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CHAIR, SUBCOMMITTEE ON DIVERSITY AND INCLUSION

SUBCOMMITTEE ON HOUSING, COMMUNITY

DEVELOPMENT AND INSURANCE

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June 28, 2021

Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506
RE: Regulatory Notice 21-17

Dear Ms. Mitchell:

As the Chair and Vice Chair of the House Financial Services Subcommittee on Diversity and Inclusion, we are pleased to provide comment on FINRA Regulatory Notice 21-17, the Notice of Comment on Supporting Diversity and Inclusion in the Broker-Dealer Industry. We support the agency's efforts to form a robust, well-rounded diversity and inclusion initiative that considers the input of stakeholders to the broker-dealer industry.

Consistent with the broader financial services sector, the broker-dealer industry has historically underperformed in hiring, promotion, retention and procurement opportunities for diverse populations including women, persons with disabilities, LGBTQ and racially diverse persons. Although the financial services sector has made great strides in addressing these historical imbalances, much work remains to ensure sustainable, long-term success on diversity and inclusion performance. We commend efforts to allow unaffiliated individuals to take the Securities Industry Essentials (SIE) exam to validate their expertise. This measure will expand the pipeline of eligible candidates interested in pursuing careers in the sector and make the industry more accessible to those who were excluded historically.

Racial and Ethnic Diversity

The securities industry can leverage economic potential by harnessing the market power of racial and ethnic minority groups that have previously been overlooked by focused client management strategies. The combined buying power of Black, Asian, Native American, and Hispanic minority groups was \$3.9 trillion in 2018.¹ Hiring, promoting, and empowering diverse financial professionals in the broker-dealer industry will lead to the development of innovative products and services that can build a bridge to emerging domestic markets essential to the future growth of the US economy. Recent analysis by McKinsey and Company estimates closure of the racial and gender wealth gap could grow the U.S. economy by \$1.5 trillion and increase GDP by as

¹ Weeks, Matt. The University of Georgia Selig Center. "Minority Markets See Economic Growth."
<https://news.uga.edu/multicultural-economy/>

much as 6 percent by 2028.² The recruitment of securities professionals who share common backgrounds with consumers in these communities is essential to realizing this potential.

Collection of anonymous survey data on workplace satisfaction from current licensees will allow FINRA to conduct better oversight of the industry. An ongoing analysis of diversity and inclusion performance in the sector will help FINRA assess diversity and inclusion performance, potentially averting systemic cultural changes that could result in significant legal and financial ramifications for market participants similar to those incurred by one of the nation's largest securities firms with \$1.1 trillion in assets under management.³ Actively seeking feedback through surveys and data collection can help FINRA work with regulated entities to take preemptive action on issues endemic to a company's culture.

Anonymous Feedback

Cultural competence is often determined and driven by an organization's senior leaders and permeates throughout the business enterprise. Therefore, C-suite leaders are integral to the short- and long-term adoption of meaningful diversity and inclusion performance practices which impact organizational success. Nearly two-thirds of S&P 500 companies hired or promoted a Chief Diversity Officer (CDOs) into their roles over the past three years.⁴ Hiring a CDO is a critical step, but these leaders must be empowered by CEOs and board leadership to implement best diversity and inclusion practices, as many CDOs have struggled to make an impact when faced with the undeniable forces of historic inequality and implicit bias.⁵

To combat systemic discrimination, employees throughout all levels of seniority must feel free to anonymously report instances of discriminatory behavior without fear of retaliation. That is why we hope that FINRA will provide a means for industry participants to utilize the anonymous tip process to report instances of discriminatory behavior or create a separate tip portal for handling discriminatory incidents. We also encourage the agency to work with its licensed broker-dealers to develop an educational outreach strategy to ensure all licensees are aware of this process and of their protection from retaliatory behavior, as an additional component of mandatory training.

Barriers to Entry

FINRA has made great strides in taking active measures to lower the barriers to entry in the broker-dealer marketplace, such as through the Securities Industry Essentials (SIE) exam mentioned previously. Working with securities industry professionals who have passed the exam to hear their feedback on potential barriers to entry during the examination process is a positive step in the right direction. FINRA should consider compiling statistics and following up on the

² McKinsey & Company. "The Economic Impact of Closing the Racial Wealth Gap." August 13, 2019 <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap>

³ Martin, Jake. AdvisorHub. "Edward Jones to Settle Race Discrimination Suit for \$34 Million." 2021. <https://www.advisorhub.com/edward-jones-to-settle-race-discrimination-suit-for-34-million/>

⁴ Glassman, Rebecca, Paikeday, Tina Shah, Young, Cissy, "A Leader's Guide: Finding and Keeping Your Next Chief Diversity Officer." https://www.russellreynolds.com/en/Insights/thought-leadership/Documents/Chief%20Diversity%20Officer_1218_FINAL.pdf

⁵ Flitter, Emily. "She Spent 16 Years as Morgan Stanley's Diversity Chief. Now She's Suing." 2020. <https://www.nytimes.com/2020/06/16/business/morgan-stanley-discrimination-lawsuit.html>

current employment status of all examinees to engage in a focused effort on potential barriers they encounter during their job search. The agency should also engage in employing broker-dealers in an advisory or mentorship role for potential job applicants who have passed the SIE, working with diverse talent to develop professional goals and identify opportunities to excel in the sector.

Language Access

Migrating toward a fee-based industry from a commission-based industry, broker-dealers have made strides in consumer-focused approaches. Moving to a standardized, fee-based structure fosters an industry that reaps the benefits from scaling upward by reaching more clients, including working with a diverse array of potential clientele. As the country's population diversifies, there is an increasing number of citizens that speak English as a second language. According to Census data, a little over 26 million households in the United States have limited English proficiency (LEP).⁶ Accumulating non-English speaking clients can help them take advantage of effective wealth-building strategies and give broker-dealers an opportunity to expand their client base.

FINRA can also contribute to a more inclusive industry by developing the SIE exam in additional languages. Currently, extra time is allotted for Limited English Proficiency (LEP) candidates to take licensing exams. The development of exams in other languages would result in more diverse examination candidates, which will contribute to the inclusion of potential clientele whose primary language is not English when selling securities as mentioned before.

In Summary

We applaud you for these efforts and look forward to reviewing the comments and your intended plan of action. Incorporating diverse Americans into the securities industry is critical, as it will allow broker-dealers to better represent their customers. As market makers, securities professionals play a significant role in determining access to wealth building for the American investing public. It is thereby of significant value to consumers of all wealth levels that the securities industry best represents the public.

Diversifying the broker-dealer industry involves a variety of challenges, but it is a worthwhile endeavor to counteract the more permanent challenges caused by gender and race-based wealth disparities. Engaging with stakeholders to build upon inclusivity is a commendable first step, and for that, the Subcommittee on Diversity & Inclusion extends our encouragement. We are optimistic that these efforts will result in robust market engagement, and a reduction in the longstanding barriers to wealth building for years to come.

⁶ U.S. Census Bureau (2019). Limited English speaking households – American Community Survey. <https://data.census.gov/cedsci/table?q=18%20and%20up%20language&tid=ACST1Y2019.S1602>

Sincerely,



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