate for executive and board position openings.

Highlights from the report and hearing are described more fully below.

Report of the House Committee on Financial Services

The House Subcommittee on Diversity and Inclusion was established to focus on the "systemic economic exclusion of women, people of color, persons with disabilities, LGBTQ+ individuals, veterans, and other members of society" in the financial industry. In March, the subcommittee issued a request to thirty-one asset management firms on diversity data and practices.[\[3\]](#) Based on those responses, the subcommittee reported the following high-level findings:

- Most firms have policies and procedures related to diversity and inclusion, including

practices to connect with diverse communities and recruit diverse talent.

- Firm employees who are people of color are highly represented in administrative or non-professional roles but less likely to be represented in executive, senior, or manager roles. Women are also underrepresented in executive level management.
- Women and people of color are underrepresented on firm boards.
- Although many of the firms surveyed have policies to support diverse suppliers, little spending goes to women- or minority-owned firms. In particular, of the firms who responded to the subcommittee's questions, none reported more than 4% of their asset management subcontracting went to women-owned or minority-owned managers.

Based on these findings, the report makes recommendations for industry efforts and for legislation to improve diversity and inclusion outcomes, including the following:

- Firms should regularly collect data on diversity and conduct pay and racial equity audits.[\[4\]](#) Further, the report recommends that Dodd-Frank should be amended to require regulated firms to respond to federal agency Office of Minority and Women Inclusions requests.
- Firms should build talent pipelines through partnerships with historically Black colleges and other institutions.
- Firms should consider at least one diverse candidate for all executive and board openings (colloquially known as the "Rooney Rule.")
- Firms should consider diverse suppliers, especially when contracting for asset managers. Firms should develop pipeline programs for diverse asset managers. The report specifically recommends that firms develop a "mentor protégé" program to help smaller and minority- or women-owned asset management firms grow.

Hearing of the Subcommittee on Diversity and Inclusion

On December 9, the subcommittee held a hearing to review its report, findings, and recommendations on diversity and inclusion. Subcommittee Chair Rep. Joyce Beatty opened the hearing by recounting that she wanted to focus on the asset management industry "not only because of the power, wealth, and jobs it creates but also because of the limited data available in this space." Ranking Member Rep. Ann Wagner stated that "women and minorities within America's asset management sector are still underrepresented" but progress was being made. House Financial Services Chairwoman Maxine Waters remarked that the report made clear that firms have much work ahead and that transparency and accountability are the path to progress.[\[5\]](#)

Following the opening statements, the hearing witnesses provided prepared testimony:

- Eric Pan, President and CEO, ICI, discussed the growing industry momentum to make diversity and inclusion a top priority. Industry work has focused on disclosure and transparency, measurement and benchmarking, and making progress towards representation.[\[6\]](#)
- Michelle Gadsden-Williams, Managing Director and Global Head of Diversity, Equity and Inclusion, BlackRock, highlighted the firm's commitment and ongoing efforts on diversity and inclusion, including in developing a talent pipeline, engaging clients on diversity issues, and investing in the long-term success and sustainability of underserved communities.[\[7\]](#)
- Ronald C. Parker, President and CEO, National Association of Securities Professionals, said that the numbers tell a stark story about the need for greater inclusion in the

asset management industry. He focused on criteria used to select asset managers, such as minimum assets under management, that could potentially exclude smaller minority and women owned firms.[8]

- Cyrus Taraporevala, President and CEO, State Street Global Advisors (SSGA), highlighted three categories of diversity and inclusion efforts at his firm, including increasing representation on the board and within the workforce, increasing diversity in the industry and in communities, and increasing diversity in the portfolio companies in which SSGA invests.[9]
- Michael E. Clements, Director Financial Markets and Community Investment, US Government Accountability Office (GAO), discussed findings from the GAO's 2017 report on the use of diverse asset management firms by federal retirement plans. That report included recommendations to increase opportunities for minority and women-owned firms, such as leadership commitment, removal of barriers, outreach, and communication of priorities and expectations.[10]

Following the witnesses' prepared statements, committee members asked for data about firms' recruitment and retention of minority job candidates and about whether diversity policies and practices led to improvements in outcomes. Some representatives also focused on the definitions of equity and equality and whether diversity should include socioeconomic class or persons who do not use English as their primary language.

If you have any questions about the report or hearing, please contact Kathleen Mellody at kathleen.mellody@ici.org or Bridget Farrell at bridget.farrell@ici.org.

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endnotes

[1] Diversity and Inclusion: Holding the Largest Investment Firms Accountable (December 2021), available at https://financialservices.house.gov/uploadedfiles/l_i_m_rpt.pdf.

[2] A Review of Diversity and Inclusion Performance at America's Large Investment Firms (December 9, 2021), hearing page available at <https://financialservices.house.gov/events/eventsingle.aspx?EventID=408706>.

[3] The report defines "investment firms" as firms that are "SEC-registered persons and the entities they work for, are regulated pursuant to the Investment Advisers Act of 1940, along with state securities authorities, are responsible for providing investment advice and the management of investments on behalf of its clients, and are required to act as a fiduciary, that is, to act in its clients' best interest."

[4] Specifically, the report notes "Racial equity audits are an important tool to assess institutions' internal and external policies that may be limiting their diversity and inclusion success. An equity audit promotes transparency around institutions' pay, hiring, retention, and promotion by race and gender, as well as leadership and board diversity."

[5] See Congresswoman Maxine Waters on Diversity and Inclusion Performance at Nation's Largest Investment Firms: Transparency and Accountability is the Path to Progress (December 9, 2021), *available at* <https://financialservices.house.gov/news/email/show.aspx?ID=2JVH27YD3W62RNDQLDPAGRP64Y>.

[6] Statement of Eric J. Pan (December 9, 2021), *available at* <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba13-wstate-pane-20211209.pdf>.

[7] Written Testimony of Michelle Gadsden-Williams (December 9, 2021), *available at* <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba13-wstate-gadsden-williamsm-20211209.pdf>.

[8] Testimony of Ronald C. Parker (December 9, 2021), *available at* <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba13-bio-parkerr-20211209.pdf>.

[9] Testimony of Cyrus Taraporevala (December 9, 2021), *available at* <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba13-wstate-taraporevalac-20211209.pdf>.

[10] Statement of Michael E. Clements (December 9, 2021), *available at* <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba13-wstate-clements-20211209.pdf>.