

# Raising the Bar on Diversity, Equity and Inclusion



**Commissioner Jaime Lizárraga**

**Washington D.C.**

**Oct. 13, 2022**

Thank you Sarah for your kind introduction. It is a pleasure to join you today to offer a few thoughts about diversity, equity and inclusion (DEI). And to do so as this year's Hispanic Heritage Month comes to a close.

The asset management industry's contribution to our country's financial security is undeniable. You have a direct impact on the financial futures of millions of working families. From grocery store workers, and other essential workers who invest part of their weekly paychecks in a 401(k) managed by a registered fund, to the single mother whose investment adviser helps her save for her daughter's higher education. And, from seniors managing their retirement savings, to teachers, firefighters, and law enforcement officers planning their financial futures.

The industry's continuing growth is impressive by any measure. As of 2021, U.S.-registered fund assets totaled approximately \$35 trillion and private fund assets totaled approximately \$20 trillion. According to the Investment Adviser Association, registered investment advisers managed approximately \$128 trillion in assets and served approximately 65 million clients. And by ICI's own estimate, almost 60 million U.S. households own mutual funds.

These numbers demonstrate the enormous wealth-building opportunities that the industry offers many working families and can offer to those who may not yet have been reached. And that is where DEI comes into the picture.

As most in this room are likely aware of, one of the most in-depth examinations of the state of DEI in the asset management industry was conducted by the SEC's Asset Management Advisory Committee (AMAC). This Committee conducted its work during Chairman Jay Clayton's tenure. One key finding, based on input from a wide range of stakeholders, including analysis of data provided by the ICI, was that investors increasingly deem DEI information material to their investment decisions.

AMAC, in its report, also cited an eye-opening 2017 statistic from the Government Accountability Office – the auditing arm of Congress: less than 1 percent of global assets under management, then \$70 trillion, was managed by women- and minority-owned asset management firms.

By way of comparison, and according to the 2020 U.S. Census, nearly 40 percent of the U.S. population identifies as a member of a racial or ethnic group. And, women constitute slightly over half of the U.S. population.

While GAO's 1 percent statistic brings into focus the DEI challenge in the asset management space, it also represents an opportunity to reflect on the issue in the context of what it means to the investing public.

My involvement in DEI issues spans the entirety of my nearly 32 years in public service. The issue can be challenging and often controversial. And statistics like the 1 percent, when cited, can have the unintended effect of discouraging investment in solutions, out of concern for limited or no returns on that investment.

That is certainly not my intent here. Based on my longtime involvement with DEI issues, I'm keenly aware that progress can take time. The reality is that meaningful strides in advancing DEI takes a combination of commitment, leadership, and constructive engagement.

The Commission's own ongoing experience in the DEI space provides a useful perspective. And it's another way of conveying to you that you're not alone.

SEC Chair Gensler deserves much credit for his efforts to diversify the SEC's top leadership ranks. It was also great to see my fellow Commissioner Mark Uyeda recently deliver a thoughtful DEI keynote speech to the Association of Asian American Investment Managers. I'm encouraged by my fellow Commissioners' strong interest and commitment to DEI matters and I look forward to continuing our dialogue.

It has also been encouraging to engage with the Commission's Office of Minority and Women Inclusion – a product of the landmark Dodd-Frank Act. OMWI, as it's known, has made great strides in building a diverse pipeline, establishing partnerships with universities and high schools, fostering an inclusive workplace culture, providing mentorship and professional development opportunities, and several other critical initiatives.

But challenges remain. For instance, at nearly 6 percent of the SEC's workforce, Latinos and Latinas remain significantly underrepresented – compared to 9.5 percent of the federal workforce, and 13 percent of the civilian workforce. By comparison, the Latino community in our country is 63 million strong, and 19 percent of the U.S. population. In addition, other diverse groups, including people with disabilities and veterans, continue to be underrepresented in senior officer and other supervisory positions.

Despite these challenges, there are a few bright spots. The representation of certain diverse groups in these senior SEC positions is increasing steadily. On the asset management side, by some accounts, women- and minority-owned assets under management have been increasing over the years. Similarly, the representation of women on mixed-gender portfolio teams has grown.

It is also heartening to see many of the diversity initiatives undertaken by market participants, self-regulatory organizations, and industry trade associations. In fact, through its recently launched D&I RFP Framework, the ICI has worked to advance standardization and accountability on diversity and inclusion for its members.

In the face of deep challenges, many of these organizations have demonstrated a strong commitment to meaningful results. And many of them also recognize that an unwavering commitment is what it takes to tackle difficult DEI challenges.

Bearing in mind AMAC's conclusion about investor-driven materiality for DEI information, the optimist in me sees the 1 percent as enormous untapped potential – a future market opportunity that will likely continue to grow for some time. Of course, at the end of the day, you are the better judge of the validity of that intuitive statement.

That said, AMAC's four recommendations are premised on the view that diversity serves the public interest, which they believe is central to the Commission's mission, and that investors increasingly deem DEI information as material to their investment decisions. To that end, AMAC recommended that the Commission:

- require investment advisers and funds to provide enhanced gender and racial diversity disclosures;
- issue Commission guidance for fiduciaries selecting other asset managers;
- establish a centralized mechanism for cataloging and maintaining records relating to discriminatory practices in the securities industry; and
- conduct a study of how the pay-to-play industry has evolved in light of over a decade having passed since the Commission last conducted a deep examination of pay-to-play practices.

Yesterday, the staff of the SEC provided guidance on fiduciaries selecting other asset managers, in the form of an FAQ document. However, the FAQ is difficult to find on our website and could have been accompanied by a public announcement alerting market participants of its existence.

To help move the needle on that 1 percent diversity statistic, we must do more. I strongly believe the Commission must consider whether AMAC's four recommendations can be fully implemented, at the Commission level. If that isn't possible, I believe it is our responsibility to the public to explain why.

Beyond AMAC's recommendations, the Commission just released its fall 2022 rulemaking agenda. That agenda includes planned rules relating to enhanced board diversity and human capital management disclosures. These rules, if proposed, represent an opportunity for investors to benefit from more meaningful, standardized and transparent diversity-related disclosures that would help them make more informed investment decisions.

In closing, as we continue to advance DEI priorities in our respective spaces, it is my hope that you'll consider today's remarks as constructive and helpful in informing your own efforts. I, for one, look forward to engaging with you and other stakeholders on the DEI challenges ahead and on ways that we can work together on our shared goals. Overall, I strongly believe that there are many benefits that result from a long-term commitment to advancing diversity, equity and inclusion.

Thank you for your attention today and for all that you do to help working families build a brighter financial future.