

## HOUSE FINANCIAL SERVICES SUBCOMMITTEE CONVENES HEARING ON DIVERSITY AND INCLUSION

### EXECUTIVE SUMMARY

Today, the House Financial Services Subcommittee on Diversity and Inclusion held a [hearing](#) entitled “By the Numbers: How Diversity Data Can Measure Commitment to Diversity, Equity and Inclusion” to discuss efforts to improve diversity and inclusion (DNI) within the financial services sector. Members focused on how data can be used to measure and track DNI commitments. Republicans expressed some concern with using a one-size-fits-all approach to mandating DNI disclosures, while Democrats were supportive using data collection to combat systematic racism. Overall, there was a consensus that better transparency of diversity data can create a more robust workforce and facilitate economic growth.

### OPENING STATEMENTS

**Chairwoman Joyce Beatty (D-OH)** praised President Biden for taking steps to prioritize diversity in the federal workforce. She promoted a more transparent examination to achieve lasting and sustainable opportunities for women and people of color and noted that higher diversity is correlated with increased innovation and lower regulatory risks. The Chairwoman introduced the [Diversity Data Accountability Act](#) to make reporting DNI metrics mandatory under Section 342, as most companies fail to disclose this data. The Chairwoman stated that the committee will send diversity data surveys to the thirty-one largest investment management firms.

**Ranking Member Ann Wagner (R-MO)** agreed that reforms work should focus on executive of financial institutions. She advocated for structuring these efforts in a flexible and durable way that recognizes the difference between metropolitan and rural communities. She also stated inclusion efforts are key to the retention of a diverse workforce. The Ranking Member stressed that flexible work hours for working mothers, promotion opportunities, mentoring, and employee research groups add to inclusivity and retention rates.

**Full Committee Chairwoman Maxine Waters (D-CA)** reiterated financial sector shortcomings related to DNI, urging for more diversity. She emphasized the importance of DNI data to achieve this goal.

### WITNESS TESTIMONY

**Mr. Thomas DiNapoli** ([testimony](#)), the New York State Comptroller, said that the New York State Common Retirement Fund is investing in emerging managers and is questioning companies on their efforts for diversity and equity. However, he believes that the SEC needs to mandate the disclosure of DNI data, workforce diversity, internal pay equity, and strategies to improve diversity.

**Mr. Daniel Garcia-Diaz** ([testimony](#)), Managing Director of the Financial Markets and Community Investment Team at the U.S. Government Accountability Office (GAO), focused on how financial service firms use data to assess workforce diversity. He elaborated on GAO efforts in this space and advocated for quantitative and qualitative data utilization to gather workforce insights. Mr. Garcia-Diaz explained that GAO recommends reviewing data collection processes while supporting tailored data analysis to support diversity efforts for both employees and clients.

**Ms.Carolynn Johnson** ([testimony](#)), CEO, DiversityINC, supported transparency to provide a full audit of a corporation's workforce. She cited talent development, philanthropy, leadership accountability, and workplace practices as critical to retaining a diverse workforce. Ms. Johnson listed three crucial areas for improvement: (1) lack of data; (2) a diversity lag compared to other sectors; and (3) proof of the benefits of diversity data.

**Ms. Anne Simpson** ([testimony](#)), Managing Investment Director of Sustainable Investments at CalPERS, framed diversity and inclusion as an integral part of human capital management. She stressed the importance of reliable and timely data can enable multifaceted diversity, independence, and competence on a high-quality board of directors.

**Mr. Rick Wade** ([testimony](#)), Senior Vice President of Strategic Alliances and Outreach, U.S. Chamber of Commerce, listed the challenges facing Black-owned businesses. He referenced the Chamber's large-scale effort to advance policies that address inequality such as grants, mentorship opportunities, and investments in historically Black colleges. He supported implementing Section 1071, which requires financial institutions to collect and report on credit applications from women and minority-owned small businesses. Mr. Wade also noted the difference between rural and urban areas and echoed Ranking Member Wagner's concerns in providing enough flexibility to account for such nuances.. He supported increased data collection requirements and transparency for both moral and economic reasons.

## **DISCUSSION AND QUESTIONS**

### **Challenges in DNI**

- Ranking Member Wagner asked Mr. Wade about the challenges businesses face when trying to increase their diversity recruitment and retention efforts, and **Rep. John Rose (R-TN)** worried about the impact of mandatory reporting on small businesses. Mr. Wade drew attention to the importance of providing emerging markets with talent pipelines. Additionally, he said while investors believe data is important, forward thinking about the workforce of the future is critical. Ranking Member Wagner solicited feedback from Mr. Wade on why a one-size-fits-all approach to DNI is not always appropriate. He recognized

how differences in geography and demographics can affect a business's diversity efforts, and advocated for flexibility to achieve long-term success.

- **Rep. Anthony Gonzalez (R-OH)** spoke to Mr. DiNapoli about diversity in the capital he oversees as comptroller. Rep. Gonzalez asked about the barriers to creating a workforce that reflects the population. Mr. DiNapoli said having staff dedicated to working with emerging managers and better understanding the clients they invest in is helpful, but creating a talent pipeline allows them to create a more diverse workforce.
- Full Committee Chairwoman Waters addressed Ms. Simpson, asking what efforts her organization has taken to support DNI. Ms. Simpson pointed to the restructuring of the emerging manager program. She also mentioned that CalPERS has extended diversity beyond emerging managers to all external managers across their portfolio.

#### Employee Retention

- **Rep. Nikema Williams (D-GA)** asked how diverse companies are better positioned to attract talent in their workforce, and what retention means for a company's bottom line. Mr. DiNapoli said companies that reflect the diversity of the community in which they are operating are the best suited to take advantage of economic opportunities. He added that low turnover rates reduce the need to retrain and rehire employees.
- **Rep. Ayanna Pressley (D-MA)** inquired Mr. Garcia-Diaz about data collection efforts regarding feelings of inclusion. Mr. Garcia-Diaz explained that his recent work included analysis of a wide variety of data collection, but not all of that data is made public.
- **Rep. Jake Auchincloss (D-MA)** questioned whether boardroom diversity trickles down to mid-level managers and their peers. Ms. Simpson did not have any information on these trends due to a lack of data.

#### Environmental, Social, and Corporate Governance (ESG) and Systematic Racism

- Ms. Simpson provided examples of investments being at risk due to climate change, highlighting ESG as a risk management tool to Rep. Auchincloss.
- **Rep. Sylvia Garcia (D-TX)** highlighted the current racial climate and the issues marginalized communities continue to face. She asked Mr. DiNapoli about the New York State Common Retirement Fund shareholders' proposal to Amazon for a racial equality audit. He stated that Amazon's behavior regarding unions, labor standards, negligent COVID-19 protocols, and questionable firings made the basis for the shareholders' decision to pursue this. However, he mentioned Amazon is challenging this decision at the Securities and Exchange Commission (SEC).
- **Rep. Rashida Tlaib (D-MI)** expressed concern about what data is measured and how this perpetuates systematic racism. She asked Ms. Johnson about bringing lived experiences into the corporate boardroom. Ms. Johnson echoed previous statements about the importance of having DNI data to enable and amplify diverse voices. Ms. Simpson added that disclosing data on climate impact, labor standards, and diversity would actually grow performance.
- **Rep. Madeleine Dean (D-PA)** posed the question of where racism shows up in financial portfolios. She asked Ms. Simpson about the positive effects of mandating DNI data

disclosures for CalPERS's investors. Ms. Simpson addressed human capital management reporting, suggesting that transparency provides better fiduciary services.

- Rep. Williams asked Mr. DiNapoli how DNI disclosures are important for determining the future financial success of a company and how this data reduces systematic racism. He said investors need standardized data upfront, or they will be forced to review each company or pay for third-party information. Additionally, he mentioned that these disclosures are not meant to name and shame, but to keep a conversation going.

#### Data Collection

- In a line of questioning with Chairwoman Beatty, Mr. DiNapoli said companies that have success with DNI metrics are also more likely to provide sustainable and profitable investment opportunities.
- The Chairwoman pointed out Mr. Wade's discrepancy in supporting diversity data disclosures but not workforce data disclosures. He explained that flexibilities are key to capture company nuances. Additionally, Ms. Simpson pointed out the importance of being a stewardship and tracking investment diversity when the Chairwoman addressed why racial equity audits are important.
- Ranking Member Wagner asked Mr. Wade how businesses can better supplement their DNI data to better inform the community of what they do. He brought up qualitative aspects like bias training, the company culture, and community involvement.
- Ranking Member Wagner questioned Mr. Wade on how the quality of data impacts a company's efforts. He stated that companies understand the workforce challenges of the future, and are reacting to that. Mr. Wade also said the source of data is also just as important.
- Rep. Pressley questioned why the Federal Reserve, OCC, SEC, and FDIC issued guidance that made diversity disclosures voluntary. She asked Ms. Johnson how requiring companies to disclose diversity data would increase accountability and transparency. Ms. Johnson said there is an opportunity to learn and fix problems that are only seen through data.
- Rep. Pressley then inquired how disclosing this data ends up benefiting consumers that come from marginalized communities. Ms. Johnson said the first step is standardizing and making sure the definitions are in sync, because all dimensions of diversity are important. She stated that consumers are looking for transparency in products and services.
- Rep. Dean asked Ms. Simpson about the dangers of allowing businesses to selectively disclosing data points. Ms. Simpson related it to financial reporting, highlighting the importance of having a standard that holds companies accountable.
- Rep. Dean probed Mr. Garcia-Diaz about what steps can be taken to convince companies that reporting DNI data can be a benefit. He responded by saying although GAO does not have a specific position on public disclosure of information, he does support having accurate data that is properly analyzed and acted upon by executives.
- Chairwoman Beatty asked Ms. Johnson if the companies who share information with DiversityINC risk their reputation or business. Ms. Johnson highlighted that companies are transparent with their diversity data because it is profitable, as opposed to a sense of moral obligation.

### Other Points of Discussion

- Rep. Gonzalez asked Mr. DiNapoli how Minority and Women-Owned Business (MWBE) funds have performed relative to their peers, and he said similar and some have outperformed others.
- Rep. Gonzalez asked Ms. Simpson to state what percentage of assets are managed by diverse asset managers, and she said external emerging managers oversee \$1.5 billion in assets.
- **Rep. Stephen Lynch (D-MA)** asked the witnesses if there is a way to prevent fintech companies from instigating biased algorithms. Mr. Garcia-Diaz brought up the importance of diversity when creating algorithms and fair lending programs. The impact of biased algorithms is still being explored, he said.
- Rep. Dean focused on people with disabilities, and asked Mr. DiNapoli to describe diversity efforts for this demographic. He prioritized engagements with companies to make sure they include people with disabilities and recognized they are severely underrepresented in the workforce.
- Rep. Garcia asked Mr. Garcia-Diaz how data collection processes are effective in diversifying boardrooms at the Federal Housing Finance Agency (FHFA), and he replied by mentioning that previous GAO recommendations led the FHFA to submit clearer data for more effective sharing.
- Rep. Auchincloss inquired with Ms. Simpson if CalPERS's investment criteria have changed diversity practices in the firms they are investing in. She stated that showing diversity is a requirement when her organization votes on investments.
- Rep. Rose spoke about the lack of rural broadband, and the difficulties many Tennesseans face when trying to connect to the internet. He questioned why broadband is so important for learning, particularly when it comes to financial literacy. Mr. Wade recognized the issues many children faced attending online school during the pandemic. He said a core part of the Chamber's diversity initiative is dealing with the structural issues that hold people back from equality.