

# Bank of England PRA

Dame Meg Hillier MP  
Chair, Treasury Committee  
House of Commons  
London  
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Dear Dame Meg

## **PRA response to the Treasury Committee's Letter dated Monday 18 November 2024**

I am writing in response to your recent letter which sought an update on the PRA's work on the recommendations of the Treasury Committee's Sexism in the City Report. I welcome the opportunity to update the Committee on our work in this regard.

Before I address the recommendations directed at the PRA, I wanted to reiterate our support for the Committee's work in this area, which has brought to light many concerning examples of poor industry practices and culture. I agree that there is much more to do to address these challenges and we will take account of the issues within our remit as we take forward our policy work on diversity and inclusion.

I also wanted to thank you for the opportunity for myself and Dr Saporta to give evidence on these issues at your hearing on January 17<sup>th</sup> 2024. It has been timely to have the Committee's views while our work is ongoing, and we attach significant weight to them as we develop our approach.

The earlier recommendations to the PRA focused mostly on our Consultation Paper **CP18/23: Diversity and inclusion in PRA-regulated firms**, which set out our proposals in this area. These proposals are aimed at improving governance at financial services firms, helping them to make better decisions. In this regard we have always been clear that the PRA's main interest in this area is a quite specific and relatively narrow one: the link that we consider exists between a lack of diversity and inclusiveness and a greater risk of group-think, and between group-think and a higher risk of mis-steps by firms which could have a negative impact on our primary



objectives. We have also observed that more diverse and inclusive cultures should enable firms to be more competitive in accessing the wide range of talent available to them, which is relevant to our new secondary objective. There is of course a much wider debate around the significance of diversity and inclusion and what are the best approaches in this area, but we are engaged only insofar as this issue relates to our statutory objectives.

In addition to its recommendations related to the Consultation Paper, the Committee raised a concern that the removal of the bankers' bonus cap could increase the difference between the overall take-home pay of men and women in the financial services sector.

My response to the Treasury Committee's Report of 7th May 2024 outlined that we welcomed the Report and the recognition that regulators have a role to play to help support improvements in this important area, and this remains my view.

Since our consultation closed for comments in December 2023, the PRA has analysed stakeholder feedback, including the 78 responses to the PRA's Consultation Paper and an additional 16 responses from joint FCA and PRA-regulated firms which were sent to the FCA, as well as feedback received from engagement with other stakeholders including regulated firms. Respondents were broadly supportive of the proposals advanced in the Consultation Paper and offered constructive feedback on how to improve the proportionality of our proposed regime, including the aspects on reporting and target-setting which the Committee raised in its report.

We continue to consider carefully the Committee's recommendations alongside the other feedback received in determining any next steps in relation to our reporting and target-setting proposals. In doing so, we are mindful of the doubts the Committee expressed about some aspects of the proposals, and of the range of diversity and inclusion reporting initiatives already in place. As we consider the way forward, we will also need to take into account more recent developments in Government policy and legislative proposals that are relevant to diversity and inclusion and might therefore have a bearing on what should be taken forward through regulation. These include the proposals for gender equality action plans, which is a relevant consideration in relation to our proposals for firms to have a Diversity and Inclusion strategy, and the Government's plan for broadened pay gap reporting which links with our proposals for firms to collect and report data on ethnicity and disability.

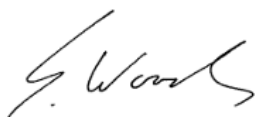
We currently aim to conclude the analysis of the responses to our CP and determine any next steps on diversity and inclusion policy during 2025.

In relation to the Committee's recommendation on the removal of the bonus cap, our [Policy Statement 9/23](#) noted that while the removal of limits on the ratio between fixed

and variable components of total remuneration gives greater flexibility to firms, the PRA and FCA expect firms to take care to avoid adverse impacts on pay gaps. I also mentioned previously that we are happy to work with the FCA, Government Equalities Office and the Equality and Human Rights Commission to assess whether the policy change has affected gender pay gaps. While it will take time for the effects of the policy to be embedded within firms, as for example they may need to change employment contracts, we will seek to review the impact of the policy at the earliest opportunity that sufficient evidence is available.

Across all of this we are working closely with the FCA, who are replying to your letter in parallel covering these areas and some others which are more within the FCA's remit. I thank the Committee once again for the request for an update, hope this response is useful to the Committee and welcome your interest in these matters.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Woods', written in a cursive style.

Sam Woods

**Deputy Governor and CEO, Prudential Regulation Authority**