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OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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DIVERSITY: THE GAO PERSPECTIVE

Wednesday, July 12, 2006

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:30 p.m., in room 2128, Rayburn House Office Building, Hon. Sue W. Kelly [chairwoman of the subcommittee] presiding.

Present: Representatives Kelly, Kennedy, Gutierrez, Cleaver, Scott, Moore of Kansas, and Frank.

Also present: Representatives Waters and Meeks.

Chairwoman KELLY. The Subcommittee on Oversight and Investigations will come to order. With unanimous consent, we are going to try to truncate the initial process a bit. Because we started late, we will try to make up for a little bit of that so people who are here who need to make planes can do that. So without objection, all of the members' opening statements will be made part of the record, and we will dispense with the opening statements today. Also, without objection, the witnesses' written statements will be made part of the record, but we will come back to them for their oral testimony.

Today's hearing is on diversity: the GAO perspective. It follows up on a hearing conducted by the subcommittee in 2004 that looked at the progress women and ethnic minorities were making in employment at our largest financial services corporations. That hearing exposed the progress that has been made in recent years but it also left some questions as to what the true metrics of the situation were. At the conclusion of that hearing, Chairman Oxley, Mr. Frank, Mr. Gutierrez, Mr. Scott, and myself asked the GAO to conduct an empirical study of minorities in the financial services industry and the progress that they were making. Today, we unveil that report. And without objection, with unanimous consent that report will become part of the record. So moved.

Chairwoman KELLY. The findings of the report show that the intentions and results in diversity programs are no longer tracking each other. There is no question that every company in the financial services industry is committed to providing opportunity for all employees, and to seeking out and training promising diverse candidates at both entry level and mid-career stages. The industry is to be commended for its commitment to diversity. Unfortunately, the report also showed that the overall level of diversity within the industry has barely changed. Minority employment at mid- and

senior levels has only slightly improved and there is no evidence that programs to improve diversity, as opposed to demographic changes, are responsible for any of this increase. Today's hearing will go into these figures in more thorough detail through a discussion with the GAO author of the report. We will also hear from representatives of the financial services industry to find out where programs are working that can help add results to our shared commitment to workplace diversity and opportunity for all Americans.

I am now going to yield. You have a 1-minute opening statement, Mr. Scott, if you would like to make it. And, Mr. Cleaver, you also have 1 minute. We have been called for a vote so if you could make your statements and then perhaps we could get started quickly before we all have to go to the Floor for a vote. It is actually three votes, and so it will be a bit of time when we are up on the Floor. Mr. Scott?

Mr. SCOTT. Thank you very much, Madam Chairwoman. And I want to just thank our participants for coming. This is an extraordinarily important issue—diversity in the workplace, particularly in our financial services industry. It is very critical as we strive to ensure that minorities, African Americans and others, have an ample opportunity to be in key decisionmaking positions as we look at key issues of building wealth, financial literacy, holding on to what we have, and making sure that we bring promise to the realization that, in fact, our strength in this country is our strength in diversity. And so I am looking forward to the testimony, and thank you, Madam Chairwoman.

Chairwoman KELLY. Thank you. Mr. Cleaver?

Mr. CLEAVER. Thank you, Madam Chairwoman. I think many of you perhaps saw the Monday edition of The Washington Post where they did their annual review of regional salaries of CEO's. And they did color photographs to make it even clearer that minorities and women are still challenged to break through the glass ceiling. In some instances, this is a cement ceiling and then steel on top. And so I am very interested in your responses to what kind of movement you are able to experience. And I regret—I was looking forward to this all week, I don't know, maybe I can call some of you at home tonight and pick your brain.

Chairwoman KELLY. Thank you, Mr. Cleaver. I am going to introduce this panel. Our first witness is Orice Williams of the Government Accountability Office. Ms. Williams has over 15 years experience at GAO and is currently the Director in GAO's Financial Markets and Community Investments Team. Ms. Williams received an MBA with a concentration in finance from Virginia Tech and a B.S. degree in business and finance from Virginia Commonwealth University. And we have Mr. Marc Lackritz, who is the president of the Securities Industry Association. He was elected in 1992 after serving as executive vice president and head of the Washington office since 1990. Mr. Lackritz received his law degree from Harvard, a master's degree in economics while on a Rhodes Scholarship at Oxford University, and a bachelor's degree in public policy from Princeton University. We have Donna Sims Wilson, who is an executive vice president and head of equities sales and trading at M.R. Beal & Company. Ms. Wilson received her bachelor of arts degree in political science from Yale University. We also have Mr. Car-

los—please tell me how to pronounce your name, sir? Please turn the microphone on so I can hear that. That is it, push the bottom.

Mr. LOUMIET. Loumiet, Madam Chairwoman.

Chairwoman KELLY. Loumiet? Thank you, now we all know. Mr. Loumiet has been actively involved in domestic and international banking fields for more than 28 years. Over that period of time, he has witnessed, and been involved in, virtually all of the major events which have marked the banking industry. And, finally, we have Manuel Fernandez, who serves as the national managing partner, Campus Recruiting, for KPMG. He holds a bachelor's of science in accounting from Fairleigh Dickenson University and is a member of the board of trustees of the Colorado Symphony.

We welcome you all. This hearing is going to be interrupted. As you can see from the lights, we have been called for a vote. There will be three votes and so I am going to start—perhaps we should just do the break right now and then come back so we can have all of you speak at once and that way we can have continuity. So I am going to recess this hearing for approximately—I would think the three votes would take at least 20 to 25 minutes before we get back here. Sorry to do this but it is a necessity, and I appreciate your patience with this. So we are going to recess the hearing, and we will meet back here in a few minutes. Thank you.

[Brief recess]

Chairwoman KELLY. This committee will resume. We will have an opening statement from the ranking member.

Mr. GUTIERREZ. Thank you. I am really looking forward to this hearing. From my perspective, minority hiring in financial services is not just a matter of diversity in the workplace. If we expect to compete and thrive in the global economy, we have to utilize the valuable resource of talented minority financial professionals we have in America. The recently released GAO report on this topic demonstrates that the minority community remains an untapped asset for the financial sector. On our second panel today, we will hear from some very talented minority financial services professionals. These professionals are role models in their community. And there really is no substitute for role models. When I was growing up, I didn't know any Latino accountants, stockbrokers, or investment bankers. Now, I am married to one. We have come a long way but we have a lot further to go. One of our witnesses today, in his written testimony, made the comment that we don't want to look back 12 years from now and find ourselves in the same situation. I agree. That is why I am issuing a challenge today to the witnesses on our second panel. You represent some of the most powerful companies and organizations in the financial services industry. I want to challenge you to get together and draft a pledge to be signed by representatives of all the sectors of the financial services industry that over the next decade you will work to double the percentages of minority-holding management level positions in the industry. This committee can request studies and Congress can pass bill after bill, but the government does not have all of the answers. This is an issue of untapped potential and the industry needs to wake up and realize this before it affects our ability to compete in the very diverse global market. If you can do this, if you can get

your industry together to sign such a pledge, I know the members of this committee will give you all our support.

Thank you, once again, for all of your hard work.

Madam Chairwoman, I ask unanimous consent—on this side we have several members of the Full Committee who are not members of this subcommittee, but would like to participate. Therefore, I ask unanimous consent that Representatives Waters, Meeks, Lee, and Baca be allowed to give opening statements and ask questions in today's hearings. In addition, we have a former member of the Financial Services Committee, who has been active on this issue, and would like to participate in today's proceed. I ask unanimous consent that Congressman Gonzalez be permitted to ask questions of our witnesses. Finally, the Independent Insurance Agents and Brokers of America have submitted a written statement. I ask unanimous consent that the statement be admitted into the record.

Chairwoman KELLY. So moved. The panel having already been introduced, let's begin with you, Ms. Williams.

STATEMENT OF ORICE M. WILLIAMS, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Ms. WILLIAMS. Madam Chairwoman, Ranking Member Gutierrez, and members of the subcommittee, I am pleased to be here this afternoon to discuss GAO's report on diversity in the financial services industry. In particular, I would like to focus on two areas: First, trends in management level diversity and diversity initiatives; and, second, the ability of minority- and women-owned businesses to gain access to capital. In summary, our analysis of EEOC's data on workforce demographics reveal that between 1993 and 2004, overall management level representation by minorities and women in the financial services industry has not changed substantially. However, the change has varied somewhat by racial and ethnic group.

Briefly, let me draw your attention to the color graphic provided with my written statement. The blue line represents overall minorities at the management level, which increased from about 11 percent in 1993 to 15.5 percent in 2004. The four color coded lines below show the changes for the four racial and ethnic groups we studied: African Americans, Asian Americans, Hispanic Americans, and American Indians. The gray line—which has remained relatively constant at slightly more than one third over this period—represents white women. We also found that certain sectors, such as depository institutions and insurance within this industry, are more diverse at the management level than others.

In addition to analyzing the trends, we also collected information about diversity initiatives and programs from dozens of firms and trade associations. We found that many had programs or initiatives to increase workforce diversity and that they faced a variety of challenges. We heard from several firms that diversity initiatives cannot be treated as programs. Instead, they have to be viewed as long-term commitments that may start at the top but must permeate the entire organization. We found that many firms had programs that focus on attracting, recruiting, and retaining a diverse workforce. This included offering scholarships and internships to

students to attract them to the financial services industry, recruiting from a diverse pipeline, and fostering a working environment of inclusion that allows all employees to thrive. We found that some firms are trying to develop performance measures to gauge the effectiveness of their diversity efforts, which can be challenging. Some common measures identified were tracking employee satisfaction survey results and representation of women and minorities in key positions. These measures become more important as some companies are beginning to hold senior managers accountable for fostering a more diverse workforce, including linking managers' compensation to their performance with promoting diversity.

However, we found that financial institutions face a variety of challenges that may provide insights into the statistics I mentioned earlier. In particular, we heard that maintaining the critical mass of minority employees needed to establish a visible presence, effective networks, and mentors for minority and women candidates has been an ongoing challenge.

Another involved building a pipeline of diverse talent. Specifically, the financial services industry requires that many senior officials possess certain skills and credentials and the possible pool of candidates may be constrained by this requirement. For example, of accredited business schools, less than 25 percent of MBA students and about 16 percent of graduates, one potential talent pool for the industry, are minorities. In the accounting arena, about 8 percent of CPA's are minorities.

Now, I would briefly like to turn my attention to the ability of minority and women business owners to gain access to capital. Research reports and our discussions with financial services firms and relevant trade groups suggest that minority- and women-owned businesses appear to have difficulty obtaining access to capital for several reasons. The reasons cited include a concentration in service-oriented businesses, lack of assets to pledge as collateral, or because of a lack of a proven track record of creditworthiness. However, other studies suggest that discrimination may be a factor but such analysis is complicated by limited data availability. We did find some commercial banks have developed strategies to market existing products to this rapidly growing segment of the market. However, opportunities to access equity capital are generally limited.

This concludes my oral statement, and I would be happy to answer any questions at this time. Thank you.

[The prepared statement of Ms. Williams can be found on page 53 of the appendix.]

Chairwoman KELLY. Thank you, Ms. Williams.

Mr. Marc Lackritz.

STATEMENT OF MARC E. LACKRITZ, PRESIDENT, SECURITIES INDUSTRY ASSOCIATION

Mr. LACKRITZ. Thank you, Madam Chairwoman, and members of the subcommittee. I am Marc Lackritz, president of the Securities Industry Association, and I appreciate the opportunity to testify on SIA's and our member firms' commitment to diversity and inclusion within the securities industry and the U.S. capital markets. We commend the subcommittee for requesting that the GAO study

this important issue, and we are pleased to report that several of our members cooperated with GAO in preparing the report. By willingly sharing their diversity best practices and programs, our firms provided an important perspective on the breadth and depth of diversity activities in the securities industry. We believe this topic is critical to the future of our economy, our markets, our industry, and our investors.

Over a decade ago, our association formed a board level diversity committee, comprised of senior level executives to increase industry understanding and development of the strong business case for building programs to develop multi-cultural workforces and client bases. Indeed, I am pleased to be on this panel with Donna Sims Wilson of M.R. Beal & Company because the founder of her firm, Bernard Beal, did an outstanding job as our first co-chair of our diversity committee in 1996 and 1997.

Beginning almost 3 years ago, SIA's chairman increased our emphasis on diversity by making the expansion of our industry's efforts a top strategic priority for our association. Our aspiration is to ensure that the securities industry looks like America and is an inclusive, multi-cultural place to work. I am proud of the progress our firms have made to develop diversity initiatives in the workplace and improve their marketing and outreach to diverse customers. Our efforts are beginning to pay off as the number and variety of diversity programs in place among our member firms has risen dramatically. I am confident we will soon begin to see even more positive results reflected in statistics.

As you may remember from our testimony before the subcommittee 2 years ago, we conduct an annual—or semi-annual—excuse me, bi-annual industry-wide survey and study to help our firms meet the challenges and maximize the opportunities of an increasingly diverse workplace and customer base. One of the important things we have learned is that instead of emphasizing an end goal, the focus should be on the trend lines of progress and rates of change toward that goal. While we have achieved some encouraging results, we also know that we must make further inroads and improvements. Some of the positive trends include an increase of women in our workforce, a steady increase in the representation of people of color employed in the industry, and a growing percentage of retail brokers being women and people of color. Nearly one-fourth of senior level positions and over one-third of all middle level positions, plus analysts and associates, are held by people of color. These data are a positive sign of more inclusive advancement and promotion policies. An upward trend of nearly half the firms surveyed offering firm-wide career development focused mentoring programs targeted toward women, people of color, and other diverse populations.

And, finally, nearly all respondents have flexible work policies and programs in place. And this is a positive sign that employers throughout our industry are utilizing flexibility to retain valued employees and enhance their performance.

Our diversity committee began offering an annual leadership award in 2002 to encourage and recognize innovation in the policies and programs firms use to attract and retain minority employees. This award honors our member firms' commitment to building

strong diversity initiatives and is a showcase for the depth and variety of diversity programs within the securities industry.

In our reviews of member firms' diversity programs, we have found several common elements that contribute to a firm's success. Active engagement from senior management, for example, is a crucial element to the success of a firm's efforts. Other critical components are training, mentoring, networking, diversity councils, and tracking programs. Our diversity committee continues to make significant progress on the educational front, with our first annual diversity/human resources conference, a comprehensive Web site, teleconferences, roundtables, and inclusion of diversity in the core curriculum of our professional education programs.

SIA and our member firms are committed to creating a diverse and inclusive workplace where all employees can succeed on their merits. We understand the importance of hiring, training, and retaining a diverse workforce to best meet our clients' needs. Although we have made significant progress, we know we must do more in the years ahead.

We welcome your subcommittee's input on how we may further improve our diversity programs, and we look forward, Madam Chairwoman, to working with you and the subcommittee to achieve that important goal.

[The prepared statement of Mr. Lackritz can be found on page 39 of the appendix.]

Chairwoman KELLY. Thank you, Mr. Lackritz.

Ms. Wilson.

STATEMENT OF DONNA SIMS WILSON, MEMBER, BOARD OF DIRECTORS AND CHAIR, NATIONAL LEGISLATIVE COMMITTEE, NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS

Ms. WILSON. Good afternoon, Chairwoman Kelly, Ranking Member Gutierrez, and members of the subcommittee. I would also like to thank Chairman Oxley, Ranking Member Frank, and subcommittee member Scott, who signed the letter that made these hearings possible and who requested the GAO report.

I am Donna Sims Wilson, chair of the legislative committee of the National Association of Securities Professionals or NASP. I am also an executive vice president and head of equities sales and trading at M.R. Beal & Company, a minority-owned investment banking firm. I appreciate the opportunity to testify on behalf of NASP and our members. We commend the subcommittee for recognizing how important this topic is to the future of our economy, our markets, and our industry.

Over the past 21 years, NASP has put in place model diversity initiatives to advance diversity within financial services industry. I will cite two examples. The Wall Street Finance and Scholastic Training Program, or Fast Track, was launched in 1996 and identifies high school students with an interest in our industry. In 10 years, Fast Track has become a national model and has had more than 800 graduates. Our annual mentor luncheon encourages minority and women undergraduate and MBA students to pursue careers in our industry. In addition, we maintain a career center on our Web site, which serves as a clearinghouse and job bank. This

Web site is free to the public and can be assessed at our Web address.

The GAO report findings regarding diversity at the management level are not surprising. While there have been some positive changes, the industry overall is still viewed as severely lacking and imbalanced when it comes to diversity. We believe that the best way to impact the diversity metrics is to do business with minorities and women wherever they are found, either within majority-owned firms or minority-owned firms. There must be both external and internal economic incentives to positively impact workforce diversity.

The path to senior management and corporate board membership in majority firm institutions is job success. Minorities and women must have clients from whom they generate significant revenue. In minority- and women-owned firms, the same concept applies; the growth and viability of these institutions is dependent upon clients with whom they can do business.

The Federal Government is a significant client within our industry and needs to lead by example by being diverse with its own resources. For example, there are substantial Federal pools of retirement money, such as the Federal Retirement Thrift, the PBGC, and the National Railroad Trust, among others. To date, no minority-owned firms manage assets for any of these agencies nor do minority-owned broker-dealers execute their trades. The evaluation process to hire service providers should include a diversity component with weight. All things being equal, like performance and fees, this additional evaluation mechanism could incentivize firms to improve their diversity profile.

In the municipal finance arena, the Department of Defense is encouraging public/private partnerships to improve the quality of military housing. The Federal Government should evaluate all underwriters and other financial services providers with the same weighted diversity component. Three examples of government programs that have been successful include the former RTC, Fannie Mae's Access Program, and Freddie Mac's Golden Opportunities Program.

The GAO report found that while many firms have initiated programs to increase workforce diversity, NASP also believes these businesses still face challenges. One, preconceived notions and prejudices about the effectiveness of minority and women professionals; two, the tendency to mentor and promote individuals from the same ethnic background regardless of merit; and, three, most emphasis on recruitment, not as much on retention and promotion of minority managers.

Some of our recommendations to improve diversity include:

Linking diversity components at the mid- and senior management levels to compensation;

Targeting recruiting efforts for mid-level and senior-level management with well known organizations that support women and minorities, such as New America Alliance to my left; and

Supporting the passage of the resolution and then legislation introduced by Congressman Meeks and co-sponsored by 81 members to increase the diversity of our industry.

As it relates to improving access to capital, we recommend allowing the SBA to make loans to small investment banking firms. We suggest that Congress assemble a national commission to study collectively practical solutions to access to capital for minority- and women-owned firms. Much of the groundwork to support such a recommendation has been completed and can be found in my written testimony.

In conclusion, NASP is grateful for the opportunity to add our voice to the discussion. We stand ready to partner with the committee, other trade associations and firms to further our stated goal of ensuring that people of color and women are included in all aspects and at all levels of our industry. We believe that significant progress can be made on these crucial issues but only when there are clear, defined external and internal economic incentives, direct accountability, and enforcement.

[The prepared statement of Ms. Wilson can be found on page 119 of the appendix.]

Chairwoman KELLY. Thank you very much.

Mr. Loumiet.

STATEMENT OF CARLOS E. LOUMIET, CO-CHAIR, CAPITAL ADVOCACY COMMITTEE, NEW AMERICA ALLIANCE

Mr. LOUMIET. Madam Chairwoman, Ranking Minority Member Gutierrez, and members of the subcommittee, on behalf of the New America Alliance, an organization of American Latino business leaders focused on the advancement of the American Latino community for the benefit of the United States as a whole, I wish to thank you for the opportunity to appear before you today.

Two years ago this spring, the New America Alliance suggested that this subcommittee, which has oversight jurisdiction over most of the entities comprising the U.S. financial services sector, hold hearings on the issue of diversity in the financial services industry. To your credit, and demonstrating that the members of this subcommittee on both sides of the aisle really believe in the fundamental American concept of equal opportunity for all, the hearing took place in July 2004. The New America Alliance's then-Chair, Ana Marie Fernandez Haar, was honored by being allowed to testify at that hearing. Following the hearing, we requested that this subcommittee approach the GAO to see what information that agency could collect on the status of diversity in the financial services industry. The GAO has now completed its report entitled, "Financial Services Industry: Overall Trends in Management Level Diversity and Diversity Initiatives 1993 to 2004."

We wish to again commend this subcommittee and the GAO for this very important first effort in the form of the GAO report. It is impossible based solely on anecdotal evidence to determine to what extent progress has been achieved and to what extent it remains to be achieved in an industry as extensive and as vital to all of us as Americans as the financial services industry. That industry not only holds, invests, and manages must of the savings of all of our people, it is also a source of virtually all consumer and commercial credit in our country.

Given the importance of the financial services industry to the economic advancement of all persons in our country, we believe it

is particularly important that this industry reflect, to the extent possible, the very diverse human community that we are privileged to have in this country. We believe that over time this will largely happen anyway, both as a matter of demographics and through market forces. The issue before us today—are there non-coercive ways available to this subcommittee to accelerate this process so that the time involved and the human lives measured will be shortened?

We also believe in what the late President Theodore Roosevelt used to call the "bully pulpit," as well as that our national leaders must periodically mount that pulpit and lead. In this regard, we believe that the hearings held by this subcommittee in July 2004 and now, as well as the GAO report, send a powerful first message to the financial services industry that the honorable members of this subcommittee do care whether there is equality of opportunity for all in this industry.

There are, of course, many ways for this committee to continue to manifest its interest in this issue. Some can be extremely informal. Imagine, for example, that the honorable members of the House Financial Services Committee, acting individually, decided to systematically take advantage of their frequent meetings with constituents or their representatives to ask about the status of diversity in each constituent's business, and perhaps even request a brief written update on the constituent's efforts, programs, and results in this regard. Were this to become a common approach among many members of the committee, a very powerful message would quickly be sent to the entire industry.

In terms of more formal Congressional action, we would very much like to see various follow-up inquiries on the GAO report. For example, we would like the GAO to survey leading entities in various sectors of the industry to see what the status is of diversity among these firms, what programs they are utilizing to improve diversity, and with what success. We realize that neither this subcommittee nor the GAO has the power to compel private sector responses to such surveys, but we believe it highly unlikely that the firms approached in this regard by this subcommittee would decline to respond. It would be a great honor for us in the New America Alliance to work with this subcommittee and the GAO in this effort.

Similarly, we would like to see the GAO inquire of the Federal regulatory agencies responsible for our Nation's financial services industry, the OCC, the Federal Reserve, the FDIC, the OTS, and the SEC, what the status of diversity is within their own agencies, what programs they have in place to promote diversity, and what the results of those programs have been. While we believe that we have adequate legislation in place, we also believe that as a practical matter it is difficult for regulators responsible for the implementation of that legislation to lead the way if their own agencies are not themselves achieving diversity.

The New America Alliance commends and thanks in particular Representatives Oxley, Frank, Gutierrez, Scott, and you, Madam Chairwoman, for requesting that the GAO provide the overview on the status of diversity in the financial services industry. As you can see, in all of the instances what we are essentially asking the sub-

committee to do is to continue to shine a powerful spotlight on this issue, allowing the innate sense of fairness that is strong in the American people, together with a market, the press, and organizations like ours and the other ones appearing before you today to take the matter further.

Thank you very much.

[The prepared statement of Mr. Loumiet can be found on page 47 of the appendix.]

Chairwoman KELLY. Thank you very much.

Mr. Fernandez?

STATEMENT OF MANUEL J. FERNANDEZ, NATIONAL MANAGING PARTNER, CAMPUS RECRUITING, KPMG, LLP

Mr. FERNANDEZ. Good afternoon, Chairwoman Kelly, Ranking Member Gutierrez, and members of the subcommittee. My name is Manny Fernandez, and I am KPMG's national managing partner for campus recruiting. KPMG is a Big Four accounting firm that provides audit, tax, and advisory services to a global clientele. Beyond my responsibilities for the firm's recruiting strategy and execution, I continue to have client responsibilities serving a Fortune 300 client. Beyond my role at KPMG, I also sit on the board of the KPMG Foundation. The mission of the Foundation is to enhance business higher education, and community involvement.

By way of background, I came to the United States from Cuba when I was 8 years old. After college, I took a job with KPMG where I have worked for 22 years, including the last 10 as a partner. I have experienced firsthand KPMG's powerful commitment to a diverse workforce. Being bilingual has contributed greatly to my success at KPMG and it has been very valuable to the firm as well. For example, in 1994, I took a 3-year assignment in Mexico City, serving our large multi-national clients with substantial Latin American operations.

KPMG is committed to increasing the diversity of employees and partners nationwide. Currently, 25 percent of our professionals and 6 percent of our partners are minorities. While we are proud of the progress we have made, we are by no means satisfied. We can and will do better.

Along with our competitors, KPMG aggressively seeks to attract and retain qualified minority accountants. But as the GAO report notes, "One reason for the lack of diversity in key positions in the industry is that relatively few racial, ethnic minorities tape the CPA exam and thus relatively few minorities are CPAs."

KPMG and the KPMG Foundation are advancing systemic solutions to the problems of supply and quality of minority accounting students. We have programs to grow the pool of qualified business graduates of our universities and colleges, including Historically Black Colleges and Universities. Twelve years ago, the Foundation introduced the following three programs: the Ph.D. Project, the Minority Doctoral Scholarship Program, and the HBCU Accreditation Grant Program. One barrier we identified to attracting minorities to business graduate programs was the lack of minority faculty to serve as role models and mentors. The Ph.D. Project's mission is to increase the number of minority faculty in business schools. Twelve years ago, out of 26,000 business school professors, we

could identify only 294 that were either African-American, Latino, or Native American. Today, through the work of the Ph.D. Project and initiatives by others, there are 812 minority faculty with 346 minority doctoral students in the pipeline.

The investment in the Ph.D. Project to date exceeds $17.5 million, with the Foundation having provided nearly $8.5 million of that, as well as all administrative costs since 1994 on a pro bono basis. The Foundation has also given $8.2 million in direct doctoral scholarships and grants to minority students. Over 25 percent of the minority accounting faculty added in the last 12 years have received scholarships from the Foundation.

Lastly, we have the HBCU Accreditation Grant Program. While putting in place the Ph.D. Project, we recognized that over 35 percent of African Americans earning business degrees were from Historically Black Colleges and Universities. To assist those institutions in gaining accreditation from the premier accreditation organization for business schools, the Association of Advanced Collegiate Schools of Business International, the AACSB, we offered grants to cover the accreditation candidacy process. Currently, there are 82 HBCU's that grant undergraduate business degrees. When we started this program, only five HBCU's had AACSB accreditation. Today, there are 16 and another eight in the pipeline. The Foundation has established endowments and annual scholarships at a number of HBCU's.

In conclusion, KPMG is committed to increasing the diversity of our professionals, and in particular our partners, and the graduate student populations to assist in bringing more minorities into the accounting field. We are proud of the steps we have taken to recruit, retain, and promote minority accountants. We are equally proud of our Foundation's programs that are creating a new generation of minority accountants throughout the accounting profession. Diversity is critical to KPMG's future and helps us deliver on our promise of professionalism, to ourselves, to our clients, and to our capital markets that we serve.

Thank you for this opportunity to share my views.

[The prepared statement of Mr. Fernandez can be found on page 30 of the appendix.]

Chairwoman KELLY. Thank you very much, Mr. Fernandez. Ms. Williams, your testimony is very clear that the financial services industry is committed to diverse employment. Unfortunately, it doesn't seem to be working. One of the things that seems to be of difficulty is putting metrics on things like the informal structures and networks, friendship circles, common experiences, the things that help people determine hiring and promotion. And many employees, according to your testimony, say that these are barriers to their promotion. From what I have seen, there is a strong corporate commitment to try to have equal opportunity. I am wondering if part of the problem is the fact that starting from such a small base of diverse employees at senior levels, that some of these perceived barriers to promotion are going to exist long after the actual barriers are gone. And I wonder if you could talk about that a bit?

Ms. WILLIAMS. I can share with you some of the things we have heard. We have heard that some companies were surprised when they had staff identify this as a challenge, for example, that they

felt the lack of diversity at senior levels really impacted their ability to ascend in an organization. And the metrics issue is a challenge. And also coming up with a critical mass is a huge piece of this, that usually at the 5- to 7-year mark we heard is kind of the critical period for a lot of women and minorities to decide whether or not they are going to stay with a particular firm, and one of the things we heard from companies is that at that point they look around the organization and they ask themselves if they see people who look like them and if they don't, then they may make a decision to go to another organization. So we did hear that firms are beginning to focus on this issue and they realize that critical mass is a challenge and getting that critical mass is a huge challenge that they have to deal with and that they are trying to deal with in a variety of ways in building networks and mentoring programs.

Chairwoman KELLY. Thank you. Mr. Fernandez, I congratulate you on the efforts that you have made at KPMG but part of moving past the status quo and increasing opportunities for existing employees is really important. I would be interested in what you have done at KPMG to have that happen?

Mr. FERNANDEZ. Well, one of the things that we have implemented is a program where every one of our employees, whether right out of college or direct hires, we encourage them to pass the CPA exam. So we have a program where we reimburse their Becker CPA review courses, it is one of the larger companies that offers that and their sitting fees and any ethical courses they are required to take by State rules. So that is one of the things that we have done in terms of allowing our employees, including minorities, to get their accreditation to be CPAs.

Chairwoman KELLY. Thank you. I think my time is up so I will turn to Mr. Gutierrez.

Mr. GUTIERREZ. I want to thank all of the witnesses. I want to start with Ms. Sims. Most believe the key to increasing diversity in financial services is greater recruitment but you raise a good point that too much emphasis on recruitment can be a bad thing, with many professionals never fully assimilating into the corporate culture and leaving the industry before making it to the executive level. What can be done to shift away from this trend?

Ms. SIMS. One of the things that I cited in my testimony is that in order for someone to become a senior managing director or to become an executive on the board of directors of their firm, it is imperative to them to have success in whatever it is that they are doing so they have to generate revenue. And so if there is a way that particular person could be mentored such that they could take over large accounts and be responsible for significant amounts of revenue coming into the firm, that would certainly help their ascension. And what could happen is that on the outside, external forces, like the Federal Government as a client as well as the CEO of the company from the top stating that individual managers need to have diverse people on their teams can also benefit.

Mr. GUTIERREZ. Let me follow-up with Mr. Fernandez. Thank you for all you do. Why don't you follow-up where Ms. Wilson left, what about your firm, what she said, too much emphasis on recruitment, what do you think about that? What is the key thing that we have to do?

Mr. FERNANDEZ. In terms of recruitment?

Mr. GUTIERREZ. Well, because if we spend too much time—as Ms. Wilson said—too much time on recruitment and not enough time, as she suggested, on mentoring and what we do internally, how do you see it?

Mr. FERNANDEZ. We really look at it from a three-prong approach: recruitment, retention and development, and then promotion. As an example, we have approximately 1,000 Latinos and African Americans combined in our staff ranks, who have 1- to 5 years of experience. We have approximately 300 out of our total population of 20,000 employees in the manager ranks, who are 1- to 5 years away from partnership or the potential to be partner. So the key is to bring in more—our initiatives are to bring in more, retain more, develop more, mentor more, and promote more.

Mr. GUTIERREZ. I want to follow-up on that. So you have a plan?

Mr. FERNANDEZ. Yes.

Mr. GUTIERREZ. As a partner? You sit down with the other partners, you review the plan, are people judged on how they meet the—

Mr. FERNANDEZ. Absolutely.

Mr. GUTIERREZ.—recruitment, retention, promotion?

Mr. FERNANDEZ. Well, I run the recruiting organization.

Mr. GUTIERREZ. Right.

Mr. FERNANDEZ. In fact for the last 3 months, so I am fairly new in the job. One of our key initiatives is diversity; one of our guiding objectives is diversity.

Mr. GUTIERREZ. So let me ask you—I issued a challenge earlier that we not have the same dismal situation 10 years from now. So as we look back, you and I are a little older and we come back—

Mr. FERNANDEZ. A little older, yes.

Mr. GUTIERREZ. Right, just a little bit older, 10 years from now, that we not have the same situation. So I said why don't we issue ourselves, what is your goal, do you have such a goal within—do you have any goals? What are those goals? How do you look into the future, how does your firm look into the future, this is what we want to accomplish?

Mr. FERNANDEZ. Yes, our goal has been to add more in the population. In order to add more in the population, we need more students to enter colleges and universities that are accredited. So it goes to the accreditation focus of HBCU's, so forth and so on. So we really need more of a pipeline into the universities and colleges, both at the traditional universities and the Historically Black Universities or minority-based universities, we need to get more of those. We have strategies to do that through the KPMG Foundation and the accreditation. We need more of those 82 HBCU's to get accredited for one thing. So we really need more students from the high school levels to enter college, choose business as a profession, and choose accounting as a profession, so that we can then have a bigger pool of the population to attract from. We need that to happen. Then it becomes our job to recruit them, bring them in, and then they become part of a mentoring process and so forth. Six months ago, we started a National Diversity Network that I co-chair for the Hispanic/Latino side, and we have two partners on the African American side. And we actually held part of the NABA

conference 2 months ago. And upcoming in the ALFA Conference in Dallas, Texas, we are bringing all of our managers who are Latino/Hispanic to Dallas, all for the purpose of creating networks, creating mentoring relationships, and hopefully getting those managers to build their skill sets and competencies to be able to be in position to make partner because that is really my end goal, to have more people like me be partners at KPMG.

Mr. GUTIERREZ. Thank you so much, Carlos, number one for your organizational effort for requesting the GAO report initially. What is the one single thing we can do? What is the one single thing we can do?

Mr. FERNANDEZ. The one thing you can do is to shine a beacon on this issue and continue to do so. We all get busy, we all have to prioritize in life. There is no question that the industry, if you look at it now as opposed to 20 years ago, there is no question that the industry has come a long way in terms of creating programs to foster diversity. There is also no question that there is a long way to go and that the only way that we are going to achieve that remaining distance in the time I think you and we would like to see is if this becomes a top priority for the industry.

Mr. GUTIERREZ. I would like to say that I think we probably need to have a conversation between the Asian Pacific and the African American Caucus so that we can challenge the institutions that are out there, as you suggest, as many of you have suggested, continuing to challenge them and to challenge them on what the reality is and bring them forward. The GAO report is giving us the information and that information is power and how we utilize that information and power, and obviously the Alliance and what you are doing, I want to thank you. And the other thing is I want to make sure that when we do these GAO reports—my daughter took a sociology class and the professor began by defining Latino. And he was a nice Spaniard from Madrid. He started with a definition, "like me." My daughter said, "Well, I don't think so, kind of from Latin America, we had our wars of independence. Lots of people lost their lives to be different from you, but we have resolved all of those things." Well, she came home and I told her, "I think you said the right thing." So let's make sure we are defining the population as it should be because we do have people who come from Latin America even and from a culture, which they don't need a lot of help, given the socio-economic background that they come from. It is a lot different coming from a well-established family in Venezuela or Argentina than the "un-well-established" families from Chicago and LA and New York and Miami. It is very, very different so I want to make sure that we are also focusing on that.

Thank you all so very, very much for all of your testimony.

Chairwoman KELLY. Mr. Scott?

Mr. SCOTT. Thank you very much, Chairwoman Kelly. Again, I want to commend this committee for following up and you, Chairwoman, and Mr. Gutierrez, for your leadership on this important issue. We brought this up and it is great to see us moving forward.

I have been so concerned about this issue. In my own experience as a Congressman, I represent perhaps the fastest growing minority business owned area in the Nation, certainly one of them, and that is the Atlanta Metro Area where I represent many, many mid-

dle-class African Americans, those who are opening up businesses, going into business. It is a very, very growing sector so access to capital and having African Americans in key decision-making decisions in the financial service industry to understand the sensitivities that other African Americans are going through are very critical. It is also important that we understand the Jackie Robinson Syndrome here and that is you have to have role models. You have to have successful African Americans that you spotlight, that you promote, that you get on an accelerated track. We should shy away from this notion of feeling that we should be denied this effort to push out very quickly to make up for the ground that we have lost due to past racial discrimination and prejudice in the financial services area. We are in this shape where we have so few, where retention is weak, where you don't have it at the high school level of those being trained and wanting to go into accounting, there is a reason why we don't have the African Americans as we should that are attracted to accounting and financial analyst work, banking, auditing, and those areas.

I come from a little bit of experience, and I just want to take a moment to share this because this issue is so very important to me. It is one that I have been devoting so much of my life. I happen to have been the third African American to graduate from the Wharton School of Finance with an MBA. I understand diversity, understand the meaning of it. One of my first jobs, I might add, was with KPMG. So I understand that and what we need to do. We started a firm called Recruiting Management Consultants where we went all over this country to deal with it. There is nothing more important that this committee can be involved in at this time than correcting some of the past errors that we have made due to discrimination, prejudice, and denying and keeping African Americans out of what we are doing.

Now that I have gotten that out of the way, I want to talk about three very important issues. First of all, how can we get senior management and middle management in the financial services industry to completely buy into the program? I would think from what you all have said here that you have three basic areas: recruitment, retention, and the other thing you said is promotion. And the promotion, I think, is the one that is key to the recruitment and the retention. So I would like for each of you to just give me your comments on—before my time runs out here—on the recruitment, the retention, and promotion, and what each of you are doing. And also if you could address that important issue of whether top management is genuinely buying into this program or—I don't want to put you on the spot—or, as in so many cases, we are getting just lip service? Ms. Wilson, would you mind starting that off because your comments kind of sparked my question?

Ms. WILSON. Congressman Scott, thank you. I have been an investment banker for 23 years and you can see from my bio I have worked for some of the largest investment banking firms in the country. So with my practical knowledge, if you look around, there are precious few minorities and women who are partners and who are, if they are public companies, on the boards of directors of major investment banking firms. I could also speak for asset management firms; it is the same thing. So there are, as my colleague

Mr. Fernandez said, there is a large pool of people on the front end, the people from 1- to 5 years, 3,000 people, I forget exactly what number he said. But how do we get people from mid-management to become partners? How do you mentor them into the highest levels of the organization? And I have said in my testimony the way to do that is you have to economically incentivize people to do that. You become a partner because, for example, if you are in the M&A department at say Goldman Sachs, you become a partner because you were riding the point on a huge merger. You become a partner at another firm if you were handling the General Motors account. So people have to be mentored into the highest levels and the most visible and the most profitable areas of a firm for them to generate the revenue, because Wall Street is a "meritocracy" mostly, to become a partner and an owner and at the highest level of that firm.

And I think that the Federal Government, through the business that it controls as huge client in financial services across so many areas, I have mentioned Federal pensions, there are various departments, Transportation, etc., etc., those agencies in the past have focused more on hiring janitorial services and other types of contracting and not as much on financial services. But if the Federal Government insisted that there be a diversity component in their evaluation of their service providers in the financial services industry, that would be the external stimulus that would help these major firms to mentor people into the highest levels, generate the revenue, and have the business success so that they could become a partner on the merits.

Mr. SCOTT. One of the things that we are trying to do in the Congressional Black Caucus, I know Mr. Meeks, Mr. Wynn, I know Ms. Waters and all of us are very much concerned about is to figure out how we can increase wealth, how we can increase economic and financial empowerment. Would you recommend that a part of what we may do as government officials and policy setters is to as a condition, as a requirement, as one of those things we look at prior to giving government contracts, that we take a look at that individual's diversity program and that that diversity program be considered as a part of the criteria to determine whether they get that contract?

Ms. WILSON. Yes, Mr. Scott, in my written full testimony, I state—and I will give the example that I used—let's say for example the Pension Benefit Guarantee Corporation, that agency or the Federal Retirement Thrift, which manages hundreds of billions—hundreds of billions of assets for the annuitants who are government workers, if the Federal Government, when they are deciding what service providers to hire to handle those assets, look at not only their individual diversity profile, how many partners do you have, senior level managers, mid-level managers, EEOC data, but as well if you were to also look at supplier diversity, how much business have you major service provider managing the assets of the Pension Benefit Guarantee Corporation, how much business are you doing with minority- and women-owned firms. And have that be part of the evaluation component, just a part. Three firms have similar fees, three firms have similar performance, one firm stands out in terms of the diversity initiatives, which is a new goal of the Federal Government, then that firm could win the business.

Mr. SCOTT. Okay. Thank you.

Chairwoman KELLY. Thank you, Mr. Scott. Mr. Meeks, do you have any questions?

Mr. MEEKS. Thank you, Chairwoman Kelly and Ranking Member Gutierrez. I want to thank you for allowing me to participate in this hearing even though I am not on the subcommittee, for indeed this is a subject matter that has been very near and dear to me. And I want to also thank all of the panelists for your testimony today.

It is funny coming from New York, the financial capital of the world, and as I go visit many of the different financial institutions, it would be funny if it wasn't so serious when I see how the CEO's when they know that I am coming, kind of find somebody of color to meet with me when I am there. And, oftentimes, they go to such a degree that you know that they really have no responsibility, they just have them sitting there to eat lunch with me or to talk at the meeting just so I might get the impression that somebody of color is working with the firm. But then I ask the appropriate question as to—and I do it right in front of them—what are their responsibilities and what track are they are on, then you see the red faces coming up because clearly they just had them there because they were trying to pacify me. And so to watch those faces, if it wasn't so serious, I would crack up laughing because of their nervousness and the lack of inclusion in a city like New York where the majority of the population in fact is African American and Latino. But, yet, when you look at the makeup of those companies, and even the outreach into some of the communities so that people know that opportunities are there for them to have, it is just not there.

Like Congressman Scott had indicated, I am also—and I hear the difference between getting someone in on the bottom level but putting them in mid-management so they can promote on to partner, but some of that has to do with the whole climate. If you are walking into a climate where you know that you don't feel welcome, and I think that is what Ms. Wilson is talking about the mentoring, if you are in a climate, they know when that fifth year is coming what to do to get you out of there so that you are never on a partnership track. And so I appreciate the testimony about what we can do in government to try to make sure that there is a difference.

But I also want to know what we could do to help build minority firms. And maybe I will ask this question to Mr. Lackritz in this sense, there seems to be a substantial decrease recently in the opportunities for minority investment banking firms to participate in IPO's because the private equity firms are picking up a greater percentage of the market. So the firms that I am talking about, the few that I see in New York, they are no longer—they are saying, hey, we are basically going out of business. I am wondering what incentives can we create in majority firms, majority businesses to seek out minority firms to be partners or joint ventures in various activities because that has become—that is how a firm, you can pick up the level of minority firms in a city like New York or all over this country, any ideas there?

Mr. LACKRITZ. Well, I think it is a very good question, and I think your description of what is happening in the market, I don't

know enough about the specifics of what you are describing, but it doesn't sound like it is too far fetched. Clearly, there has been a great growth in the area of private equity recently and the market has been shifting a lot, particularly on the institutional capital market side. But it seems to me that the key here is to outline and make clear and educate everyone about the business case that is here and important for firms to succeed in the future. And from this perspective, demographics I think are destiny. And as you have described the situation in New York, similarly for our country, broadly speaking, by the middle of the century, the country is going to be majority/minority. We are going to have a majority of minority groups in the United States. And as the economics of that develop, for firms to succeed, they are going to have to look like the country and look like the economy to be able to be successful in attracting that kind of business. So I think the important thing first is education. The second thing I think is important in terms of recruitment, and I know a number of our firms are engaging in a lot of activities to build retention. They build retention through training, through mentoring, through career development councils, through affinity networks, through identifying high potential women and minorities, and I think all of that is part of it. What we are trying to do at SIA is to drive this in every different part that we can, whether it is in our professional education program where we have a mandated diversity part of our core curriculum that every attendee has to attend for 3 consecutive years, whether it is our leadership awards at our annual conference, whether it is our programming, whether it is our teleconferences of our diversity committee. All of these are sharing of best practices. All of these efforts, it seems to me, have to be focused and it requires a commitment from the top.

And I want to tell you also, just in response to Mr. Scott's question earlier, the CEO's in the securities industry really get it. Our top 20 firms, every single one of them is committed to increasing and improving diversity and have programs in place to do that. The overwhelming majority of our mid-size firms also have those kinds of programs. I think we are getting it and it is a process. And, believe me, I am not here to say we are there yet because we are not, we have a lot further to go, but I think we have made a good start, we are making progress, and we have more work to do.

Mr. MEEKS. I know my time has expired but here is my other concern, sometimes it seems to me, and I always look to see what we can do as a government, and I would just like to know what your experiences have been also because oftentimes the farm system, if you will, for individuals to come and get high placed office right off the bat is when they come out of government, if they have worked for the SEC or if they have worked for some large government agency and had a high-level position there, they can springboard across. What do you see that we can do or are we missing something here, as Members of Congress and as part of the government, to make sure that those large agencies, having individuals of color there who can easily move forward and jump into partnership ranks straight from a government position because I read the papers everyday, and I see how these folks leaving government, they are making these huge salaries straight out of here, and some

of them are very young. And I want to make sure that everybody has an opportunity to do that and be successful like that.

Chairwoman KELLY. Thank you, Mr. Meeks. Ms. Waters?

Ms. WATERS. Thank you very much, Chairwoman Kelly, for holding this hearing. Deja vu. It seems as if I have been involved in this kind of discussion for all of my career. I come from the State of California where we opened up opportunities for minorities and women through special legislation that I developed, AB–1933; I will never forget it, where we were able to have an emerging fund that was dedicated to minorities and women with PERS, the Public Employees Retirement System, and with STRS. We really did move some minority firms into significant positions for doing business and creating wealth some time ago. Unfortunately, it appears that the recommendation that is being made by Ms. Donna Sims Wilson, someone whom I have known for about 20 years now, is a recommendation that we really need to take seriously, since I don't see these kinds of initiatives, and we don't reach into those departments and agencies from our committees in ways that we should.

I must say to Ms. Wilson that she really did do this work working with me when we opened up some opportunities in Fannie Mae for some asset management some years ago, but we have not moved much beyond that point because most of us really won't be able to do it unless we have the kind of assistance that we had when we opened up those opportunities with Fannie Mae. And, obviously, you are a member of a board that was organized because of this problem that we have with getting minorities and women not only involved in these firms but basically involved with government business, etc., etc.

So I want to thank you all for being here today. I think that the recommendations that you have made, if you work with us, can be put into legislation. This will show our agencies how they can create the means by which we can evaluate their performance, so that we can make some determination about whether or not they truly have diversity programs. Legislation could also be used to help them decide with whom they are going to do business. I think that makes a lot of sense.

Let me just ask you a very difficult question and anybody can answer this. There is something that is not being said, there is something that is not being talked about. It sounds very good to talk about recruitment, retention, and promotion, and I have heard this before. I know of African Americans who have been on Wall Street, and I know an African American woman whom I am thinking about in particular, and I think Ms. Donna Sims Wilson will know who I am talking about, who was doing very well on Wall Street and she was absolutely superb in her ability to deliver for the firm and she had huge success. She had to end up suing that company, and I am sure that you remember this case. There are other cases that I have heard about, because there was discrimination related to compensation, and they were absolutely paying white males in a different way than they were compensating women and minority women in particular. Are we not talking about something here that needs to be talked about, needs to be put on the table in terms of what is encountered by women and minorities once they get in these firms? What is it, and it has nothing to do with whether or

not they are competent, they don't get there unless they are competent. It has nothing to do with whether or not they are qualified to do the job. What is going on inside these firms that prevents upward mobility? What are the little things that happen? What about things that are occurring? Can you help me with this phenomenon, and I will start with Donna Sims Wilson because she has always told me the truth.

Ms. WILSON. Thank you, Congresswoman Waters, I think. Well, I am an African American woman and I have been on Wall Street for 23 years and how do I put this elegantly? It is a zero sum game. It is a very intense industry with highly articulate, intelligent, energetic people who are striving to become partner and earn a lot of money. It is capitalism at its most raw form. And so because of that, there are a lot of sharp elbows as everyone is climbing to get to the top of the pyramid. And so I think only the hardy need apply at the beginning and there are casualties along the way. That is just fact. I don't know what Congress can do about that. I believe it was Congressman Meeks when he talked about the viability of minority-owned firms and how can he help minority-owned firms, again in other syndicates where minority-owned firms, such as mine, are competing against all the other firms to get as much stock as possible to distribute to our clients, the stock that I get is the stock that somebody else doesn't get. And everybody is being compensated based on what they produce. Again, capitalism at its rawest form and that is why it is so important for mentorship to occur so that people can be mentored into the highest levels of the organization working with the most profitable accounts so that they can generate the most money and so that they can move up. That is just a first stab at the question.

Ms. WATERS. And that is a good stab because what you have done is basically describe the way the world works on Wall Street in the most general and simplistic way. But I guess I am asking questions beyond that. What I am asking you as a successful minority firm, and you are a brilliant, competent, capable young African American woman, could you use the same talent to be a partner in one of the other white major firms on Wall Street, would it work the same way for you?

Ms. WILSON. I would hope so, Congresswoman Waters.

Ms. WATERS. Have you been in that situation where you tried in the beginning of your career, at some point in your career in a major white firm?

Ms. WILSON. I have worked for major firms in the past in my career. I have been a vice president at a firm. I started my career as an associate in corporate finance at another major firm. And I worked hard and I believe I had some success in those institutions. And I gained a lot of experience that has helped me throughout my career.

Chairwoman KELLY. Thank you very much, Ms. Waters. Ms. Moore?

Ms. MOORE. Thank you, Madam Chairwoman. Can I yield 3 minutes of my time to Ms. Waters? Is it possible to yield her 3 minutes of my time?

Chairwoman KELLY. Yes, that is fine. If you want to yield your time to Ms. Waters, just go ahead.

Ms. MOORE. I will yield you 3 minutes of my time.

Ms. WATERS. Oh, thank you very much, Ms. Moore. I guess you would like me to continue that line of questioning. I would like to get back to the point where I was asking about that which is difficult to talk about, that which is very difficult to discuss; whether or not the opportunities for minorities on Wall Street are not seen in terms of minorities' ability to be recruited. We understand that and we understand recruitment must take place. And when you talk about those educational institutions that are certified to educate people so that they are competent for the market, are you talking about major black colleges and universities not having programs to train and develop young African Americans? For example, what happens at Morehouse in Atlanta, are they training for the financial services industries that we are talking about today?

Ms. WILSON. I can tell you about a program called Sponsors for Educational Opportunity, Congresswoman Waters. The SEO program, of which I am an alumna, started, I believe, in 1980 and initially had 10 students from Harvard, Yale, Princeton, and Dartmouth. That was the first class. I was in the second class that had 12 students, and I was placed at Salomon Brothers. And I believe that this program, and I don't have the exact numbers, but this program is responsible for in many ways the "colorization" of Wall Street. And many of the alumna and alumni of this particular SEO program have come from over the years—it started with 10 people I believe, this summer class has something like 357 people. In my class in 1981, and so now I have dated myself, okay, I did it, in 1981, people were placed at Salomon Brothers, Goldman Sachs, and Lehman Brothers.

Ms. WATERS. May I interrupt you for a moment?

Ms. WILSON. Yes.

Ms. WATERS. I specifically mentioned Morehouse, I could mention some other black colleges and universities. Am I to understand that they do not have programs in those colleges and universities that train and develop their students for the securities industry and investment banking programs? Am I to understand that is non-existent or what?

Ms. WILSON. Yes, they do. And what I am saying is that this SEO program started out recruiting only at Ivy League schools 20-plus years ago but now it recruits all over the United States, including many HBCU's such as Morehouse. And many people on Wall Street are quite familiar with the SEO program and it is heavily supported by the major firms because they view it as a wonderful way to recruit talented individuals into their organizations. And many of the alumna of this program are managing directors and other senior people on Wall Street.

Ms. WATERS. So recruitment is no real problem?

Ms. WILSON. I don't believe that recruitment is the problem, no, Congresswoman Waters.

Ms. WILSON. Okay, so recruitment is not the problem, the people are there, the interest is there, the educational institutions are there, and even though I am talking about Morehouse and black colleges and universities, whether it is Cornell or others, there are African Americans who are interested and who are graduating and who want to go into the industry. So recruitment is not really the

problem. Retention, why is it people don't stay? And you don't have to answer this all by yourself. Why don't we get some help from some of the other panelists.

Mr. FERNANDEZ. I wanted to just mention your question about the HBCU's, I mentioned earlier, and maybe you weren't in the room at the time, but there are 16 accredited business schools of HBCU's out of 82. I think it is not so much recruitment because if there are talented students who are graduating from universities with the talent and the grades and the curriculum that supports that, I think you will see Wall Street hire more. I think what you need is a bigger pipeline of students at those universities, graduating with good business degrees that would give them the talent and the skill sets to compete in that market that she is talking about.

Ms. WATERS. Okay, I am going to yield back my time because Congresswoman Moore was just generous in allowing me to have this time. But let me just say that I want to make sure that the recruiters are at the doors of the HBCU's because I believe that qualified students are there. I believe that they are there, and that they are interested. As a matter of fact, I am almost a little bit concerned that too many of our young people want to get rich fast and want to get to Wall Street. So I just don't think recruitment is a problem. And I yield back the balance of my time.

Chairwoman KELLY. Ms. Moore, you are recognized for 2 minutes.

Ms. MOORE. Well, thank you so much, Madam Chairwoman, and thank you all, I thank this distinguished panel for being here.

Chairwoman KELLY. Ms. Moore, I am going to interrupt you and not charge you for this time but, Mr. Fernandez, you said you needed to leave to catch a plane. If you need to leave now, you may be excused.

Mr. FERNANDEZ. That would be very much appreciated, so that I don't get home at 2:00 a.m. Thank you. I have enjoyed being here with all of you.

Chairwoman KELLY. Thank you very much for being here and for your testimony.

Mr. GUTIERREZ. Please leave and catch the plane. Thank you so much, seriously please. Thank you for all you do, too.

Chairwoman KELLY. Now, we turn to you, Ms. Moore, for your full 2 minutes.

Ms. MOORE. Thank you so much, Madam Chairwoman, and ranking member and others. I was very interested in Ms. Waters' line of questioning because she has really made a very important point, that it is not for the lack of trying it seems on the part of the industry to recruit people, to train people, to give them experiences, but the real thing might be—the truth might be found in the testimony of you, Ms. Wilson, when you said the path to senior management and corporate board membership in majority firm institutions is job success. And so while mentoring is important, people have to have job success.

I worked for many years as a State legislator as a board member of the Wisconsin Housing and Economic Development Authority Board. They would have minority firms doing co-management, and I was never sure the extent to which they were really part of the

deal. And you don't really expect investors to have confidence in people who are not proven, they don't have job success. And so I guess what I am asking of this panel is to what extent do we go beyond recruiting, training, mentoring, having people in our classes, going into high schools, but really trying to make sure that people are substantial parts of the deals that are successful?

I remember Reggie Lewis, the Michael Jordan of finance, being my hero and reading the Wall Street Journal reports every day about him. Who wouldn't? Black, white, how else do you break those color barriers other than job success so that anybody who wants to make money would abandon any fears of racism or so on to get a Reggie Lewis to do their deal? To what extent do these companies try to put minorities and women at the table for the biggest deals?

Mr. LACKRITZ. Well, if I can just answer first, Congresswoman Moore, I think that we are making a lot of progress in this area. And I think that not only if you look across the board at some of the progress, if you look at the way the deals are being done now, one of the things that has happened in the marketplace is that the entire syndicate business has changed dramatically. And instead of having 20 or 30 or 40 firms involved in a deal, there are fewer firms because of the economics of it. It is much more efficient. And for the issuer, for the company owner or for the school authority or for the public officials, it is a much better deal if they get an efficient deal. So they have fewer participants in the syndicates, that means it is challenging to increase the number of other firms that are going to be participants, just as a matter of the economics before you even get to the specific issue that we are dealing with. I think the key here for us as an industry, and the key for our firms, is not only commitment from the top but also beginning early.

One of the things that I am very proud of that we do, we have a foundation for investor education. It has in schools, middle schools and high schools, across the country our stock market game educational program, which teaches kids of all ages, of all income levels in the public schools and in the private schools, over 500,000 kids a year from grades 7 through 12 learn about the difference between consumption and saving, about compound interest, about the difference between equity and debt, about asset allocation and portfolios, and our firms are providing internships for high school kids to get them interested in finance earlier rather than later. This is a process, I think. I don't think we solve this sort of with a quick fix. I remember, I guess it was President Johnson who talked about whether you give somebody a fish or you teach them how to fish. I think what we are committed to doing is teaching people how to fish. And then in the long run, that is going to be much more important in terms of increasing participation and broadening and expanding the circle than by any kind of quick fix that we might come up with in terms of specifics here.

Ms. MOORE. Well, I appreciate those comments. I am just saying that I hope that Wall Street would make itself more responsible for helping develop the relationships because I have already assumed that by the time you get to be Ms. Wilson there, that you know the difference between equity and debt. I don't think I do personally.

But in all seriousness, relationships and really being part of the bigger deals I think is where I would like to see the firms take an extra step. Thank you, Ms. Kelly.

Chairwoman KELLY. Thank you very much, Ms. Moore. I really appreciate the fact that the panel was very patient with us today because we had to start and then go to a vote and all of that. You have been very good and we thank you so much. I would like to point out just one or two things. We are talking here about diversity. Only 13 percent of this body has women. One of the interesting things also that ought to be noted I believe is that in Wales they just had a vote. The new Welsh parliament is the first women-dominated elected parliament in the western world. So we have a little ways to go here in the Congress as well.

The Chair notes that some members may have additional questions for this panel. They may wish to submit those questions in writing. So without objection, the hearing record will remain open. Oh, I am sorry. Mr. Scott?

Mr. SCOTT. Can I get clarification, please?

Chairwoman KELLY. Sure, of course.

Mr. SCOTT. Because I was a little bit confused with the last line of questioning and I want to get it clear. Do we have a recruitment problem or don't we have a recruitment problem? From the written testimony, and from your earlier conversations, you said recruitment is a problem. In response to Ms. Waters' question, she said, "So recruitment is not the problem." You said, "No, recruitment is not the problem." What are we here, which way is it? On the other hand, someone said, well, we don't have enough kids graduating with degrees and business degrees and accounting and so forth. Do we have a recruitment problem or don't we have a recruitment problem?

Chairwoman KELLY. Why don't we take one quick answer from every member of the panel, just starting with you, Ms. Williams, and let's move on down. What is your perception and then move to Mr. Lackritz, Ms. Wilson, and Mr. Loumiet.

Ms. WILLIAMS. Based on our conversations with firms, recruitment is an issue as well as retention.

Mr. SCOTT. Okay.

Mr. LACKRITZ. I think that recruitment, training, retention, all of it is a challenge and an opportunity for our industry to improve on the progress that we made so far.

Ms. WILSON. I would agree that recruitment is just one component of the issue. It is recruitment, retention, advancement, and promotion to the top. It is one continuum. And there certainly are more people at the bottom than there are at the top.

Mr. LOUMIET. I would say that recruitment is not the biggest problem. But the problem arises along the way, as Ms. Wilson has suggested.

Chairwoman KELLY. Thank you very much. Without objection, the hearing record will remain open for 30 days for members to submit written questions to the witnesses and place those responses in the record.

This hearing is adjourned.

[Whereupon, at 4:50 p.m., the subcommittee was adjourned.]

A P P E N D I X

July 12, 2006

Congressman Joe Baca's opening statement at the July 12, 2006, Oversight Subcommittee Hearing On "Diversity in Financial Services: GAO's Perspective."

Thank you Madam Chairman and Ranking Member Gutierrez for holding this very important hearing. Many of you know that the issue of corporate diversity has been the focus of much of my work here in Washington.

As the Chair of the Congressional Hispanic Caucus', Corporate America Task Force, I have spent a significant amount of time speaking with the leaders of advocacy organizations, corporate managers, and business owners about how we can ensure that Corporate America reflects the diversity of America.

One of the Corporate Task Force's central goals is to increase corporate diversity, especially to make sure that more Hispanics are included in upper management and on corporate boards.

Latinos are not only the largest minority group but also the nation's fastest-growing. Hispanics make up 14 percent of the U.S. population and are projected to grow to 16 percent by 2009. In the past 10 years, US Hispanic purchasing power has increased more than twice as fast as the rate for total US disposable income. Last year alone, U.S. Hispanic purchasing power surged to $796 billion and is projected to reach as much as $1 trillion by 2010.

Unfortunately, Hispanics are severely underrepresented on corporate boards. Even though Hispanics are now the largest U.S. minority group, they hold less than 3 percent of all Fortune 500 board seats and less than 3 percent of executive positions in the financial services industry.

This is just not acceptable. We have a moral responsibility to make sure that the face of corporate America looks like the face of America.

In my role as the Chairman of the Corporate America Task Force of the Congressional Hispanic Caucus, last year I sent out a survey to Fortune 100 Companies. This survey requested basic information about: 1. the number and percentage of Latinos on the Boards and among their senior executive ranks, 2. their dollar and percentage amounts in awarding contracts to Latino small business contractors and 3) Latino focused philanthropies.

Despite the simplicity of this survey, I faced great resistance from the Fortune 100 companies of America. Over half of the companies did not even attempt to respond to my inquiry, despite repeated follow up correspondence and calls to the offices of each company's Chief Executive Officer. Of the 35 companies that responded, less than half were able to provide answers to 4 of the seven questions, because they did not even track the information requested.

How is Corporate America supposed to be progressing if they do not even track the information? Public reporting of these numbers should be the rule, not the exception.

Yet, it is very difficult to get actual numbers. Many companies have diversity statements and commitments to diversity, but they do not provide transparent or detailed information about their recruitment programs to the public. Recruitment programs are vague and inconsistent across the industry.

I am glad that the GAO has completed a report on this important topic and I look forward to reviewing their findings.

Providing Hispanics with good job opportunities is not only helpful to the Hispanic community – but necessary for the continued prosperity of the entire nation.

In conclusion, I'd like to stress that we must not let this report be the end of this discussion among Congressional leaders. I, and my colleagues on the Corporate Task Force, intend to follow up on the results of this report, and I encourage all of my colleagues to do so as well.

We must follow up on the issue of corporate diversity not simply because opening doors for talented women and minorities is the right thing to do, but because America needs a stronger, more diverse group of business leaders to take us into the future.

Written Testimony

Manuel "Manny" Fernandez, National Managing Partner – Campus Recruiting

KPMG LLP

House Financial Services Committee

Subcommittee on Oversight and Investigation

July 12, 2006

Introduction

Good afternoon Chairwoman Kelly and Ranking Member Gutierrez. Thank you very much for the opportunity to testify today on this critical topic. I would also like to thank Ranking Member Barney Frank for his leadership on this issue.

My name is Manny Fernandez, and I am KPMG's National Managing Partner – Campus Recruiting. I am responsible for the firm's recruiting strategy and execution, including faculty relations.

KPMG LLP is one of the "Big Four" Accounting firms. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. The Network operates in 144 countries and has over 6,700 partners, 76,000 client service professionals, and 21,000 administration and support staff working in member firms around the world. Our purpose is to turn knowledge into value for the benefit of our clients, our people, and the capital markets.

Everything we do at KPMG is guided by a set of core values, defined by our strong code of conduct, which is central to our commitment to the highest standards of professional practice. Our values determine how we behave, with our clients and each other. They define what we stand for and how we do things, helping us to work together in the most effective and fulfilling way. This enables us to create a strong organizational culture—consistently—throughout the network.

I was born in Havana, Cuba and in 1970, I immigrated to the United States to join my grandparents and family in New Jersey. I graduated from Fairleigh Dickinson University in New Jersey with a B.A. in Accounting. I was recruited by the then "Big 8" right out of college, and have been with KPMG for 22 years, the last 10 as Partner.

I served as partner-in-charge of KPMG's Audit & Risk Advisory practice for Colorado. I have extensive experience with large national and international companies, such as PepsiCo and Frito-Lay. I am a member of the Chairman's 25 leadership program. Also, I am a member of the Association of Latino Professionals in Finance and Accounting (ALPFA).

I became an accountant because my dad was an accountant in Cuba and I believed that having an accounting background was important for a career in business.

My bilingual background has been an asset to my career and an asset to KPMG. For example, I served many of the firm's multi-national clients with extensive Latin American operations while on a three-year rotational assignment in Mexico City.

As I have witnessed first-hand in my 22 years at the firm, KPMG's commitment to recruiting, retaining, and promoting minorities is second to none.

The GAO Report: Comments and Recommendations

The GAO report highlights the clear need to increase diversity in the accounting profession. KPMG is deeply committed to this important goal. Currently, 26.7 percent of KPMG employees in the U.S. are minorities. Six percent of all U.S. KPMG partners are minorities.

In FY05 there was a five percentage point increase in minority and female job applicants, a 10% increase in headcount among people of color, and a 10% and 4% increase in female and minority retention, respectively.

While we are proud of our commitment to diversity, and of the progress we have made, the *status quo*, particularly at the partner level, is simply not acceptable to us, and everyone in the profession has a responsibility to improve this situation. At KPMG, we are dedicated to furthering the diversity of our ranks, in particular at the most senior levels.

Your letter of invitation asked for my comments on the GAO report and recommendations for addressing the challenges it sets forth. I can best respond by describing what KPMG is doing to promote diversity. Of course, this is a challenge not just for KPMG but across the accounting profession, not just for the accounting profession but for all the professions, and not just for the professions but, as the GAO report details, across the financial services sector as well. I believe the initiatives and programs KPMG has undertaken can serve as a model for everyone seeking systemic responses to the challenge of diversity.

KPMG is aggressive in recruiting minority students from colleges and universities, including Historically Black Colleges and Universities (HBCUs), that have

an accredited undergraduate business degree program. For example, we recruit students from Howard University, Hampton University, North Carolina A&T, Florida A&M, and Clark Atlanta University.

However, one of the challenges I have seen over a 22 year period is that there are simply not enough qualified minority students in accounting programs. Therefore, through the KPMG Foundation, we have initiated programs aimed at the systemic causes of the lack of diversity in the accounting profession. These programs seek to expand the supply of qualified minorities available to the profession.

The mission of the KPMG Foundation is to enhance business higher education and community involvement. Its sources of funding are KPMG LLP and contributions from partners and employees to our Matching Gift Program, which is restricted to colleges and universities.

Across the accounting profession, recruiting functions have faced great frustration that so few students of color were graduating with degrees in business, especially in accounting, finance and information systems. In response, the KPMG Foundation redirected its mission, bringing several programs to an end in order to free up financial resources to intensify the focus on diversity. Specifically, the Foundation focuses on the largest underrepresented groups, namely, African-Americans, Hispanics, and Native Americans.

In 1994, the Foundation initiated three programs to address root causes: The PhD Project, the Historically Black College and University Accreditation Grant Program, and the Minority Doctoral Scholarship Program

The PhD Project

One barrier we identified to attracting minorities to business graduate programs was the lack of minority faculty to serve as role models and mentors. When students of color do not see professors of their own ethnic background on the accounting faculty, they are less apt to consider the option of a career in accountancy. In response, we created the PhD Project to increase the number of minority faculty in business schools. A stronger minority faculty will help create a stronger student talent pool

When we started the PhD project in 1994, out of 26,000 business school professors, we could identify only 294 who were African-American, Hispanic or Native American. Today, with the contributions of The PhD Project and initiatives by others, there are 812 minority faculty, and 346 current minority doctoral students, with another 52 scheduled to start this September. We have nearly a 90% retention rate, and 99% of those who completed their doctoral programs are teaching in colleges and universities. According to the Association to Advance Collegiate Schools of Business International (AACSB International), the national comparable statistics are approximately 65% for both measures.

The investment in the PhD Project to date exceeds $17.5 million, of which the KPMG Foundation has provided nearly $8.5 million, in addition to its administrative costs on a *pro bono* basis. The breadth of external funding for the PhD Project is testimony to the success of this systemic approach to improving diversity in management. Our external funding includes over $4 million from academic associations, including nearly $2 million directly from universities. University contributions to a foundation are very rare, if not unprecedented. Corporate and other foundations' support exceeds $4

million. Professional accounting organizations support is approximately $500,000. Faculty, doctoral students and other individuals approximately have given $250,000.

Recognizing the breadth of external support for the program, on July 1, 2005, the KPMG Foundation spun off The PhD Project by creating a separate 501c (3) organization with public charity status. The KPMG Foundation will continue to provide significant financial support ($910,000 for fiscal year 2006), and administer The PhD Project on a pro bono basis.

Historically Black Colleges and Universities' Accreditation Grant Program

As we implemented the The PhD Project, we realized that over 35% of African Americans earning business degrees were from Historically Black Colleges and Universities.

To assist those institutions in gaining accreditation from the premier accreditation organization for business schools, AACSB International, the Foundation offers grants to cover the cost of the process.

Currently, 82 of the 105 HBCUs grant undergraduate business degrees. When we started this program, only five HBCUs had AACSB accreditation. Today there are 16, with another 8 in process. The graduates of these accredited schools are now much better prepared for their careers, thanks in part to KPMG's commitment to increasing the number of qualified minority graduates.

Our investment in the HBCU Accreditation Grant Program exceeds $325,000 to date.

Minority Doctoral Scholarships

Another barrier to minority participation in doctoral business programs is, of course, financial. The KPMG Foundation has awarded over 230 minority doctoral scholarships of $10,000 per year, renewable for up to five years. Of this population, 141 are on faculty, 39 are still in their doctoral programs, 24 are teaching but without having completed their dissertations, and 26 dropped out of their programs.

For the 2006-2007 academic years, 47 doctoral students will receive $10,000 scholarships.

The Foundation's investment in this scholarship program exceeds $8.2 million.

To apply for this scholarship, a student must be:

- African-American, Hispanic-American, or Native American;
- a U.S. citizen or a permanent resident of the United States (possess a green card); and
- enrolled, on campus, in a full-time, AACSB accredited, Accounting business doctoral program by September 2006.

Other Activities of the Foundation

The Foundation supports other diversity-related efforts, such as the Consortium for Graduate Studies in Management, the National Association of Black Accountants, the Jackie Robinson Foundation, and A Better Chance. Also, the Foundation has established endowments and annual scholarships to support North Carolina A&T State University and Howard University.

The Foundation has given an endowment of $600,000 to each of these universities and $25,000 in annual scholarship money to each of them as well.

Our Foundation's president, Bernard J. Milano, has also provided leadership to diversity efforts. Mr. Milano serves on President George Bush's Board of Advisors on Historically Black Colleges and Universities, chairman of the HBCU Business Dean's Roundtable Corporate Advisory Board, member of the Congressional Forum's HBCU Summit Steering Committee, chair of the North Carolina A&T State University Business Dean's Executive Advisory Council, and founding member of the Diversity Pipeline Alliance.

CPA Certification

The GAO report indicates: *"One reason for the lack of diversity in key positions in the industry is that relatively few racially ethnic minorities take the CPA exam and thus relatively few minorities are CPAs."*

To address this problem, KPMG provides CPA exam and course reimbursement for both campus recruits and experienced hires. We believe that this commitment to all our employees encourages them to become CPAs, so that they in turn will be able to reach senior management positions.

The campus program has been in effect since January 1, 2004 (prior we had a bonus program) and the experienced hire program was rolled out this winter, January 1, 2006. Both programs are similar and provide reimbursement for the Becker Review Course and exam fees. The campus program allows reimbursement for select university-sponsored programs.

Other Initiatives

Earlier this year, we continued to strengthen diversity within KPMG by forming two new National Networks for African Americans and Latinos. These networks will focus on advancing the careers of our African American and Hispanic professionals by offering networking, personal development, and mentoring opportunities.

Conclusion

KPMG is absolutely committed to increasing the diversity of our partners and employees. We believe a diverse workforce makes KPMG not only a better place to work but also a better client-service organization. We have implemented programs that work toward systemic solutions to the challenge of diversity, specifically increasing the pool of minority professionals qualified for a career in accounting.

Like the accounting profession as a whole, we have a great deal more progress still to make, but we are proud of the contribution to diversity these programs have made. I am living testimony to KMPG's determination to recruit and advance minority professionals, and to the difference it can make to one's life and career.

Thank you for this opportunity to share my views with you today.

TESTIMONY OF
MARC E. LACKRITZ
PRESIDENT
SECURITIES INDUSTRY ASSOCIATION

BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

"DIVERSITY: THE GAO PERSPECTIVE"

JULY 12, 2006

Introduction

Madam Chairwoman and members of the Subcommittee:

I am Marc Lackritz, President of the Securities Industry Association (SIA)[1], and I appreciate the opportunity to testify on SIA's and our member-firms' commitment to diversity and inclusion within the securities industry and the U.S. capital markets.

We commend the Subcommittee for requesting that the General Accountability Office study this important issue, and we are pleased to report that several of SIA's member-firms cooperated with GAO in preparing the report. By sharing their diversity best practices and programs, our firms provided an important perspective on the breadth and depth of diversity activities in the securities industry. We believe this topic is critical to the future of our economy, our markets, our industry, and our investors.

[1] The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. Our primary mission is to build and maintain public trust and confidence in the securities markets. Our members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated $236.7 billion in domestic revenue and an estimated $340 billion in global revenues. (More information about SIA is available at: www.sia.com.)

Beginning in 2005, SIA's Chairmen have made the expansion of our industry's diversity efforts a top strategic goal for SIA. Our aspiration is to ensure that the securities industry looks like America and is an inclusive, multicultural place to work. I am proud of the progress our firms have made to develop diversity initiatives in the workplace and improve their marketing to diverse customers. Our efforts are beginning to pay off as the number and variety of diversity programs in place among our member firms has risen dramatically. I am confident we will soon begin to see positive results from these efforts reflected in statistics. Yet we also recognize that more work needs to be done, and we assure you that we remain deeply committed to our goal of creating a diverse and inclusive workplace and an industry where anyone can succeed on his or her merits.

I will focus my testimony today on several initiatives we have developed to support our member-firms in their efforts to increase inclusion in the workplace. Specifically, I will discuss the results of the biennial survey we conducted in 2005 and highlight some of the most successful programs our firms have implemented. I will also touch briefly on some of the educational and other initiatives we have undertaken to help change the culture on Wall Street.

The Business Case for Diversity: Reaching Our Clients

The face of America is changing rapidly. By the middle of this century, about half of all Americans will be "minorities." African-Americans, Asian-Americans, Hispanic-Americans, and women are just four of the many groups that will make the market increasingly diverse in the coming years. The changing demographic trends deliver a clear message: securities firms must establish and support diversity programs in the workplace, and in the marketplace, if they are to succeed.

A decade ago, SIA member-firms realized that cultural awareness within global capital markets was critical to the industry's competitiveness, and that innovation, diversity, creativity, and resourcefulness were all necessary to maximize growth potential while discovering new markets. As a result, SIA formed a Diversity Committee of senior-level executives to increase industry understanding of the strong business case for building programs to develop multicultural workforces and client bases. The Committee's objective is to help shape an industry that is open to everyone, where employees are limited only by their own potential, clients' unique needs are actively served, and shareholders receive value for their investment.

Industry Survey

SIA conducts an industry-wide diversity study every two years to help our firms meet the challenges and maximize the opportunities of an increasingly diverse workforce and customer base. We began this benchmarking survey[2] – which helps track industry employment of minorities and women and identifies best practices in workforce diversity – in 1999 so we could evaluate our progress over time. We've learned that instead of emphasizing an end goal, the focus should be on the trend lines of progress and rates of change toward that goal. Some of the encouraging results include:

- Women account for 44 percent of the workforce as compared with 37 percent in 2003, which is an optimistic sign that the industry is moving toward parity with the general workforce.
- There has been a steady increase in the representation of people of color employed in the industry (21 percent in 2005 vs. 18 percent in 2003). We attribute much of this to the recent increase in the number of Asian/Pacific Islanders.

[2] The full report is available at http://www.sia.com//hrdiversity/pdf/2005fullDiversityReport.pdf

- Women now represent 19 percent of retail brokers, compared with 16 percent in 2003. People of color now represent nine percent of retail brokers versus eight percent in 2003.
- Nearly one-fourth of senior-level positions and over one-third of mid-level positions and analysts and associates are held by people of color. These data are a positive sign of more inclusive advancement and promotion policies.
- People of color have greater representation in the institutional business area than in the retail business area (this finding is strongest when analyzing trends for women of color.)
- Responding firms report that increased competitiveness in attracting key talent is the number one reason to continue advocating for a diverse and inclusive workplace and that race/ethnicity, gender and sexual orientation are the dimensions of diversity currently receiving the most attention.
- Almost one-half of responding firms indicate using internal employee surveys as the primary vehicle for assessing employee satisfaction.
- Large firms[3] continue to lead the way on diversity with all respondents reporting that they have diversity initiatives in their firms.
- Almost half (47 percent) of participating firms report offering firm-wide career development-focused mentoring programs targeted toward women, people of color, and other diverse populations. This demonstrates an upward trend from 2001 and 2003 when 33 percent and 45 percent, respectively, offered such programs.
- Nearly all respondents (85 percent) have flexible work policies and programs in place. This is a positive sign that employers throughout the industry are utilizing

[3] Defined as 8,000 or more employees.

flexibility to retain valued employees and enhance their performance.

In spite of the many encouraging changes that have occurred over the last decade, we know we must make further inroads and improvements. We are dedicated to doing our best to ensure that equal opportunity is a hallmark of securities industry firms' employment strategies.

Recognizing Outstanding Leadership

SIA's Diversity Committee began offering a "Leadership Award" in 2002 to encourage and recognize innovation in the policies and programs firms use to attract and retain minority employees. This award honors our member-firms' commitment to building strong diversity initiatives and is a showcase for the depth and variety of diversity programs within the securities industry. Deutsche Bank and Lehman Brothers were the 2005 award recipients. Deutsche Bank won for its annual Women on Wall Street® conference, which provides a forum for networking, career development, and sharing business opportunities while promoting a community centered on professional Wall Street women. First launched in 1995, Deutsche Bank's conference highlights the success and achievements of women in financial services and other industries.

Lehman Brothers' award-winning Partnership Solutions Group serves as a centralized contact and relationship management team for the Lehman Brothers Institutional clients that are also firms owned by women and other minorities. PSG creates opportunities with women- and minority-owned financial services businesses of all types, including broker-dealers, hedge funds, private equity firms, commercial banks, real estate firms, as well as asset management firms.

In reviewing other diversity programs, we found several common elements that contribute to a firm's success. These include:

- Support, interest, and active engagement from senior management;

- Delegation of responsibility for diversity to target-strategy teams or dynamic task forces;
- Encouragement of a corporate culture that emphasizes diversity and provides training and education to employees to be sensitive and supportive of this goal;
- Networking – a critical component of the securities industry – to identify, recruit, hire, and retain women and people of color;
- Innovative programs that reach out to communities to hire people while providing support and mentoring throughout a new employee's first few years;
- Targeted recruiting efforts and partnerships with established organizations that support women and minorities (*e.g.*, INROADS, SEO, TOIGO, Black MBA Conference, Hispanic MBA Conference);
- Establishment of associations or networks within the company for various ethnic groups, women, and gays and lesbians.

Notwithstanding the highly competitive nature of our industry, our firms have willingly discussed the challenges they faced in getting their initiatives off the ground. Similarly, they have shared details on the steps they have taken to turn those challenges into successes. All firms stand to benefit from a heightened awareness that the securities industry is indeed an "employer of choice" for women and people of color.

Educational Initiatives

SIA's Diversity Committee has made significant progress on the educational front. In 2005, in cooperation with SIA's Human Resources Management Committee, the Diversity Committee sponsored its first annual diversity/human resources conference and exhibit. Our

2006 conference, *"People Strategies: Creating Competitive Advantage,"* is scheduled for October 10-11 in New York City.

The Diversity Committee also maintains a comprehensive Web site with links to online resources and holds periodic teleconferences that allow human resources and diversity managers to share experiences and suggestions that helped strengthen their own firms' initiatives. Teleconference topics covered in 2006 include *"Creating a Win-Win Supplier Diversity Program" and "Religion and Spirituality in the Workplace: The Next Frontier in Diversity and Inclusion."* Similarly, the Committee launched a Roundtable group that meets periodically to discuss such topics as recruitment, retention, and metrics.

About five years ago, we made diversity part of the core curriculum of the Securities Industry Institute. The Securities Industry Institute – held at the University of Pennsylvania's Wharton School of Business – is the industry's premier development program for industry professionals. All participants must attend a diversity program each of their three years as part of their SII education. Including diversity helps participants develop the necessary skills to become diversity champions within their own firms.

A related educational program – The Stock Market Game – makes a very valuable contribution to the work we are doing. Since its introduction in 1977, this online investment education program has become one of the most widely used classroom tools to teach students about the American economic system and the role of the securities industry in that system. More than half-a-million students in grades 4-12 participate in this engaging investment education program annually.

InvestWrite, a student essay competition program currently in its second year of operation, attracted more than 12,000 submissions. Capitol Hill Challenge, which builds links

between members of Congress and home-district Stock Market Game programs, doubled its number of participating Senators and Representatives. Path to Investing, an educational Web site, has grown to include more than 1,500 pages of content.

Conclusion

SIA and our member-firms are committed to creating a diverse and inclusive workplace where all employees can succeed on their merits. As our client base becomes increasingly diverse, we understand the importance of hiring, training, and retaining a diverse workforce to best meet our clients' needs. Although we have made significant progress in a variety of areas, we know we must do more in the years ahead. We welcome your subcommittee's input on how we may further improve our diversity programs, and we look forward to working with you to achieve that important goal.

Thank you.

Testimony of
Carlos E. Loumiet
Co-Chair, Capital Advocacy Committee
New America Alliance

Before
Subcommittee on Oversight and Investigations
Committee on Financial Services
U.S. House of Representatives

July 12, 2006
"Diversity: The GAO Perspective"

U.S. House Committee on Financial Services Chairman Michael G. Oxley, Ranking Minority Member Barney Frank, Subcommittee Chair Sue W. Kelly, Subcommittee Ranking Minority Member Luis V. Gutierrez and members of the Subcommittee, on behalf of the New America Alliance, an organization of American Latino business leaders focused on the advancement of the American Latino community in the U.S. for the benefit of the United States as a whole, I wish to thank you for the opportunity to appear before you today.

Two years ago this Spring, the New America Alliance suggested that this Subcommittee, which has oversight jurisdiction over most of the entities comprising the U.S. financial services sector, hold hearings on the issue of diversity in the financial services industry. To your credit, and demonstrating that the Members of this Subcommittee, on both sides of the aisle, really believe in the fundamental American concept of equal opportunity for all, the hearing took place in July

2004. The New America Alliance's then Chair, Ana María Fernandez-Haar, was honored by being allowed to testify at that hearing. Following the hearing, we requested that this Subcommittee approach the Government Accountability Office (GAO) to see what information that agency could collect on the status of diversity in the financial services industry. The GAO has now completed its report, entitled, "Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004."

In preparation for our testimony today, we have been given the opportunity to review this report, which we understand has been made public today.

We wish to again commend this Subcommittee and the GAO, for this initial, very important first effort in the form of the GAO report. It is impossible, based solely on anecdotal evidence, to determine to what extent progress has been achieved, and to what extent it remains to be achieved, in an industry as extensive, and as essential to all of us Americans, as the financial services industry. That industry not only holds, invests and manages much of the savings of all of our people, it is also the source of virtually all consumer and commercial credit in our country.

Importance and Business Need of Diversity in the Financial Services Sector

Sociologists have determined through various scientific studies the natural tendency in human beings to subconsciously favor other individuals whose appearance and/or background is like one's own. We are not here to fault that tendency, but neither should it be ignored. To overcome this tendency and to be truly open to others different from ourselves, many (if not most) of us need to make a conscious effort.

Given the importance of the financial services industry to the economic advancement of all persons in our country, we believe it particularly important that the financial services industry reflect to the extent possible the very diverse human community that we are privileged to have in this country. We believe that over time, this will largely happen anyway, both as a matter of demographics and through market forces. The issue before us today is, are there non-coercive ways available to this Subcommittee to accelerate this process, so that the "time" involved to achieve this result can be shortened?

Powerful First Message and Next Steps

We also believe in what the late President Theodore Roosevelt used to call "the bully pulpit," as well as that our national leaders, including this Subcommittee, must periodically mount that pulpit and lead. In this regard, we believe that the hearing held by this Subcommittee in July 2004 and now, as well as the GAO Report, send a powerful first message to the financial services industry that the Honorable Members of this Subcommittee do care that there be equality of opportunity for all in this industry.

There are, of course, many ways for this Committee to continue to manifest its interest in this issue. Some can be extremely informal. Imagine, for example, that the Honorable Members of the House Financial Services Committee, acting individually, decided to systematically take advantage of their frequent meetings with constituents in this industry, or their representatives, to ask about the status of diversity in each constituent's business, and perhaps even request a brief written update on the constituent's efforts, programs and results in this regard. Were this to

become a common approach among many Members of the Committee, a very powerful message would quickly be sent to the entire industry.

Follow-up inquiries

In terms of more formal, congressional action, we would very much like to see various follow-up inquiries on the GAO Report. For example, we would like the GAO to survey leading entities in various sectors of this industry directly, to see what the status of diversity is among these firms, what programs those firms are utilizing to improve diversity, and with what success. We realize that neither this Subcommittee nor the GAO has the power to compel private-sector responses to such surveys, but we believe it highly unlikely that firms approached in this regard by this honorable Subcommittee will decline to respond, and to the extent they do so, their refusal will be known publicly. It would be a great honor for us in the New America Alliance to work with the Committee and the GAO in this enterprise.

Similarly, we would like to see the GAO inquire of the federal regulatory agencies responsible for our nation's financial services industry -- the OCC, the Federal Reserve, the FDIC, the OTS and the SEC -- what the status of diversity is within their own agencies, what programs they have in place to promote diversity, and what the results of those programs have been. While we believe we have adequate federal civil rights legislation in place to promote integration and diversity, we also believe that, as a practical matter, it is difficult for regulators responsible for the implementation of that legislation in the financial services industry to lead the way if their own agencies are not themselves achieving diversity.

Other Significant and Noteworthy Statements from the GAO Report requiring further action and inquiry

There are other follow-up inquiries that come to mind from many noteworthy and somewhat disturbing, if not surprising, statements in the GAO Report. Some examples are:

1. that the financial services industry may not be fully leveraging its "internal pipeline" of minority and women employees for management-level positions (p. 19);

2. that minority- and women-owned businesses generally have difficulty obtaining access to capital in traditional financial markets (p. 4);

3. that the chances for minorities and women of advancing from the professional category into management-level positions in the financial services industry, when compared with white males, are low (p. 20);

4. that minority- and women-owned businesses may face challenges in obtaining commercial bank credit because of the nature of their businesses (p. 23);

5. that given comparable loan applications by African-American and Hispanic-owned firms and white-owned firms, the applications by the African-American and Hispanic-owned firms are more likely to be denied (p. 25); and

6. that the Federal Reserve's Regulation B, implementing the Equal Credit Opportunity Act, may inadvertently be a hindrance to determination of possible discrimination in the non-mortgage lending industry (p. 26).

Conclusion

The New America Alliance commends and thanks Representatives Oxley, Frank, Kelly, Gutierrez and Scott for requesting that the GAO provide an overview on the status of diversity in the financial services industry (p. 1). The New America Alliance would be pleased and stands ready to collaborate on any follow-up inquiries that result from today's hearing.

As you can see, in all of these instances what we are essentially asking this Subcommittee to do is to continue to shine a powerful spotlight on this issue, allowing the innate sense of fairness that is so strong in the American people, together with the market, the press and organizations like ours and the other ones appearing before you today, to take the matter further. Hopefully, as a result, when the GAO looks back on this issue 12 years from now, it will not begin its report at that time, as it did in the most recent one, with the same striking 19 words:

"Between [2006] through [2018], overall diversity at the management level in the financial services industry did not change substantially . . ."

Thank you very much.

United States Government Accountability Office

GAO

Testimony

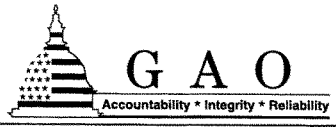
Before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

For Release on Delivery
Expected at 2:00 p.m. EDT
Wednesday, July 12, 2006

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

Statement of Orice M. Williams, Director
Financial Markets and Community Investment



GAO-06-843T

July 12, 2006

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-06-843T, a testimony before the Subcommittee on Oversight and Investigations, Committee on Financial Services, House of Representatives

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

Why GAO Did This Study

A July 2004 congressional hearing raised concerns about the lack of diversity in the financial services industry, particularly in key management positions. Some witnesses noted that these firms (e.g., banks and securities firms) had not made sufficient progress in recruiting minorities and women at the management level. Others raised concerns about the ability of minority-owned businesses to raise debt and equity capital.

At the request of the House Financial Services Committee, GAO was asked to provide a report on overall trends in management-level diversity and diversity initiatives from 1993 through 2004. This testimony discusses that report and focuses on (1) what the available data show about diversity at the management level, (2) the types of initiatives that the financial services industry has taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain capital and initiatives financial institutions have taken to make capital available to these businesses.

For our analysis, we analyzed data from the Equal Employment Opportunity Commission (EEOC); reviewed select studies; and interviewed officials from financial services firms, trade organizations, and federal agencies.

GAO makes no recommendations at this time.

www.gao.gov/cgi-bin/getrpt? GAO-06-843T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov.

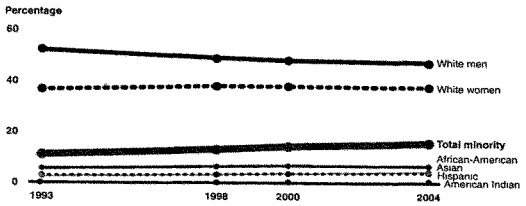
What GAO Found

From 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. EEOC data show that management-level representation by minority women and men overall increased from 11.1 percent to 15.5 percent (see fig. below). Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent.

Financial services firms and trade groups have initiated programs to increase workforce diversity, but these initiatives face challenges. The programs include developing scholarships and internships, partnering with groups that represent minority professionals, and linking managers' compensation with their performance in promoting a diverse workforce. Some firms have developed indicators to measure progress in achieving workforce diversity. Industry officials said that among the challenges these initiatives face are recruiting and retaining minority candidates, as well as gaining the "buy-in" of key employees, such as the middle managers who are often responsible for implementing such programs.

Research reports suggest that minority- and women-owned businesses have difficulty obtaining access to capital for several reasons, such as that these businesses may be concentrated in service industries and lack assets to pledge as collateral. Some studies suggest that lenders may discriminate, but proving such an allegation is complicated by the lack of available data. However, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing existing financial products specifically to minority and women business owners.

Workforce Representation in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data

Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss our work on two important issues: workforce diversity in the financial services industry and access to capital for minority- and women-owned businesses. Two years ago, this subcommittee held a hearing that raised concerns about the lack of diversity in the financial services industry, particularly in key management positions.[1] As you may recall, some witnesses noted that these firms—banks and securities firms, for example—had not made sufficient progress in recruiting minorities and women at the management level. Others expressed concerns about the ability of minority-owned businesses to raise debt and equity capital.

My remarks are based on our report that is being released today, which we prepared at the request of the Chairman and Ranking Minority Member of the full committee, the Chairman and Ranking Minority Member of the Subcommittee on Oversight and Investigations, and Representative David Scott.[2] Specifically, I will discuss (1) what the available data show about diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that the financial services industry and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain capital and initiatives financial institutions have taken to make capital available to these businesses.[3]

For our analysis, we used the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1) data on

[1] *Diversity in the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing Before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong. (2004).

[2] GAO, *Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993–2004*, GAO-06-617 (Washington, D.C.: June 1, 2006).

[3] A minority-owned business is defined by the U.S. Census Bureau as a business in which a minority owns 51 percent or more of the stock or equity in the business. A woman-owned business is defined by Census as a business in which a woman owns 51 percent or more of the stock or equity in the business.

financial services firms with 100 or more employees.[4] We also reviewed publicly available information, including reports, and interviewed officials from a variety of financial services firms, including commercial banks, securities firms, and private equity/venture capital organizations, as well as representatives from industry trade organizations and federal agencies.

In summary:

From 1993 through 2004, overall workforce diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others.[5] EEO-1 data show that management-level representation by minority women and men overall increased from 11.1 percent to 15.5 percent. Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. Representation by white women remained constant at slightly more than one-third during this period, while representation by white men declined from 52.2 percent to 47.2 percent. Depository institutions, such as commercial banks, and insurance companies generally were more diverse at the management level than securities firms. In addition, according to the 2004 EEO-1 data, minorities held 13.5 percent and white women held 32.4 percent of all "officials and managers" positions in the accounting industry.

Although financial services firms and trade groups have initiated programs to increase workforce diversity, these initiatives face challenges that may help explain why overall diversity at the management level has not changed substantially. Officials at financial services firms said that diversity was an important goal and that top leadership was committed to recruiting and retaining minority and women candidates. Some financial services firms have established scholarship and internship programs or partnered with groups that represent minority professionals. Officials from

[4]We used the EEO-1 "officials and managers" job category as the basis for our discussion of management-level diversity within the financial services industry. EEOC defines the job category of "officials and managers" as occupations requiring administrative and managerial personnel, who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operation.

[5]For the purposes of this testimony, we focused the diversity discussion on changes in management-level representation over time by racial/ethnic minority groups, including African-Americans, Asians, Hispanics, and American Indians.

a few firms told us that they had begun linking managers' compensation to their performance in promoting workforce diversity, and some firms had developed indicators (e.g. representation by minorities and women in key positions) to measure progress in achieving workforce diversity. Industry officials said that among the challenges these initiatives face are recruiting and retaining minority candidates, as well as gaining the "buy-in" of key employees, such as the middle managers who are often responsible for implementing such programs.

Research reports and discussions with financial services firms and relevant trade groups suggest that minority- and women-owned businesses generally have difficulty obtaining access to capital in conventional financial markets. A 2004 report by the U.S. Department of Commerce's Minority Business Development Agency (MBDA) stated that minority-owned businesses may have difficulty obtaining capital because they are often concentrated in service industries and lack sufficient assets to pledge as collateral.[6] Some studies suggest that lenders may discriminate in deciding whether to make loans to minority businesses, but proving such an allegation is complicated by the lack of available data. In particular, the Federal Reserve's Regulation B prohibits financial institutions from requiring information on race and gender from applicants for nonmortage credit products.[7] Some federal financial regulators have stated that removing the prohibition would allow them to better monitor and enforce laws prohibiting discrimination in lending. Some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing existing financial products specifically to minority and women business owners.

[6]U.S. Department of Commerce, MBDA, "Expanding Financing Opportunities for Minority Businesses" (2004).

[7]The Federal Reserve's Regulation B implements the Equal Credit Opportunity Act (ECOA). ECOA, 15 U.S.C. §§ 1691-1691f, makes it unlawful for a creditor to discriminate against an applicant in any aspect of a credit transaction on the basis of the applicant's national origin, religion, sex, color, race, age (provided the applicant has the capacity to contract). Racial and gender information can be collected in two very limited circumstances, neither of which results in publicly available data regarding the race/ethnicity or gender of the bank's nonmortgage credit applicants.

Background

We defined the financial services industry to include the following sectors:

- depository credit institutions, which include commercial banks, thrifts (savings and loan associations and savings banks), and credit unions;
- holdings and trusts, which include investment trusts, investment companies, and holding companies;
- nondepository credit institutions, which extend credit in the form of loans, include federally sponsored credit agencies, personal credit institutions, and mortgage bankers and brokers;
- the securities sector, which is made up of a variety of firms and organizations (e.g., broker-dealers) that bring together buyers and sellers of securities and commodities, manage investments, and offer financial advice; and
- the insurance sector, including carriers and insurance agents, which provides protection against financial risks to policyholders in exchange for the payment of premiums.

Additionally, the financial services industry is a major source of employment in the United States. According to the EEO-1 data, the financial services firms we reviewed for this testimony, which have 100 or more staff, employed nearly 3 million people in 2004. Moreover, according to the U.S. Bureau of Labor Statistics, employment in management and professional positions in the financial services industry was expected to grow at a rate of 1.2 percent annually through 2012. Finally, a recent U.S. Census Bureau report based on data from the 2002 Economic Census stated that, between 1997 and 2002, Hispanics in the United States opened new businesses at a rate three times faster than the national average.[8]

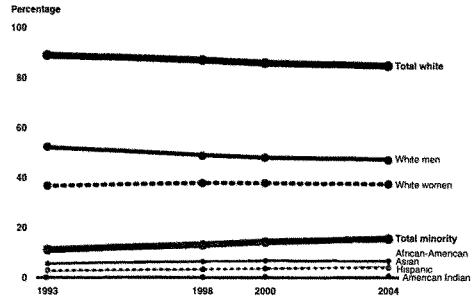
[8]U.S. Census Bureau, *Survey of Business Owners: Hispanic-Owned Firms: 2002 (March 2006).*

Diversity in the Financial Services Industry at the Management Level Did Not Change Substantially between 1993 and 2004

Overall EEO-1 data do not show substantial changes in diversity at the management level and suggest that certain financial sectors are more diverse at this level than others. Figure 1 shows that overall management-level representation by minorities increased from 11.1 percent to 15.5 percent from 1993 through 2004. Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent and American Indians from 0.2 to 0.3 percent. Management-level representation by white women was largely unchanged at slightly more than one-third during the period, while representation by white men declined from 52.2 percent to 47.2 percent.

EEO-1 data may actually overstate representation levels for minorities and white women in the most senior-level positions, such as Chief Executive Officers of large investment firms or commercial banks, because the category that captures these positions—"officials and managers"—covers all management positions. Thus, this category includes lower level positions (e.g., assistant manager of a small bank branch) that may have a higher representation of minorities and women. In 2007, EEOC plans to use a revised form for employers that divides this category into "executive/senior-level officers and managers" and "first/mid-level officials," which could provide a more accurate picture of diversity among senior managers.

Figure 1: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



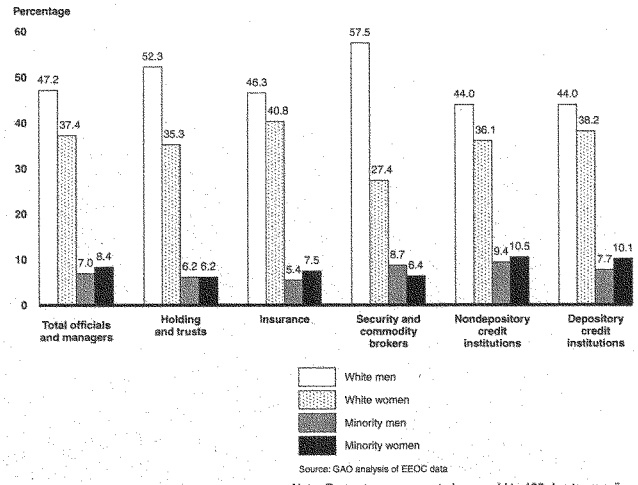
	1993	1998	2000	2004
Total white	88.9%	86.9%	85.7%	84.5%
White men	52.2	49.0	48.0	47.2
White women	36.7	37.9	37.8	37.4
Total minority	11.1%	13.1%	14.3%	15.5%
African-American	5.6	6.4	6.8	6.6
Hispanic	2.8	3.3	3.7	4.0
Asian	2.5	3.2	3.6	4.5
American Indian	.2	.2	.3	.3

Source: GAO analysis of EEOC data

Note: Percentages may not always add to 100 due to rounding.

As shown in figure 2, EEO-1 data also show that the depository and nondepository credit sectors, as well as the insurance sector, were somewhat more diverse at the management level than the securities and holdings and trust sectors. In 2004, minorities held 19.9 percent of management-level positions in nondepository credit institutions, such as mortgage bankers and brokers, but 12.4 percent in holdings and trusts, such as investment companies.

Figure 2: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Sector (2004)



Source: GAO analysis of EEOC data

Note: Percentages may not always add to 100 due to rounding.

You also asked that we collect data on the accounting industry. According to the 2004 EEO-1 data, minorities held 13.5 percent, and white women held 32.4 percent of all "officials and managers" positions in the accounting industry.

Initiatives to Promote Workforce Diversity in the Financial Services Industry Face Challenges

Minorities' rapid growth as a percentage of the overall U.S. population and increased global competition have convinced some financial services firms that workforce diversity is a critical business strategy. Officials from the firms with whom we spoke said that their top leadership was committed to implementing workforce diversity initiatives, but noted that they faced challenges in making such initiatives work. In particular, they cited ongoing difficulties in recruiting and retaining minority candidates and in gaining employees' "buy-in" for diversity initiatives, especially at the middle management level.

Financial Services Firms Have Implemented a Variety of Diversity Initiatives

Since the mid-1990s, some financial services firms have implemented a variety of initiatives designed to recruit and retain minority and women candidates to fill key positions. Officials from several banks said that they had developed scholarship and internship programs to encourage minority students to consider careers in banking. Some firms and trade organizations have also developed partnerships with groups that represent minority professionals and with local communities to recruit candidates through events such as conferences and career fairs. To help retain minorities and women, firms have established employee networks, mentoring programs, diversity training, and leadership and career development programs.

Officials from some financial services firms we contacted, as well as industry studies, noted that that financial services firms' senior managers were involved in diversity initiatives. For example, according to an official from an investment bank, the head of the firm meets with every minority and female senior executive to discuss his or her career development. Officials from a few commercial banks said that the banks had established diversity "councils" of senior leaders to set the vision, strategy, and direction of diversity initiatives. A 2005 industry trade group study and some officials also noted that some companies were linking managers' compensation with their progress in hiring, promoting, and retaining minority and women employees.[9]

A few firms have also developed performance indicators to measure progress in achieving diversity goals. These indicators include workforce representation, turnover, promotion of minority and women employees, and employee satisfaction survey responses. Officials from several financial services firms stated that measuring the results of diversity efforts over time was critical to the credibility of the initiatives and to justifying the investment in the resources such initiatives demanded.

[9]Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005).

Several Challenges May Have Affected the Success of Workforce Diversity Initiatives in the Financial Services Industry

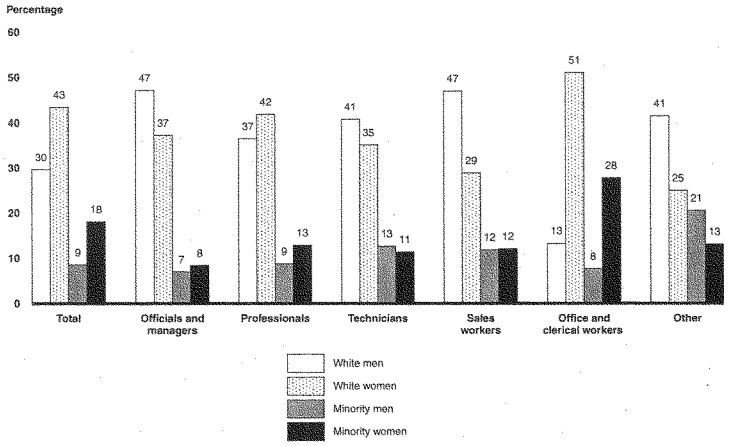
The financial services firms and trade organizations we contacted that had launched diversity initiatives cited a variety of challenges that may have limited the success of their efforts. First, officials said that the industry faced ongoing challenges in recruiting minority and women candidates. According to industry officials, the industry lacks a critical mass of minority employees, especially at the senior levels, to serve as role models to attract and retain other minorities. Available data on minority students enrolled in Master of Business Administration (MBA) programs suggest that the pool of minorities, a source that may feed the "pipeline" for management-level positions within the financial services industry and other industries, is relatively small.[10] In 2000, minorities accounted for 19 percent of all students enrolled in MBA programs in accredited U.S. schools; in 2004, that student population had risen to 23 percent. Financial services firms compete for this relatively small pool not only with one another but also with firms from other industries.

Evidence suggests, however, that the financial services industry may not be fully leveraging its "internal" pipeline of minority and women employees for management-level positions. As shown in figure 3, there are job categories within the financial services industry that generally have more overall workforce diversity than the "official and managers" category, particularly among minorities. For example, minorities held 22 percent of "professional" positions in the industry in 2004 as compared with 15 percent of "officials and managers" positions. According to a recent EEOC report, the professional category represented a possible pipeline of available management-level candidates.[11] The EEOC states that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions is lower when compared with white males.

[10]Association to Advance Collegiate Schools of Business.

[11]See EEOC, *Diversity in the Finance Industry* (April 2006).

Figure 3: EEO-1 Data (Percentage) on Workforce Diversity in the Financial Services Industry by Position, Gender, and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Many officials from financial services firms and industry trade groups agreed that retaining minority and women employees represented one of the biggest challenges to promoting workforce diversity. One reason they cited is that the industry, as described previously, lacks a critical mass of minority men and women, particularly in senior-level positions, to serve as role models. Without a critical mass, the officials said that minority or women employees may lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers. For example, an official from a commercial bank we contacted said he learned from staff interviews that African-Americans believed that they were not considered for promotion as often as others partly because they were excluded from informal employee networks needed for promotion or to promote advancement.

In addition, some industry officials said that achieving "buy-in" from key employees such as middle managers could be challenging. Middle managers are particularly important to diversify institutions because they are often responsible for implementing key aspects of diversity initiatives and for explaining them to other employees. However, the officials said that middle managers may be focused on other aspects of their responsibilities, such as meeting financial performance targets, rather than the importance of implementing the organization's diversity initiatives. Additionally, the officials said that implementing diversity initiatives represents a considerable cultural and organizational change for many middle managers and employees at all levels. An official from an investment bank told us that the bank has been reaching out to middle managers who oversee minority and women employees by, for example, instituting an "inclusive manager program."

Minority- and Women-Owned Businesses Often Face Difficulties in Obtaining Capital

Studies and reports, as well as interviews we conducted, suggest that minority- and women-owned businesses face challenges obtaining bank credit in conventional financial markets for several reasons, including business characteristics (e.g., small firm size) and the possibility that lenders may discriminate. Some business characteristics may also limit the ability of minority- and women-owned businesses to raise equity capital.[12] However, some financial institutions, primarily commercial banks, have recently begun marketing their loan products and offering technical assistance to minority- and women-owned businesses.

[12]Equity capital can be raised from several sources including venture capital funds, private stock sales, or issuing stock in public financial markets.

Business Characteristics May Affect Minority- and Women-Owned Businesses' Access to Commercial Loans and Equity Capital

Reports and other research, as well as interviews we conducted with commercial banks, including minority-owned banks and trade groups representing minority- and women-owned businesses, highlight some of the challenges these businesses may face in obtaining commercial bank credit. For example, many minority-owned businesses are in the retail and service sectors and may have few assets to offer as collateral.[13] Further, many of these businesses are relatively young and may not have an established credit history.[14] Many also are relatively small and often lack technical expertise.[15]

On the other hand, some studies suggest that lenders may discriminate against minority-owned businesses. We reviewed one study that found given comparable loan applications—by African-American and Hispanic-owned firms and white-owned firms—the applications by the African-American and Hispanic-owned firms were more likely to be denied.[16] However, assessing such alleged discrimination may be complicated by limitations in data availability. The Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortgage credit products.[17] Although the regulation was initially implemented to prevent such information from being used to discriminate against certain groups, some federal financial regulators have stated that

[13]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004). U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005).

[14]U.S. Census Bureau, "2002 Survey of Business Owners, Women-Owned Firms" (Jan. 26, 2006).

[15]U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Small Business Administration, Office of Advocacy, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance* (September 2003). All small businesses may face challenges in obtaining credit due to the risks and costs involved in such lending. See Board of Governors of the Federal Reserve System, *Report to the Congress on the Availability of Credit to Small Businesses* (September 2002).

[16]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74.

[17]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f.

removing the prohibition would allow them to better monitor and enforce laws prohibiting discrimination in lending. Likewise, at least one bank official noted that Regulation B limited the bank's ability to measure the success of its efforts to provide financial services to minority groups. We note that under the Home Mortgage Disclosure Act (HMDA), lenders are required to collect and report data on racial and gender characteristics of applicants for mortgage loans. Researchers have used the HMDA data to assess potential mortgage lending discrimination by financial institutions.

Research also suggests that some business characteristics (e.g., limited technical expertise) that may affect the ability of many minority- and women-owned businesses to obtain bank credit, as discussed earlier, may also limit their capacity to raise equity capital.[18] Although venture capital firms may not have traditionally invested in minority-owned businesses, a recent study suggests that firms that do focus on such entities can earn rates of return comparable to those earned on mainstream private equity investments.[19]

Some Commercial Banks Have Developed Programs for Minority- and Women-Owned Businesses

Officials from some financial institutions we contacted, primarily large commercial banks, told us that they are reaching out to minority- and women-owned businesses by marketing their financial products to them (including in different languages), establishing partnerships with relevant trade and community organizations, and providing technical assistance. For example, officials from some banks said that they educate potential business clients by providing technical assistance through financial workshops and seminars on various issues, such as developing a business plans and obtaining commercial bank loans. While these efforts take time and resources, the officials we spoke with indicated that their institutions recognize the benefits of tapping this growing segment of the market.

Madam Chairwoman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Subcommittee may have.

[18]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005). Brush, C. G.; Carter, N.; Gatewood, E.; Greene P. G.; and Hart, M. M. *Gatekeepers of Venture Growth: A Diana Project Report on the Role and Participation of Women in the Venture Capital Industry* (Oct. 20, 2001).

[19] Bates, Timothy and William Bradford (2003). "Minorities and Venture Capital, A New Wave in American Business." Kauffman Foundation.

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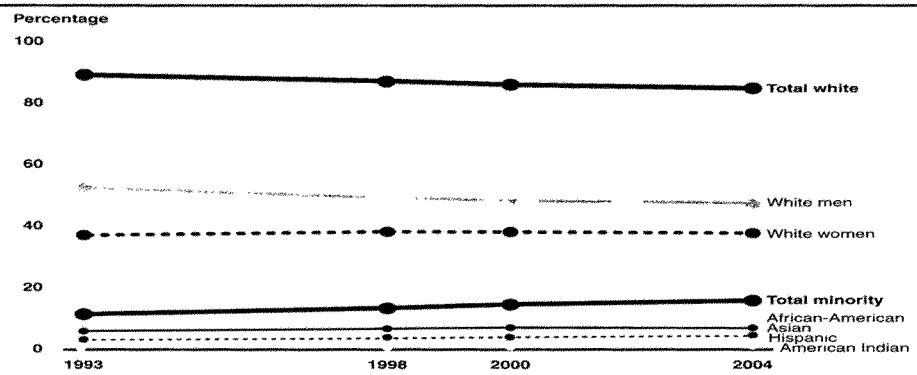
Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



	1993	1998	2000	2004
Total white	**88.9 %**	**86.9 %**	**85.7 %**	**84.5 %**
White men	52.2	49.0	48.0	47.2
White women	36.7	37.9	37.8	37.4
Total minority	**11.1 %**	**13.1 %**	**14.3 %**	**15.5 %**
African-American	5.6	6.4	6.8	6.6
Hispanic	2.8	3.3	3.7	4.0
Asian	2.5	3.2	3.6	4.5
American Indian	.2	.2	.3	.3

Source GAO analysis of EEOC data.

United States Government Accountability Office

GAO

Report to Congressional Requesters

June 2006

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

GAO-06-617

GAO
Accountability-Integrity-Reliability

Highlights

Highlights of GAO-06-617, a report to congressional requesters

Why GAO Did This Study

During a hearing in 2004 on the financial services industry, congressional members and witnesses expressed concern about the industry's lack of workforce diversity, particularly in key management-level positions. Witnesses stated that financial services firms (e.g., banks and securities firms) had not made sufficient progress in recruiting and promoting minority and women candidates for management-level positions. Concerns were also raised about the ability of minority-owned businesses to raise capital (i.e., debt or equity capital).

GAO was asked to provide an overview on the status of diversity in the financial services industry. This report discusses (1) what available data show regarding diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that financial firms and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have taken to make capital available to these businesses.

GAO makes no recommendations in this report.

www.gao.gov/cgi-bin/getrpt?GAO-06-617.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov.

June 2006

FINANCIAL SERVICES INDUSTRY

Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004

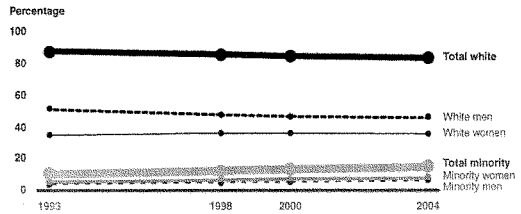
What GAO Found

Between 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but increases in representation varied by racial/ethnic minority group. During that period, Equal Employment Opportunity Commission (EEOC) data show that management-level representation by minority men and women increased from 11.1 percent to 15.5 percent (see figure below). Specifically, African-Americans increased their representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. The EEOC data also show that representation by white women remained constant at slightly more than one-third whereas representation by white men declined from 52.2 percent to 47.2 percent.

Financial services firms and trade groups GAO contacted stated that they have initiated programs to increase workforce diversity, including in management-level positions, but these initiatives face challenges. The programs include developing scholarships and internships, establishing programs to foster employee retention and development, and linking managers' compensation with their performance in promoting a diverse workforce. However, firm officials said that they still face challenges in recruiting and retaining minority candidates. Some officials also said that gaining employees' "buy-in" to diversity programs was a challenge, particularly among middle managers who were often responsible for implementing key aspects of such programs.

Research reports suggest that minority- and women-owned businesses have generally faced difficulties in obtaining access to capital for several reasons such as these businesses may be concentrated in service industries and lack assets to pledge as collateral. Other studies suggest that lenders may discriminate in providing credit, but assessing lending discrimination may be complicated by limited data availability. However, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing existing financial products specifically to minority and women business owners.

Workforce Representation in the Financial Services Industry at the Management Level (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data.

United States Government Accountability Office

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Abbreviations

AACSB	Association to Advance Collegiate Schools of Business
ABA	American Bankers Association
ACS	American Community Survey
AICPA	American Institute of Certified Public Accountants
CPA	certified public accountant
ECOA	Equal Credit Opportunity Act
EEO-1 data	Employer Information Report data
EEOC	Equal Employment Opportunity Commission
GMAC®	Graduate Management Admission Council®
HMDA	Home Mortgage Disclosure Act
IIABA	Independent Insurance Agents and Brokers of America
MBA	Masters of Business Administration
NAICS	North American Industry Classification System
PUMS	Public Use Microdata Sample
SBA	Small Business Administration
SBO	Survey of Business Owners
SIA	Securities Industry Association
SIC	Standard Industrial Classification

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United States Government Accountability Office
Washington, DC 20548

June 1, 2006

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Sue W. Kelly
Chairwoman
The Honorable Luis V. Gutierrez
Ranking Minority Member
Subcommittee on Oversight and Investigations
Committee on Financial Services
House of Representatives

The Honorable David Scott
House of Representatives

At a July 2004 hearing before the Subcommittee on Oversight and Investigations of the House Committee on Financial Services, some members and witnesses expressed concern about the financial services industry's lack of workforce diversity, particularly in key management-level positions.[1] Witnesses stated that financial services firms (e.g., banks and securities firms) had not made sufficient progress in recruiting minority and women candidates for management-level positions. Concerns were also raised about the ability of minority-owned businesses to raise debt and equity capital.

This report follows up on the issues raised in the subcommittee hearing and responds to your February 2005 request that we provide an overview on the status of diversity in the financial services industry. Specifically, our objectives were to discuss (1) what the available data show regarding diversity at the management level in the financial services industry from 1993 through 2004, (2) the types of initiatives that the

[1] *Diversity In the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing Before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong. (2004).

financial services industry and related organizations have taken to promote workforce diversity and the challenges involved, and (3) the ability of minority- and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have taken to make capital available to these businesses. You also asked that we include information about the accounting industry, which we address separately in this report. In an earlier report, we defined workforce diversity as ways in which people in a workforce are similar and different from one another including background, education, and language skills.[2] For the purposes of this report, we focused the diversity discussion on changes in management-level representation over time by racial/ethnic minority groups (for both women and men), including African-Americans, Asian/Pacific Islanders (Asians), Hispanics or Latinos (Hispanics), and American Indians/Alaskan Natives (American Indians). We also discussed changes in management-level representation by whites (both women and men) over time. Finally, we defined raising capital as debt or equity capital obtained in conventional financial markets, such as from commercial banks or venture capital funds.

To address objective one, we primarily analyzed the Equal Employment Opportunity Commission's (EEOC) Employer Information Report (EEO-1) data for the financial services industry for employers with 100 or more employees for the years 1993, 1998, 2000, and 2004.[3] The EEO-1 data provide information on racial/ethnic and gender representation for various occupations within a broad range of industries, including financial services. We used the EEO-1 "officials and managers" job category as the basis for our discussion of management-level diversity within the financial services industry, as well as for its various sectors, such as banking and securities firms. EEOC defines the job category of "officials and managers" as occupations requiring administrative and managerial personnel, who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operation. First-line supervisors who engage in the same activities as the employees they supervise are reported in the same job category as the

[2]GAO, *Diversity Management: Expert-Identified Leading Practices and Agency Examples*, GAO-05-90 (Washington, D.C.: Jan. 14, 2005).

[3]Generally, private employers with fewer than 100 employees and certain federal contractors who employ fewer than 50 employees are not required to submit EEO-1 reports to EEOC. Although the EEO-1 data do not include these smaller firms, the data do allow for the characterization of workforce diversity for firms with 100 or more employees due to EEOC's annual reporting requirement.

employees they supervise rather than in the "officials and managers" category. To address objectives two and three, we collected publicly available information and interviewed officials from a variety of financial services firms, including commercial banks, securities firms, and private equity/venture capital organizations. We also interviewed representatives from industry trade organizations, such as the American Bankers Association (ABA); the Securities Industry Association (SIA); Mortgage Bankers Association (Association); and the Independent Insurance Agents and Brokers of America (IIABA); federal agencies, including EEOC; the U.S. Department of Commerce's Minority Business Development Administration (MBDA); the Small Business Administration (SBA); and federal bank regulators; academics; and organizations that represent minority- and women-owned businesses, such as the U.S. Hispanic Chamber of Commerce and the National Association of Women Business Owners. We also reviewed available government and industry studies that address workforce diversity in the financial services industry and the ability of minority- and women-owned businesses to obtain access to capital.

We conducted our work from July 2005 to May 2006 in Washington, D.C., and New York City in accordance with generally accepted government auditing standards. Appendix I describes the objectives, scope, and methodology of our review in more detail. At your request, appendix II discusses overall statistics on workforce diversity in the financial services industry, and appendix III discusses workforce diversity in the accounting industry.

Results in Brief

From 1993 through 2004, overall diversity at the management level in the financial services industry did not change substantially, but some racial/ethnic minority groups experienced more change in representation than others. During that period, EEO-1 data show that management-level representation by minority women and men overall increased from 11.1 percent of all industry management-level positions to 15.5 percent. Specifically, African-Americans increased their management-level representation from 5.6 percent to 6.6 percent, Asians from 2.5 percent to 4.5 percent, Hispanics from 2.8 percent to 4.0 percent, and American Indians from 0.2 percent to 0.3 percent. Representation by white women remained constant at slightly more than one-third whereas representation by white men declined from 52.2 percent to 47.2 percent (overall white management-level representation declined from 88.9 percent in 1993 to 84.5 percent in 2004). Additionally, the EEO-1 data indicate that, within the financial services industry, certain sectors have a somewhat more diverse

management-level workforce than others. For example, the EEO-1 data show that depository institutions, such as commercial banks, and insurance companies generally have a higher degree of representation by minorities or white women at the management level than securities firms.

Although financial services firms and trade groups have initiated programs to increase workforce diversity, including in management-level positions, these initiatives face challenges that may help explain why overall diversity at the management level did not change substantially from 1993 through 2004. According to officials from financial services firms we spoke with, diversity is an important goal, and their companies' top leadership is committed to implementing programs to recruit and retain minority and women candidates. For example, to develop a pool of minority candidates, financial services firms have established scholarship and internship programs or partnered with groups that represent minority professionals, such as the National Black Master of Business Administration Association. Additionally, officials from a few firms told us that in the last few years they have been linking managers' compensation with their performance in promoting workforce diversity. Moreover, some firms have developed performance indicators (e.g., representation by minorities and women in key positions) to measure their progress in achieving workforce diversity. However, financial services firm officials said that they still face challenges in recruiting and retaining minority candidates. Some firm officials also said that gaining employees' "buy-in" to diversity programs was a challenge, particularly among middle managers who were often responsible for implementing key aspects of such programs.

Research reports and our discussions with financial services firms and relevant trade groups suggest that minority- and women-owned businesses generally have difficulty obtaining access to capital in conventional financial markets for several reasons. A 2004 report by the MBDA stated that minority-owned businesses may have difficulty in obtaining capital because they are often concentrated in service industries and lack sufficient assets to pledge as collateral to obtain financing or because many such businesses lack an established record of creditworthiness.[4] Other studies suggest that lenders may discriminate in deciding whether to make loans to minority-owned businesses. However, assessing lending discrimination against minority- and women-owned businesses may be

[4]U.S. Department of Commerce, Minority Business Development Agency, "Expanding Financing Opportunities for Minority Businesses" (2004).

complicated by limited data availability. In particular, the Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortage credit products.[5] Federal financial regulators and others have stated that Regulation B limits their capacity to monitor potential business lending discrimination. While minority- and women-owned businesses may have faced difficulties in obtaining capital from conventional sources over the years, some financial institutions, primarily commercial banks, said that they have developed strategies to serve minority- and women-owned businesses. These strategies include marketing financial products specifically to minority- and women-owned businesses, although it does not appear that these financial institutions actually changed their general underwriting standards for such businesses. In addition, some financial institutions have established programs to provide technical assistance (e.g., assistance in developing business plans) to minority-owned and women-owned businesses so that these firms are better positioned to obtain capital from conventional sources.

This report does not contain recommendations. We requested comments on a draft of this report from the Chair, U.S. Equal Employment Opportunity Commission (EEOC). EEOC provided technical comments, which we incorporated as appropriate. We also obtained comments from officials at selected industry trade associations, federal agencies, and organizations that examine access to capital issues on selected excerpts of a draft of this report. We have incorporated their comments as appropriate.

Background

This section provides brief descriptions of the financial services industry and its component sectors, the changing demographic characteristics of the United States, and diversity management.

Overview of the Financial Services Industry

The financial services industry plays a key role in the U.S. economy by, among other things, providing vehicles, such as insured deposits,

[5]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f, makes it unlawful for a creditor to discriminate against an applicant in any aspect of a credit transaction on the basis of the applicant's national origin, religion, sex, color, race, age (provided the applicant has the capacity to contract). Racial and gender information can be collected in two very limited circumstances, neither of which results in publicly available data regarding the race/ethnicity or gender of the bank's nonmortgage credit applicants.

providing credit to individuals and businesses, and providing protection against certain financial risks. We defined the financial services industry to include the following sectors:

- depository credit institutions, which is the largest sector, include commercial banks, thrifts (savings and loan associations and savings banks), and credit unions;
- holdings and trusts, which include investment trusts, investment companies, and holding companies;
- nondepository credit institutions, which extend credit in the form of loans, but are not engaged in deposit banking, include federally sponsored credit agencies, personal credit institutions, and mortgage bankers and brokers;
- the securities industry, which is made up of a variety of firms and organizations (e.g., broker-dealers) that bring together buyers and sellers of securities and commodities, manage investments, and offer financial advice; and
- the insurance industry, including carriers and insurance agents, which provides protection against financial risks to policyholders in exchange for the payment of premiums.

Additionally, the financial services industry is a major source of employment in the United States. The financial services firms we reviewed for this study, which have 100 or more staff, employed nearly 3 million people in 2004, according to the EEO-1 data. According to the U.S. Bureau of Labor Statistics, employment growth in management and professional positions in the financial services industry was expected to grow at a rate of 1.2 percent annually through 2012.

Changing U.S. Demographic Characteristics and Definition of Diversity Management

According to the U.S. Census Bureau, the U.S. population is becoming more diverse by race and ethnicity.[6] In 2001, Census projected that the non-Hispanic, white share of the U.S. population would fall from 75.7 percent in 1990 to 52.5 percent in 2050, with a similar increase from the minority population during the same period. Census further projected that the largest increases would be in the Hispanic and Asian populations. According to the Census Bureau's *2004 American Community Survey*

[6]See U.S. Census Bureau, *National Population Projections* (January 2001).

results, Hispanics are now the second largest racial/ethic group after whites.[7] The rapid growth of minorities in the Unites States may also influence its economic activities. For example, according to Census, the number of firms owned by minorities and women continues to grow faster than the number of other firms. In particular, a recent Census report based on data from the *2002 Economic Census* stated that, between 1997 and 2002, Hispanics in the United States opened new businesses at a rate three times faster than the national average.[8]

As we stated in a 2005 report, the composition of the U.S. workforce has become increasingly diverse, and many organizations are implementing diversity management initiatives.[9] Diversity management is a process intended to create and maintain a positive work environment that values individuals' similarities and differences, so that all can reach their potential and maximize their contributions to an organization's strategic goals and objectives. On the basis of a literature review and discussions with experts, we identified nine leading diversity management principles: (1) top leadership commitment, (2) diversity as part of an organization's strategic plan, (3) diversity linked to performance, (4) measurement, (5) accountability, (6) succession planning, (7) recruitment, (8) employee involvement, and (9) diversity training.

Diversity in the Financial Services Industry At the Management Level Did Not Change Substantially

EEO-1 data indicate that overall diversity among officials and managers within the financial services industry did not change substantially from 1993 through 2004, but that changes by racial/ethnic group varied. The EEO-1 data also show that certain financial sectors, such as depositories, including commercial banks, are somewhat more diverse at the management level than others, including securities firms. Additionally, EEO-1 data do not show material differences in management-level diversity based on the size of individual firms within the financial services industry.

[7]U.S. Census Bureau, *American Community Survey* (2004).

[8]U.S. Census Bureau, *Survey of Business Owners: Hispanic-Owned Firms: 2002* (March 2006).

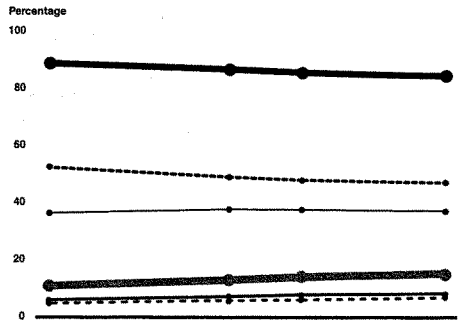
[9]GAO-05-90.

Overview of Management-Level Diversity

Figure 1 shows the representation of minorities and whites at the management level within the financial services industry in 1993, 1998, 2000, and 2004 from EEO-1 data.[10] Management-level representation by minorities increased from 11.1 percent to 15.5 percent during the period, while representation by whites declined correspondingly from 88.9 percent to 84.5 percent. Management-level representation by white men declined from 52.2 percent to 47.2 percent during the period while the percentage of management positions held by white women was largely unchanged at slightly more than one-third.

[10]Our review did not attempt to define appropriate benchmarks for assessing the extent of management level diversity within the financial services industry and, instead, focused on changes in representation over time. While some analyses compare minority or gender representation in job categories or industries with general population statistics, such studies have limitations. For example, such analyses do not account for the educational attainment, age, or experience requirements, among many others, that may be necessary for particular positions, including management-level positions within the financial services industry. Further, we did not identify a feasible means to comprehensively adjust available population or labor force data based on the qualification requirements (e.g., education and experience) for management-level positions in the financial services industry due to the large number of such positions and their related qualification requirements. Such adjustments would have to be made to determine the relevant civilian labor force against which to assess the management-level diversity with the financial services industry. However, the report does discuss some potential management requirements, such as holding a Masters of Business Administration degree.

Figure 1: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level (1993, 1998, 2000, and 2004)



	1993	1998	2000	2004
Total white	**88.9%**	**86.9%**	**85.7%**	**84.5%**
White men	52.2	49.0	48.0	47.2
White women	36.7	37.9	37.8	37.4
Total minority	**11.1%**	**13.1%**	**14.3%**	**15.5%**
Minority men	4.9	5.8	6.3	7.0
Minority women	6.2	7.3	8.0	8.4

Source: GAO analysis of EEOC data.

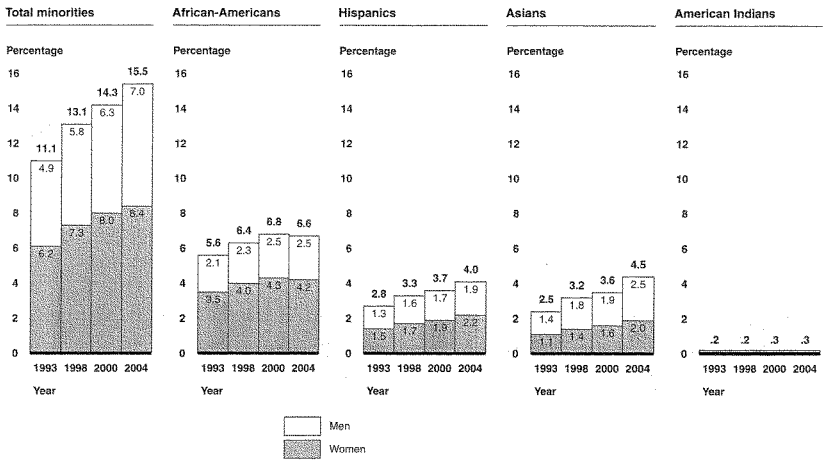
Note: Percentages may not always add to 100 due to rounding.

Existing EEO-1 data may actually overstate representation levels for minorities and white women in the most senior-level positions because the "officials and managers" category includes lower- and mid-level management positions that may have higher representations of minorities and white women. According to an EEOC official we spoke with, examples for "officials and managers" would range from the Chief Executive Officer from a major investment bank to an Assistant Branch Manager of a small regional bank. A revised EEO-1 form for employers that becomes effective with the 2007 reporting year divides the category of "officials and managers" into two hierarchical sub-categories based on responsibility and influence within the organization: "executive/senior level officials and managers" and "first/mid-level officials." According to a

trade association that commented on the revised EEO-1 form, collecting information about officials and managers in this manner will enable EEO-1 to more accurately report on the discriminatory artificial barriers (the "glass ceiling") that hinder the advancement of minorities and white women to more senior-level positions.

Figure 2 provides EEO-1 data for individual minority groups and illustrates their trends in representation at the management level, which varied by group. African-American representation increased from 5.6 percent in 1993 to 6.8 percent in 2000 but declined to 6.6 percent in 2004. Representation by Hispanics and Asians also increased, with both groups representing 4 percent or more of industry officers and managers by 2004. Representation by American Indians remained well under 1 percent of all management-level positions.

Figure 2: EEO-1 Data on Trends in Workforce Diversity in the Financial Services Industry at the Management Level by Racial/Ethnic Group and Gender (1993, 1998, 2000, and 2004)



Source: GAO analysis of EEOC data.

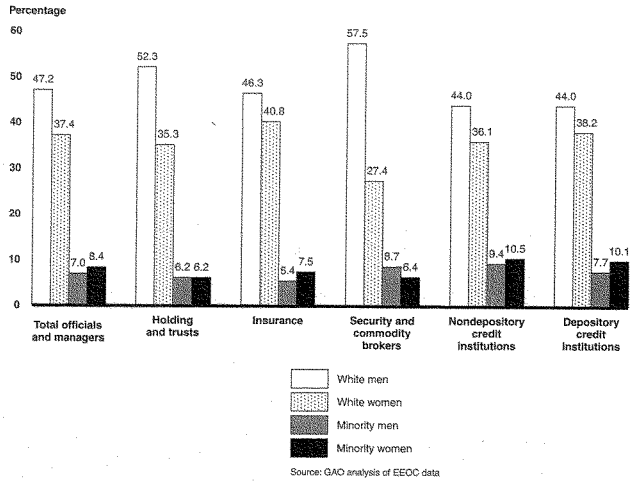
Note: Percentages may not always add exactly due to rounding.

Certain Financial Sectors Are Somewhat More Diverse Than Others, but Diversity Does Not Vary by Firm Size

EEO-1 data show that the depository and nondepository credit sectors, as well as the insurance sector, were somewhat more diverse in specific categories at the management level than the securities and holdings and trust sectors (see fig. 3). For example, in 2004, the percentage of management-level positions held by minorities ranged from a high of 19.9 percent for nondepository credit institutions (e.g., mortgage bankers and brokers) to a low of 12.4 percent for holdings and trusts (e.g., investment companies). The share of positions held by white women varied from a high of 40.8 percent in the insurance sector to a low of 27.4 percent among securities firms. The percentage of white men in management-level positions ranged from a high of 57.5 percent in the securities sector to a low of 44.0 percent in both the depository (e.g., commercial banks) and nondepository credit sectors. Consistent with the EEOC data, a 2005 SIA

study we reviewed found limited diversity among key positions in the securities sector.[11]

Figure 3: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Sector (2004)



Source: GAO analysis of EEOC data

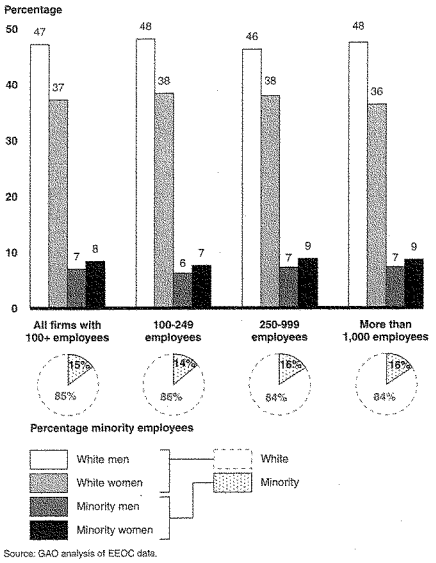
Note: Percentages may not always add to 100 due to rounding.

EEO-1 data also show that the representation of minorities and whites at the management level in financial services firms generally does not vary by firm size (see fig. 4). Specifically, we did not find a material difference in the diversity of those in management-level positions among firms with 100 to 249 employees, 250 to 999 employees, and more than 1,000 employees.

[11]See Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005). The study also found that total representation of minorities and women increased between 2001 and 2005.

There were some variations across financial sectors by size.[12] However, we note that SIA's 2005 study of securities firms did find variation in diversity by firm size for a variety of positions within the securities sector.[13]

Figure 4: EEO-1 Data on Workforce Diversity in the Financial Services Industry at the Management Level by Firm Size (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

[12]For example, for the holdings and trust sector, the share of positions held by white women are higher in firms with more than 1,000 employees than smaller firms.

[13]SIA (2005). Unlike our analysis, the study of 48 securities firms included positions such as assistants, analysts and associates, mid-level positions, senior-level positions, retail brokers, and institutional sales staff.

Initiatives to Promote Workforce Diversity in the Financial Services Industry Face Challenges

Officials from financial services firms and industry trade associations we contacted stated that the rapid growth of minorities as a percentage of the overall U.S. population and increased global competition have convinced their organizations that workforce diversity is a critical business strategy. Financial firm officials we spoke with said that their top leadership was committed to implementing a variety of workforce diversity programs to help enable their organizations to take advantage of the full range of available talent to fill critical positions and to maintain their firms' competitive position. However, officials from financial services firms and trade associations also described the challenges they faced in implementing these initiatives, such as ongoing difficulties in recruiting and retaining minority candidates and in gaining commitment from employees to support diversity initiatives, especially at the middle management level.

Financial Services Firms Have Implemented a Variety of Diversity Initiatives

Over the past decade, the financial services firms we contacted have implemented a variety of initiatives to increase workforce diversity, including programs designed to recruit and retain minority and women candidates to fill key positions. Some bank officials said that they had developed scholarship and internship programs to encourage minority high school and college students to consider careers in banking with the goal of increasing the diversity of future applicant pools. Some firms have established formal relationships with colleges and Masters of Business Administration (MBA) programs to recruit minority students from these institutions. Some firms and trade organizations have also developed partnerships with groups that represent minority professionals, such as the National Black MBA Association and the National Society of Hispanic MBAs, as well as with local communities to recruit candidates, using events such as conferences and career fairs. Officials from other firms said that the goal of partnerships was to build long-term relationships with professional associations and communities and to increase the visibility of financial services firms among potential employees.

Officials from financial services firms also said that they had developed programs to foster the retention and professional growth of minority and women employees. Specifically, these firms have

- encouraged the establishment of employee networks. For example, a commercial bank official told us that, since 2003, the company had established 22 different employee networks that enabled employees from various backgrounds to meet each other, share ideas, and create informal mentoring opportunities.

- established mentoring programs. For example, an official from another commercial bank told us that the company had a Web-based program that allowed employees of all backgrounds to connect with one another and to find potential mentors.

- instituted diversity training programs. Officials from financial services firms said that these training programs increase employees' sensitivity to and awareness of workforce diversity issues and helped staff deal effectively with colleagues from different backgrounds. One commercial bank we contacted requires its managers to take a 3- to 5-day training course on dealing with a diverse workforce. The training stressed the concept of workforce diversity and provided a forum in which employees spoke about their differences through role-playing modules. The bank has also developed a diversity tool kit and certification program as part of the training.

- established leadership and career development programs. For example, an official from an investment bank told us that the head of the firm would meet with every minority and woman senior executive to discuss his or her career development. For lower-level individuals, the investment bank official said that the organization had created a career development committee to serve as a forum for discussions on career advancement.

Officials from some financial services firms we contacted as well as industry studies noted that that financial services firms' senior managers were involved in diversity initiatives. For example, SIA's 2005 study on workforce diversity in the securities industry found that almost half of the 48 securities firms surveyed had full-time senior managers dedicated to diversity initiatives. According to a report from an executive membership organization, an investment bank had developed a program that involved lower-level employees from diverse backgrounds, along with their senior managers, to develop diversity initiatives. Moreover, officials from a few commercial banks that we interviewed said that the banks had established diversity "councils" of senior leaders to set the vision, strategy, and direction of diversity initiatives. The 2005 SIA study and a few of the firm officials we spoke with also suggested that some companies have instituted programs that link managers' compensation with progress made toward promoting workforce diversity. Officials from one investment bank said that managers of each business unit reported directly to the company's Chief Executive Officer who determined their bonuses in part based on the unit's progress in hiring, promoting, and retaining minority and women employees.

According to some officials from financial services firms, their firms have also developed performance indicators to measure progress in achieving diversity goals. These indicators include workforce representation, turnover, promotion of minority and women employees, and internal employee satisfaction survey responses. An official from a commercial bank said that the company monitored the number of job openings, the number of minority and women candidates who applied for each position, the number of such candidates who interviewed for open positions, and the number hired. In addition, a few officials from financial services firms told us that they had developed additional indicators such as promotion rates for minorities and whites and compensation equity across ranks for minorities and whites. Officials from several financial services firms stated that measuring the results of diversity efforts over time was critical to the credibility of the initiatives and to justifying the investments in the resources such initiatives demanded.

Several Financial Services Trade Organizations Have Promoted Workforce Diversity

Financial services trade organizations from the securities, commercial banking, and insurance sectors that we contacted have been involved in promoting workforce diversity. The following are some examples:

- In 1996 SIA formed a "diversity committee" of senior-level executives from the securities industry to assist SIA's member firms in developing their diversity initiatives and in their efforts to market to diverse customers. This committee has begun a number of initiatives, such as developing diversity management tool kits, conducting industry demographic and diversity management research, and holding conferences. SIA's diversity tool kit provides step-by-step guidelines on establishing diversity initiatives, including identifying ways to recruit and retain diverse candidates, overcoming challenges, measuring the results of diversity initiatives, and creating strategies for transforming a firm's culture. In addition, since 1999 SIA has been conducting an industry-wide diversity survey every 2 years to help its members measure their progress toward increasing workforce diversity. The survey includes aggregated data that measure the number of minority and women employees in the securities industry at various job levels and a profile of securities industry activities designed to increase workforce diversity. In 2005, SIA held its first diversity and human resources conference, which was designed so that human resources and senior-level managers could share best practices and current strategies and trends in human resource management and diversity.

- The American Bankers Association collaborated with the Department of Labor's Office of Federal Contract Compliance Programs in 1997 to identify key issues that banks should consider in recruiting and hiring employees in order to create fair and equal employment opportunities. The issues include managing the application process and selecting candidates in a way that ensures the equal and consistent treatment of all job applications.

- The Independent Insurance Agents and Brokers of America (IIABA) established the IIABA Diversity Task Force in 2002 to promote diversity within the insurance agent community. The task force is charged with fostering a profitable independent agency force that reflects, represents, and capitalizes on the opportunities of the diverse U.S. population. Among its activities, the diversity task force is developing a database of minority insurance agents and minority-owned insurance agencies as a way to help insurance carriers seeking to expand their business with a diverse agent base and potentially reach out to urban areas and underserved markets. According to IIABA, the task force has just completed a tool kit for IIABA state associations, volunteer leadership, and staff. This step-by-step guide advises state associations on how to recruit and retain a diverse membership through their governance, products, service offerings, and association activities. In addition, IIABA participates in a program to educate high school and community college students on careers in insurance, financial services, and risk management and encourages students to pursue careers in the insurance industry.

- The Mortgage Bankers Association (Association) has established plans and programs to increase the diversity of its own leadership, as well as to promote diversity within the Association's member firms in 2005. The Association plans to increase diversity within its leadership ranks by 30 percent by September 2007 and has asked member firms to recommend potential candidates. To help member firms expand the pool of qualified diverse employees in the real estate finance industry, the Association has instituted a scholarship program called "Path to Diversity," which awards between 20 and 30 scholarships per year to minority employees and interns from member firms. Recipients can take courses at CampusMBA, the Association's training center for real estate finance, in order to further their professional growth and development in the mortgage industry.

Several Challenges May Have Affected the Success of Initiatives Designed to Increase Workforce Diversity in the Financial Services Industry

Although financial services firms and trade organizations we contacted have launched diversity initiatives, they cited a variety of challenges that may have limited their success. First, the officials said that the industry faces ongoing challenges in recruiting minority and women candidates even though firms may have established scholarship and internship programs and partnered with professional organizations. According to officials responsible for promoting workforce diversity from several firms, the industry lacks a critical mass of minority and women employees, especially at the senior levels, to serve as role models to attract other minorities to the industry. Officials from an investment bank and a commercial bank also told us that the supply (or "pipeline") of minority and women candidates in line for senior or management-level positions was limited in some geographic areas and that recruiting a diverse talent pool takes time and effort. Officials from an investment bank said that their firm typically required a high degree of specialization in finance for key positions. An official from another investment bank noted that minority candidates with these skills were very much in demand and usually receive multiple job offers.

Available data on minorities enrolled in and graduated from MBA programs provide some support for the contention that there is a limited external pool that could feed the "pipeline" for some management-level positions within the financial services industry, as well as other industries. According to the Department of Labor, many top executives from all industries, including the financial services industry, have a bachelor's degree or higher in business administration. MBA degrees are also typically required for many management development programs, according to an official from a commercial bank and an official from a foundation that provides scholarships to minority MBA students. We obtained data from the Association to Advance Collegiate Schools of Business (AACSB) on the percentage of students enrolled in MBA degree programs in accredited AACSB schools in the United States from year 2000 to 2004.[14] As shown in table 1, minorities accounted for 19 percent of all students enrolled in accredited MBA programs in 2000 and 23 percent in 2004. African-American and Hispanic enrollment in MBA programs was generally stable during that period, and both groups accounted for 6 and 5 percent of enrollment, respectively, in 2004. Asian representation

[14]AACSB, the world's largest accreditation association for business schools, conducts an annual survey called "Business School Questionnaire" of all its accredited schools. Participation in this survey is voluntary. For the year 2004, the most recent year, 92.7 percent of the accredited schools responded to the survey.

increased from 9 percent in 2000 to 11 percent in 2004. Other data indicate that MBA degrees awarded may be lower than the MBA enrollment data reported by AACSB. For example, Graduate Management Admission Council® (GMAC®) data indicate that minorities in its survey sample accounted for 16 percent of MBA graduates in 2004 versus 23 percent minority enrollment during the same year as reported by AACSB.[15] Because financial services firms compete with one another, as well as with companies from other industries to recruit minority MBA graduates, their capacity to increase diversity at the management level may be limited.

Table 1: AACSB Demographic Data of Students Reported Enrolled in MBA Degree Programs at AACSB Accredited Business Schools in the United States by Racial/Ethnic Group (2000-2004)

		Minority				
Year	White	African-American	Hispanic	Asian	American Indian	Total minority
2000	81%	5%	5%	9%	[a]	**19%**
2001	80	6	5	10	[a]	**20**
2002	80	5	5	10	[a]	**20**
2003	78	6	5	11	[a]	**22**
2004	77%	6%	5%	11%	1%	**23%**

Source: GAO analysis of AACSB data

Note. Percentages may not always add exactly due to rounding.

[a]Less than 1 percent.

Other evidence suggests that the financial services industry may not be fully leveraging its "internal" pipeline of minority and women employees for management-level positions. As shown in figure 5, there are job categories within the financial services industry that generally have more overall workforce diversity than the "officials and managers" category, particularly among minorities. For example, minorities held 22 percent of professional positions as compared with 15 percent of "officials and managers" positions in 2004. See appendix II for more information on the specific number of employees within other job categories, as well as more specific breakouts of various minority groups by sector.

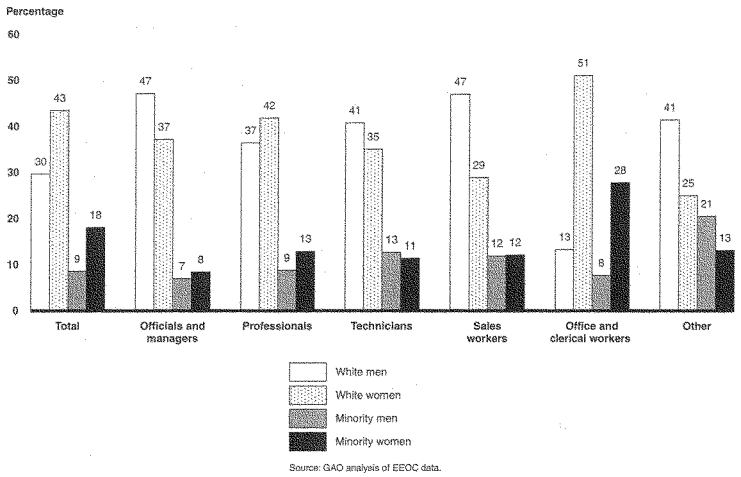
[15]GMAC® has been conducting its "Global MBA Graduate Survey" since 2000. To obtain the demographic data for 2004, GMAC® mailed out 18,504 surveys to graduating MBA students with a response rate of 34 percent.

According to a recent EEOC report, which used 2003 EEO-1 data, the professional category represented a likely pipeline of internal candidates for management-level positions within the industry.[16] Compared with white males, the EEOC study found that the chances of minorities and women (white and minority combined) advancing from the professional category into management-level positions were low. The study also found that the chances of Asians (women and men) advancing into management-level positions from the professional category were particularly low. Although EEOC said there are limitations to its analysis, the agency suggests that the findings could be used as a preliminary screening device designed to detect potential disparities in management-level opportunities for minorities and women.[17]

[16]See EEOC, *Diversity in the Finance Industry* (April 2006). In the study, EEOC analyzed the 2003 EEO-1 data by an analytical technique referred to as odds-ratio analysis to assess the potential chances of minorities and women becoming managers as compared with white men. The analysis assumes the pipeline for "officials and managers" job category generally consists of professionals. However, the study also included "sales workers" as a potential pool of managers in some analyses because in the securities sector, stock brokers might become managers, according to EEOC.

[17]For example, EEOC said that the EEO-1 data do not show how many employees are promoted from one job group to another over time, and so promotion data are not available. Rather, the EEO-1 survey collects information on the number of employees in various job categories at a given point in time. In the absence of promotion data, EEOC views the analysis as a screening tool to identify potential disparities.

Figure 5: EEO-1 Data (Percentage) on Workforce Diversity in the Financial Services Industry by Position, Racial/Ethnic Group, and Gender (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Following are descriptions of the job categories in EEO-1 data from EEOC: (1) "officials and managers": occupations requiring administrative and management personnel who set broad policies, exercise overall responsibility for execution of these policies, and direct individual departments or special phases of a firm's operations; (2) "professionals": occupations requiring either college graduation or experience of such kind and amount as to provide a comparable background; (3) "technicians": occupations requiring a combination of basic scientific knowledge and manual skill that can be obtained through 2 years of post high school education; (4) "sales workers": occupations engaging wholly or primarily in direct selling; (5) "office and clerical": includes all clerical-type work regardless of level of difficulty, where the activities are predominantly nonmanual; and (6) the category "other" includes craft workers, operatives, laborers, and service workers.

Many officials from financial services firms, industry trade groups, and associations that represent minority professionals agreed that retaining minority and women employees represented one of the biggest challenges to promoting workforce diversity. The officials said that one reason minority and women employees may leave their positions after a short period is that the industry, as described previously, lacks a critical mass of minority women and men, particularly in senior-level positions, to serve as role models. Without a critical mass, the officials said that minority or women employees may lack the personal connections and access to informal networks that are often necessary to navigate an organization's culture and advance their careers. For example, an official from a commercial bank we contacted said he learned from staff interviews that African-Americans believed that they were not considered for promotion as often as others partly because they were excluded from informal employee networks.

While firms may have instituted programs to involve managers in diversity initiatives, some industry officials said that achieving commitment, or "buy-in," can still pose challenges. Other officials said that achieving the commitment of middle managers is particularly important because these managers are often responsible for implementing key aspects of the diversity initiatives, as well as explaining them to their staffs. However, the officials said that middle managers may be focused on other aspects of their responsibilities, such as meeting financial performance targets, rather than the importance of implementing the organization's diversity initiatives. Additionally, the officials said that implementing diversity initiatives represents a considerable cultural and organizational change for many middle managers and employees at all levels. An official from an investment bank told us that the bank has been reaching out to middle managers who oversee minority and woman employees by, for example, instituting an "inclusive manager program." According to the official, the program helps managers examine subtle inequities and different managerial and working styles that may affect their relationships with minority and women employees.

Minority- and Women-Owned Businesses Often Face Difficulties in Obtaining Capital, but Some Financial Services Firms Have Developed Strategies to Assist Them

Studies and reports, as well as interviews we conducted, suggest that minority- and women-owned businesses have faced challenges obtaining capital (primarily bank credit) in conventional financial markets for several business reasons, such as the concentration of these businesses in the service sector and relative lack of a credit history.[18] Other studies suggest that lenders may discriminate, particularly against minority-owned businesses. However, assessing lending discrimination against minority-owned businesses may be complicated by limited data availability. Available research also suggests that factors, including business characteristics, introduce challenges for both minority- and women-owned businesses in obtaining access to equity capital.[19] However, some financial institutions, primarily commercial banks, have recently developed strategies to market their loan products to minority- and women-owned businesses or are offering technical assistance to them.

Research Suggests That Business Characteristics May Affect Minority- and Women-Owned Businesses' Access to Commercial Loans

Reports issued by the MBDA, SBA, and academic researchers, as well as interviews we conducted with commercial banks, minority-owned banks, and trade groups representing minority- and women-owned businesses suggest that minority- and women-owned businesses may face challenges in obtaining commercial bank credit.[20] The reports and interviews typically cite several business characteristics shared by both minority-owned firms and, in most cases, women-owned firms that may compromise their ability to obtain bank credit as follows:

- First, recent MBDA reports found that many minority-owned businesses in the United States are concentrated in retail and service industries, which

[18]A minority-owned business is defined by Census as a business in which a minority owns 51 percent or more of the stock or equity in the business. A woman-owned business is defined by Census as a business in which a woman owns 51 percent or more of the stock or equity in the business.

[19]Equity capital can be raised from several sources including venture capital funds, private stock sales, or issuing stock in public financial markets.

[20]It should be noted that all small businesses may face challenges in obtaining credit due to the risks and costs involved in such lending. See Board of Governors of the Federal Reserve System, *Report to the Congress on the Availability of Credit to Small Businesses* (September 2002).

have relatively low average annual capital expenditures for equipment.[21] Low capital expenditures are an attractive feature for start-up businesses, but with limited assets to pledge as collateral against loans, these businesses often have difficulty obtaining financing. According to the U.S. Census Bureau's *2002 Survey of Business Owners*, approximately 61 percent of minority-owned businesses and approximately 55 percent of women-owned firms operate in the service sectors as compared to about 52 percent of all U.S. firms.[22]

- Second, the Census Bureau's *2002 Survey of Business Owners* indicated that many minority- and women-owned businesses were start-ups or relatively new and, therefore, might not have a history of sound financial performance to present when applying for credit. Some officials from a private research organization and a trade group official we contacted said that banks are reluctant to lend to start-up businesses because of the costs involved in assessing the prospects for such businesses and in monitoring their performance over time.

- Third, the relatively small size and lack of technical experience of some minority-owned businesses may affect their ability to obtain bank credit.[23] For example, an MDBA report stated that minority businesses often need extensive mentoring and technical assistance such as help developing business plans in addition to financing.[24]

[21]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004). U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005).

[22]U.S. Department of Commerce, Minority Business Development Agency, *State of Minority Business Enterprises: A Preliminary Overview of the 2002 Survey of Business Owners* (September 2005). U. S. Census Bureau, "2002 Survey of Business Owners, Women-Owned Firms" (Jan. 26, 2006).

[23]U.S. Department of Commerce, Minority Business Development Agency, *Keys to Minority Entrepreneurial Success, Capital, Education, and Technology* (September 2002). U.S. Small Business Administration, Office of Advocacy, *Financing Patterns of Small Firms: Findings from the 1998 Survey of Small Business Finance* (September 2003).

[24]U.S. Department of Commerce, Minority Business Development Agency, *Expanding Financing Opportunities for Minority Businesses* (2004).

Other Studies Suggest That Discrimination May Limit Minority-Owned Businesses' Ability to Obtain Commercial Loans

Several other studies suggest that discrimination may also be a reason that minority-owned businesses face challenges obtaining commercial loans. For example, a 2005 SBA report on the small business economy summarized previous studies by researchers reporting on lending discrimination.[25] These previous studies found that minority-owned businesses had a higher probability of having their loans denied and would likely pay higher interest rates than white-owned businesses, even after controlling for differences in creditworthiness and other factors.[26] For example, a study found that given comparable loan applications—by African-American and Hispanic-owned firms and white-owned firms—the applications by the African-American and Hispanic-owned firms were more likely to be denied.[27] Another study found that minorities had higher denial rates even after controlling for personal net worth and homeownership.[28] The SBA report concludes that lending discrimination is likely to discourage would-be minority entrepreneurs and reduce the longevity of minority-owned businesses.

Another 2005 report issued by SBA also found that minority-owned businesses face some restrictions in access to credit.[29] This study investigated possible restricted access to credit for minority- and women-owned businesses by focusing on two types of credit—"relationship loans" (lines of credit) and "transaction loans" (commercial mortgages, equipment loans, and other loans) from commercial banks and nonbanks,

[25]U.S. Small Business Administration, *The Small Business Economy* (Washington, D.C.: 2005).

[26]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74. Blanchflower, David G, P. Levine, and D. Zimmerman (1998). "Discrimination in the Small Business Credit Market", National Bureau of Economic Research. Cavalluzzo, Ken and John Wolken (2002). "Small Business Loan Turndowns, Personal Wealth and Discrimination. Georgetown University." Coleman, Susan (2002). "Characteristics and Borrowing Behavior of Small, Women-Owned Firms: Evidence from the 1998 National Survey of Small Business Finances." University of Hartford.

[27]Blanchard, Lloyd, John Yinger, and Bo Zhao (2005), "Do Credit Market Barriers Exist for Minority and Women Entrepreneurs?" Syracuse University, Center for Policy Research Working Paper No. 74.

[28]Cavalluzzo, Ken and John Wolken (2002). "Small Business Loan Turndowns, Personal Wealth and Discrimination." Georgetown University.

[29]U.S. Small Business Administration (2005). *Availability of Financing to Small Firms Using the Survey of Small Business Finances*. A report for the U.S. Small Business Administration, Washington, D.C.

such as finance companies.[30] The researchers found that minority business owners were more likely to have transaction loans from nonbanks and less likely to have bank loans of any kind. The researchers also found that African-American and Hispanic business owners have a greater probability of having either type of loan denied than white male owners.[31] The researchers did not find evidence suggesting that women or Asian business owners faced loan denial probabilities different from those of firms led by white, male-owned firms.

Although studies have found potential lender discrimination against minority-owned businesses, assessing such discrimination may be complicated by limited data availability. The Federal Reserve's Regulation B, which implements the Equal Credit Opportunity Act, prohibits financial institutions from requiring information on race and gender from applicants for nonmortgage credit products.[32] Although the regulation was implemented to prevent the information from being used to discriminate against underserved groups, some federal financial regulators have stated that removing the prohibition would allow them to better monitor and enforce laws prohibiting discrimination in lending. We note that under the Home Mortgage Disclosure Act (HMDA), lenders are required to collect and report data on racial and gender characteristics of applicants for mortgage loans. Researchers have used HMDA data to assess potential mortgage lending discrimination by financial institutions. In contrast, the studies we reviewed on lending discrimination against minority and small business tend to rely on surveys of small businesses by the Federal Reserve or the Census rather than on lending data obtained directly from financial institutions.

Many Minority- and Women-Owned Businesses May Also Face Difficulties Raising Equity Capital

According to available research, many minority- and women-owned businesses face challenges in raising equity capital—such as, from venture capital firms. For example, one study estimated that only $2 billion of the $95 billion available in the private equity market in 1999 was managed by companies that focused on supplying capital to entrepreneurs from

[30]Relationship loans are defined as a commitment by the lender to a pre-set maximum amount of credit over a certain time period. Transaction loans are injections of cash made after loan approval and used to acquire tangible assets that can serve as loan collateral.

[31]See Small Business Administration (2005).

[32]The Equal Credit Opportunity Act (ECOA), 15 U.S.C. §§ 1691-1691f.

traditionally underserved markets, such as minority-owned businesses.[33] Moreover, according to a study by a private research organization, in 2003 only 4 percent of women-owned businesses with $1 million or more in revenue had been funded through private equity capital as compared with 11 percent of male-owned businesses with revenues of $1 million or more.[34]

According to studies and reports by private research organizations, some of the same types of business characteristics that may affect the ability of many minority- and women-owned businesses to obtain bank credit also limit their capacity to raise equity capital.[35] For example, industry reports and industry representatives that we contacted state that venture capitalists place a high priority on the management and technical skills companies; whereas some minority-owned businesses may lack a proven track record of such expertise.

Although venture capital firms may not have traditionally invested in minority-owned businesses, a recent study suggests that firms that do focus on such entities can earn rates of return comparable to those earned on mainstream private equity investments.[36] This study, funded by a private foundation, found that venture capital funds that specialize in investing in minority-owned businesses were relatively profitable compared with a private equity performance index. According to the study, the venture capital funds that specialized in minority-owned businesses invested in a more diverse portfolio of businesses than the typical venture capital fund, which typically focuses on high-tech companies. The study found that investing in broad portfolios helped mitigate the losses associated with the downturn in the high-tech sector for firms that focused on minority-owned businesses.

[33]Milken Institute, *The Minority Business Challenge: Democratizing Capital for Emerging Domestic Markets* (September 2000).

[34]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005)

[35]Center for Women's Business Research, *Access to Capital: Where We've Been, Where We're Going* (March 2005). Brush, C. G.; Carter, N.; Gatewood, E.; Greene P. G.; and Hart, M. M. *Gatekeepers of Venture Growth: A Diana Project Report on the Role and Participation of Women in the Venture Capital Industry* (Oct. 20, 2001).

[36]Bates, Timothy and William Bradford (2003). "Minorities and Venture Capital, A New Wave in American Business." Kauffman Foundation.

Some Commercial Banks Have Developed Programs for Minority- and Women-Owned Businesses

While minority- and women-owned businesses may have traditionally faced challenges in obtaining capital, as noted earlier, Census data indicate that such businesses are forming rapidly. Officials from some financial institutions we contacted, primarily large commercial banks, told us that they are reaching out to minority- and women-owned businesses.

Some commercial banks are marketing their financial products to minority- and women-owned businesses by, for example, printing financial services brochures in various languages and assigning senior executives with diverse backgrounds to serve as the spokespersons for the institutions efforts to reach out to targeted groups (e.g., a bank may designate an Asian executive as the point person for Asian communities). However, officials at a bank and a trade organization told us that the loan products marketed to minority- and women-owned businesses did not differ from those marketed to other businesses and that underwriting standards had not changed.

Bank officials also said that their companies had established partnerships with trade and community organizations for minorities and women to reach out to their businesses. Partnering allows the banks to locate minority- and women-owned businesses and gather information about specific groups of business owners. Bank officials said that such partnerships had been an effective means of increasing their business with these target groups.

Finally, officials from some banks said that they educate potential business clients by providing technical assistance through financial workshops and seminars on various issues such as developing business plans and obtaining commercial bank loans. Other bank officials said that their staffs work with individual minority- or women-owned businesses to provide technical assistance.

Officials from banks with strategies to market to minority- and women-owned businesses said that they faced some challenges in implementing such programs. Many of the bank officials told us that it was time-consuming to train their staff to reach out to minority- and women-owned businesses and provide technical assistance to these potential business customers. In addition, an official from a bank said that Regulation B limited the bank's ability to measure the success of its outreach efforts. The official said that because of Regulation B the bank could only estimate the success of its efforts using estimates of the number of loans it made to minority- and women-owned businesses.

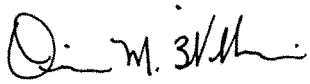
Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Chair, U.S. Equal Employment Opportunity Commission (EEOC). We received technical comments from EEOC and incorporated their comments into this report as appropriate.

We also requested comments on selected excerpts of a draft of this report from 12 industry trade associations, federal agencies, and organizations that examine access to capital issues. We received technical comments from 4 of the 12 associations, agencies, and organizations and incorporated their comments into this report as appropriate. The remaining eight either informed us that they had "no comments" or did not respond to our request.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Senate Committee on Banking, Housing, and Urban Affairs. We also will send copies to the Chair of EEOC, the Administrator of SBA, and the Secretary of the Department of Commerce, among others, and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at 202-512-8678 or at williamso@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff that made major contributions to this report are listed in appendix IV.



Orice M. Williams
Director, Financial Markets and
Community Investment

Appendix I: Objectives, Scope, and Methodology

The objectives of our report were to discuss (1) what the available data show regarding diversity at the management level in the financial services industry, from 1993 through 2004; (2) the types of initiatives that the financial services industry and related organizations have taken to promote workforce diversity and the challenges involved; and (3) the ability of minority and women-owned businesses to obtain access to capital in financial markets and initiatives financial institutions have recently taken to make capital available to these businesses.

To address objective one, we requested Employer Information Reports (EEO-1) data from the Equal Employment Opportunities Commission (EEOC) for the financial services industry. The EEO-1 data, which is reported annually generally by firms with 100 or more employees, provides information on race/ethnicity and gender for various occupations, within various industries, including financial services.[1] We used the racial/ethnic groups specified by EEOC; whites, not of Hispanic origin (whites); Asians or Pacific Islanders (Asians); Blacks, not of Hispanic origin (African-Americans); Hispanics or Latinos (Hispanics); and American Indians or Alaskan Natives (American Indians) for our analysis. The EEO-1 occupations are officials and managers, professional, technicians, sales workers, clerical workers, and others. The other category includes laborers, craft workers, operatives, and service workers. We defined the financial services industry to include the following five sectors: depository credit institutions (including commercial banks), holdings and trusts (including investment companies), non-depository credit institutions (such as mortgage bankers), securities firms, and insurance (carriers and agents). We also requested and analyzed EEO-1 data for the accounting industry.

We chose to use the EEO-1 database because it is was designed to provide information on representation by a variety of groups within a range of occupations and industries, covered many employers, and had been collected in a standardized fashion for many years. Although the EEO-1 data generally do not capture information from small businesses with less than 100 employees, we believe, due to their annual mandatory reporting, they allow us to characterize the financial services industry of firms with 100 or more employees. We also corroborated the EEO-1 data with other available studies, particularly a 2005 study by the Securities Industry

[1]Federal contractors with 50 or more employees are also required to report EEO-1 data. However, we did not include these firms in our analysis. See 29 C.F.R. Part 1602, Subpart B.

Association on diversity within the securities sector.[2] We did consider other sources of data besides EEO-1, but chose not to use them for a variety of reasons including their being more limited or less current.[3]

We requested and analyzed the EEO-1 data, focusing on the "officials and managers" category, for the years 1993, 1998, 2000, and 2004 for financial services firms having 100 or more employees. We compared that data from the selected years to determine how the composition of management-level staff had changed since 1993. We also analyzed the data based on the number of employees in the firm or firm size. The four firm size categories we used were 100 or more employees, 100-249 employees, 250-999 employees, and 1,000 or more employees. We also requested EEO-1 data for the accounting industry for 2004, and therefore did not perform a trend analysis. The scope of our work did not include developing appropriate benchmarks to assess the extent of workforce diversity within the financial services industry.

EEOC collects EEO-1 data from companies in a manner that allowed us to specify our data request and analysis by financial sector (e.g., commercial banking or securities). EEOC assigns each firm a code based on its primary activity (referred to as the North American Industry Classification System [NAICS] or the Standard Industrial Classification [SIC]). For example, a commercial bank will have a specific code denoting commercial banking, whereas a securities firm would have its own securities code. In addition, EEOC assigns codes to companies and their subsidiaries based on their primary line of business. For example, a commercial bank with an insurance subsidiary would have a separate code for that subsidiary. By requesting the EEO-1 data by the relevant codes, we were able to separate the different financial services businesses within a firm and then aggregate the data by sector. Although the NAICS

[2]See Securities Industry Association, *2005 Report on Diversity Strategy, Development and Demographics: Executive Summary* (November 2005).

[3]We considered using data from Census' Current Population Survey (CPS), Public Use Microdata Sample (PUMS), Special EEO Tabulation File, and the American Community Survey (ACS). The CPS is reported by individuals and includes smaller employers, and the PUMS is reported by households; however due to small sample sizes, reliable estimates to specific minority groups could not be derived. The Special EEO Tabulation File's most recent data are based on the 2000 census and thus were more dated than other data sources. The ACS only has data since 2002 and therefore did not allow us to show shifts over a large span of time.

replaced the SIC in 1997, EEOC staff are to assign both codes to each firm that existed prior to 2002 to ensure consistency.[4]

We conducted a limited analysis to assess the reliability of the EEO-1 data. To do so, we interviewed EEOC officials regarding how the data are collected and verified as well as to identify potential data limitations. EEOC has conducted a series of data reliability analyses for EEO-1 data to verify the consistency of the data over time. For example, EEOC reviewed the 2003 EEO-1 data for its report on diversity in the financial services industry.[5] As part of this review, EEOC deleted 81 of the 13,000 establishments because the data for the deleted establishments were not consistent year to year. The EEOC staff do not verify the EEO-1 data, which are self-reported by firms, but they do review the trends of the data submitted. For example, EEOC staff look for major fluctuations in job classifications within an industry. On the basis of this analysis, we concluded that the EEO-1 data are sufficiently reliable for our purposes.

To address objective two, we interviewed a range of financial services firms, including commercial banks and securities firms. We also interviewed representatives from a large accounting firm to discuss workforce diversity in the accounting industry. We chose these firms for a variety of reasons including whether they have ever received public recognition of their diversity programs or on the basis of recommendations from industry officials. We also interviewed representatives from industry trade organizations such as the American Bankers Association, the Securities Industry Association, the Independent Insurance Agents and Brokers of America, the American Institute of Certified Public Accountants, and Catalyst, which is a private research firm. We reviewed the trade organizations' available studies and reports to document the state of diversity within the different sectors of the financial services industry. In addition, we reviewed publicly available data on firms' programs by searching their Web sites. We also interviewed representatives of federal agencies such as the Bureau of Labor Statistics of the Department of Labor, the Minority Business Development Agency of the Department of Commerce, the Small Business Administration, and federal bank regulators. Additionally, we collected and analyzed demographic data on enrollment in accredited Masters of Business

[4]EEOC implemented the NAICS in 2002.

[5]Equal Employment Opportunity Commission, *Diversity in the Finance Industry* (April 2006).

Administration (MBA) programs from Association to Advance Collegiate Schools of Business and MBA graduation data from the Graduate Management Admissions Council®.

To address objective three, we reviewed 20 available studies and reports from federal agencies, such as the Small Business Administration and the Minority Business Development Agency, and academic studies on the ability of minority- and women-owned businesses to access credit. We also interviewed officials from banks, investment firms and private equity/venture capital firms to discuss their initiatives to provide capital to minority- and women-owned businesses.[6] Moreover, we interviewed officials from organizations that represent minority- and women-owned businesses such as the U.S. Hispanic Chamber of Commerce, the Pan Asian American Chamber of Commerce, National Black Chamber of Commerce, and the National Association of Women Business Owners. In addition, we interviewed officials from organizations that examine access to capital issues, such as the Milken Institute and the Kauffman Foundation.

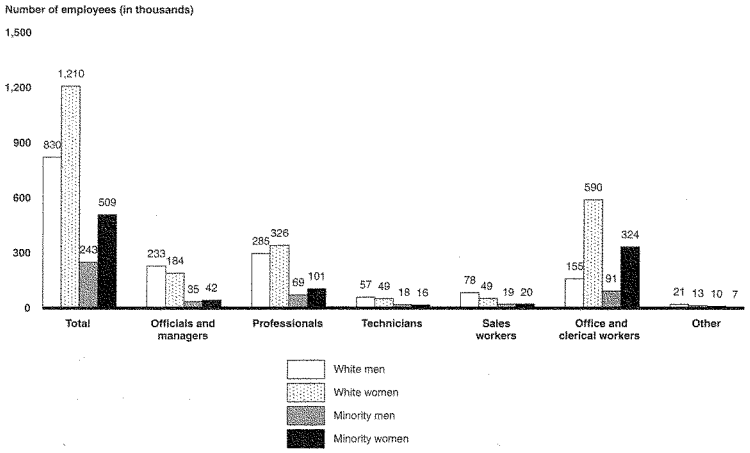
We conducted our work from July 2005 to May 2006 in Washington, D.C., and New York City and in accordance with generally accepted government auditing standards.

[6]Banks included national, community, minority-owned banks, and one women-owned bank. We also selected the firms based on our interviews with organizations that represent minority- and women-owned businesses. We were seeking firms that may have initiatives to assist minority- and women-owned businesses in obtaining capital.

Appendix II: Overall Statistics on Workforce Diversity in the Financial Services Industry

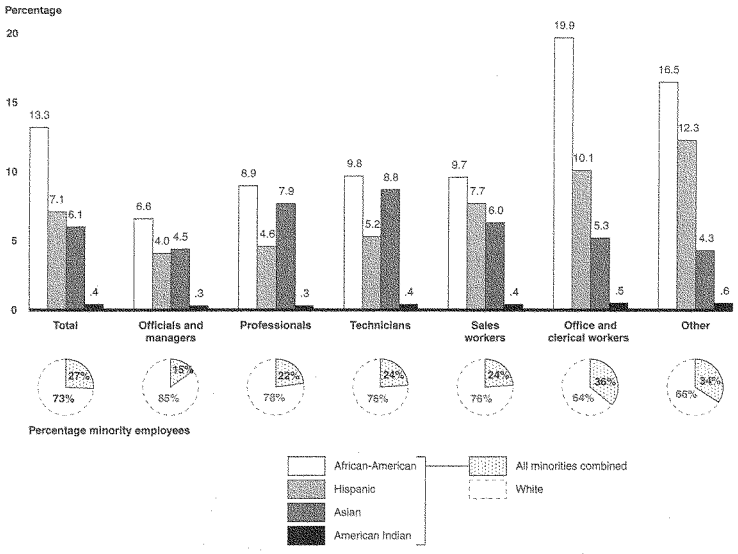
This appendix provides Employer Information Report (EEO-1) data on the number of employees within the financial services industry by position (see fig. 6) and more specific breakouts of the various racial/ethnic groups by position (see fig. 7).

Figure 6: EEO-1 Data (Number of Employees) on Workforce Diversity in the Financial Services Industry by Position, Racial/Ethnic Group, and Gender (2004)



Source: GAO analysis of EEOC data.

Figure 7: EEO-1 Data on Workforce Diversity in the Financial Services Industry by Position and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

Appendix III: Diversity in Key Positions in the Accounting Industry

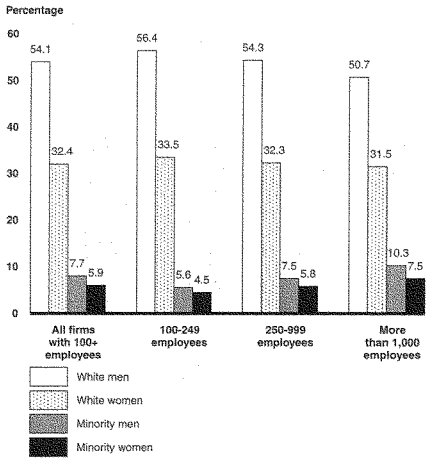
This appendix discusses workforce diversity of management-level positions in the accounting industry for 2004 as depicted by Employer Information Report (EEO-1) data. Additionally, it describes the findings of a report by the American Institute of Certified Public Accountants (AICPA) that assessed diversity within the accounting industry in a broad range of positions. Finally, the appendix summarizes efforts by AICPA and a large accounting firm to increase diversity in key positions.

Minorities Account for 14 Percent of Management-Level Positions in the Accounting Industry

According to the 2004 EEO-1 data, minorities held 13.5 percent (5.9 percent for minority women and 7.7 percent for minority men) of all "officials and managers" positions, white women held 32.4 percent while white men held 54.1 percent of all official and manager positions in the accounting industry (see fig. 8).[1] Contrary to the financial services sector where diversity among firms generally did not vary by firm size, EEO-1 data also show that larger accounting firms are in general more diverse than smaller firms. For example, minorities accounted for 17.8 percent of all officials and managers in accounting firms with 1,000 or more employees. For firms with 100 to 249 employees, minority representation for officials and managers accounted for 10.1 percent.

[1]Percentages may not always add exactly due to rounding.

Figure 8: EEO-1 Data on Workforce Diversity in the Accounting Industry at the Management Level by Firm Size, Gender, and Racial/Ethnic Group, and Gender (2004)

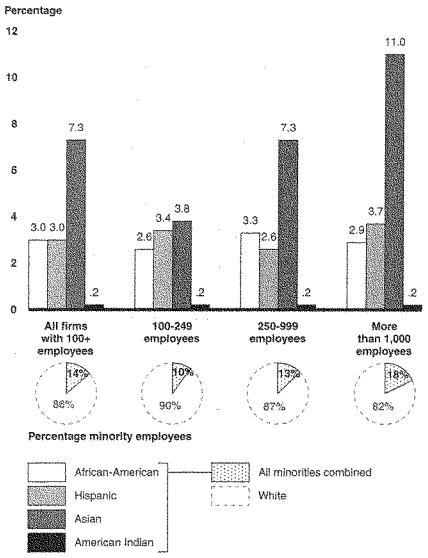


Source: GAO analysis of EEOC data.

Note: Percentages may not always add to 100 due to rounding.

Within the minority category in the accounting industry, EEO-1 2004 data show that Asians held 7.3 percent of all management-level positions, which is more than the representation of African-Americans (3.0 percent) and Hispanics (3.0 percent) combined (see fig. 9).

Figure 9: EEO-1 Data on Workforce Diversity in the Accounting Industry at the Management Level by Firm Size and Racial/Ethnic Group (2004)



Source: GAO analysis of EEOC data.

Note: Percentages may not always add exactly due to rounding.

AICPA Study Identified a Lack of Diversity in the Accounting Industry

AICPA's 2005 demographic study showed that, in 2004, minorities represented 10 percent of all professional staff, 8 percent of all certified public accountants (CPA), and 5 percent of all partners/owners employed by CPA firms.[2] Correspondingly, the representation of whites among

[2]AICPA, *The Supply of Accounting Graduates And the Demand for Public Accounting Recruits – 2005 For Academic Year 2003-2004* (2005). AICPA surveyed 5,821 certified public accounting firms, and 1,423 responded.

professional staff, CPAs, and the partner/owner level at accounting firms were all at 89 percent or above (see table 2).[3] In addition, consistent to the 2004 EEO-1 data for the accounting industry, the AICPA study found that the largest CPA firms were, in general, the most ethnically and racially diverse (see table 3).[4]

Table 2: Workforce Representation at the Professional, CPA and Partner/Owner Levels by Racial/Ethnic Group (2005)

Gender and racial/ethnic group	Professional staff	CPA	Partner/owner
Minority	10%	8%	5%
African-American	2	1	1
Hispanic	3	3	2
Asian/Pacific Islander	5	4	2
American Indian	[a]	[a]	[a]
White	89	92	95
Other	1%	[a]	[a]

Source: GAO analysis of AICPA data.

Note: Percentages may not always add to 100 due to rounding. AICPA data are from The Supply of Accounting Graduates and the Demand for Public Accounting Recruits (2005).

[a]Less than 1 percent.

[3]AICPA's study did not report representation levels of whites and minorities by gender.

[4]The largest firms are defined as those with more than 200 members.

Table 3: Workforce Representation at the Professional Level by Racial/Ethnic Group and Firm Size

Gender and racial/ethnic group	More than 200 employees	50-200 employees	10-49 employees	Fewer than 10 employees	All CPA firms
Minority	18%	8%	8%	10%	10%
• African-American	3	2	2	2	2
• Hispanic	4	2	3	4	3
• Asian/Pacific Islander	11	4	3	4	5
• American Indian	[a]	[a]	[a]	[a]	[a]
• Other	[a]	1	[a]	1	1
White	82	91	92	89	89
Other	[a]	1%	[a]	1%	1%

Source: GAO analysis of AICPA data.

Note: Percentages may not always add to 100 due to rounding. AICPA data is from *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* (2005).

[a]Less than 1 percent.

According to officials from AICPA and a large accounting firm we spoke with, one reason for the lack of diversity in key positions in the industry is that relatively few racial/ethnic minorities take the CPA exam and thus relatively few minorities are CPAs. According to the 2004 congressional testimony of an accounting professor, passing the CPA exam is critical for achieving senior management-level positions in the accounting industry.[5]

Efforts to Enhance Accounting Industry Diversity

According to officials we spoke with from AICPA and an accounting firm, similar to the financial services industry, the accounting industry had also initiated programs to promote the diversity of its workforce. An official from the large accounting firm we spoke with told us that his firm's top management is committed to workforce diversity and has implemented a minority leadership development program, which ensures that minorities and women become eligible for and are recommended for progressively

[5]*Diversity in the Financial Services Industry and Access to Capital for Minority Owned Businesses: Challenges and Opportunities*, Hearing before the Subcommittee On Oversight and Investigations of the House Committee on Financial Services, 108th Cong (2004).

more senior positions. As part of the commitment to workforce diversity, the firm also has a mentoring program, which pairs current partners with senior management-level minority and women staff to help them achieve partnership status. In addition, the firm also requires middle- and high-level managers to undergo diversity training to encourage an open dialogue around racial-ethnic and gender issues. An AICPA official said the organization formed a minority initiatives committee to promote workforce diversity with a number of initiatives to increase the number of minority accounting degree holders, such as scholarships for minority accounting students and accounting faculty development programs. AICPA also formed partnerships with several national minority accounting organizations such as the National Association of Black Accountants and the Association of Latino Professionals in Finance and Accounting to develop new programs to foster diversity within the workplace and the community.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Orice M. Williams (202) 512-8678

Staff Acknowledgments

In addition to the individual named above, Wesley M. Phillips, Assistant Director; Emily Chalmers; William Chatlos; Kimberly Cutright; Simin Ho; Marc Molino; Robert Pollard; LaSonya Roberts; and Bethany Widick made key contributions to this report.

TESTIMONY OF
DONNA SIMS WILSON
MEMBER, BOARD OF DIRECTORS &
CHAIR, NATIONAL LEGISLATIVE COMMITTEE
NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS

BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS

"DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY AND ACCESS TO CAPITAL FOR MINORITY-OWNED BUSINESSES: CHALLENGES AND OPPORTUNITIES"

JULY 12, 2006

Good Afternoon Chairwoman Sue Kelly, Ranking Member Luis Gutierrez and members of the Subcommittee:

I would also like to thank the members, Chairman Michael Oxley, Ranking Member Barney Frank and Subcommittee Member David Scott, who signed the letter that made these hearings possible and who requested the GAO Report entitled "Financial Services Industry: Overall Trends in Management-Level Diversity and Diversity Initiatives, 1993-2004" ("The GAO Report").

I am Donna Sims Wilson, a Member of the Board of Directors and Chair of the National Legislative Committee of the National Association of Securities Professionals (NASP). I am also an Executive Vice President and Head of Equity Sales and Trading at M.R. Beal & Company, a minority-owned investment banking firm.

I appreciate the opportunity to testify on behalf of NASP and our members concerning our organization's long-standing commitment to encouraging diversity within all facets of the securities industry and the U.S. capital markets. We commend the Subcommittee

for recognizing how important this topic is to the future of our economy, our markets, and our industry.

Initially, I will briefly summarize the background and diversity outreach of NASP. I will then focus my testimony on the business imperative for diversity and how to effectively impact diversity in the financial services industry. I will also touch briefly on the topic of access to capital and its significance for minority-owned financial services firms.

BACKGROUND & HISTORY OF NASP

The National Association of Securities Professionals (NASP) is an organization that supports people of color and women in leveling the playing field in the financial services industry. We connect members to industry leaders and business opportunities; advocate for policies that create equal representation and inclusion; provide educational opportunities; and work to build awareness about the value of ensuring that people of color and women are included in all aspects of the financial services industry. Founded in 1985, NASP is based in Washington, D.C. with 10 chapters in major financial centers throughout the United States. Our members include asset managers, broker-dealers, pension fund consultants, public finance professionals, investment bankers, securities/bond counsel, commercial bank underwriters, institutional investors, plan sponsors and other professionals in the financial services industry.

NASP in its founding and outreach within the industry over the past 21 years has increased diversity within the financial services industry. Among our various initiatives, we would like to highlight a few of our key programs that target increasing diversity within the financial services industry as described below.

Wall Street Finance and Scholastic Training Program (FAST Track) Program

The Wall Street Finance and Scholastic Training Program, or FAST Track, is a rigorous curriculum that was launched in November 1996 by the New York chapter of NASP. The program was started in an effort to attract more minorities to the securities industry by

identifying high school students with an interest in the field early enough to give them training, internships, and experiences they would need to succeed. In the ten years since FAST Track was started, this program has become the national model to attract minority students to the financial services industry and has had more than 800 graduates. As a result, NASP has expanded this invaluable program across the country. For more detailed information on the Fast Track Program, please see Appendix A.

Annual Mentors Luncheon and Online Career Center

As part of our community outreach initiatives, NASP seeks to inspire and encourage minority and women students to build careers as finance professionals. In order to do so, we have developed mentoring relationships with our "next generation" that include candid discussions regarding the crossroads and pathways to success in the global financial services industry. The purpose of the Annual Mentors Luncheon, which is in its 9th year, is to encourage minority and women undergraduate and MBA students to pursue careers in the financial services industry. This event, which takes place in New York, features a panel of financial services professionals who share their experiences with the students. Since the inception of the program, we have been able to expose over 2,700 students representing several northeastern universities and colleges to careers in the financial services industry. Additionally, NASP has partnered with Historically Black Colleges and Universities on this initiative. Over the past five years, companies such as Goldman Sachs and Citigroup have been partners in this effort.

In addition, NASP maintains a career center on its website which serves as a clearinghouse and job bank for potential candidates and employer-firms who are interested in expanding their firm's diversity by reaching a broader and more diverse pool of candidates. This website is free to the public and can be accessed at www.nasphq.org.

Annual Pension Fund & Financial Services Conference

The NASP Annual Pension Fund & Financial Services Conference annually attracts the most senior minority and women professionals who come to seek out future business opportunities. Plan sponsors and allied government professionals also attend in order to

take advantage of the training and professional development programs. For the past 16 years, this conference has evolved into one of the nation's largest gatherings of successful minority and women professionals engaged in all facets of the financial services industry. This impressive group of finance professionals includes corporate treasurers, public and corporate plan trustees, broker-dealers, asset management and pension consulting firms, and world-recognized economists. For example, our 2006 annual conference was supported by the following partners and sponsors: Citigroup, Comerica, Invesco, Lehman Brothers, Lewis & Mundy, P.C., Siebert Branford Shank & Co.,LLC and UBS among many other financial services firms. For a complete list, please see Appendix A.

Legislative Committee & Symposia

In furthering NASP's goal of being a voice for minorities and women to the executive, legislative and regulatory branches of government, we actively engage in legislative initiatives. Recently in March of 2006, we held a legislative symposium which focused on the topic of "Reshaping the Regulatory Landscape – What's at Stake for Securities and Financial Services Firms in a Changing Regulatory Climate." Speaker of the House Dennis Hastert (R-IL), Chairman of the Congressional Black Caucus Mel Watt (D-NC), House Financial Services Committee member Gregory Meeks (D-NY), SEC Commissioner Roel Campos, Pension Benefit Guaranty Corporation Executive Director Bradley Belt, and Matthew Slaughter from the White House Council of Economic Advisers were a few of our featured speakers. Key financial oversight representatives and decision-makers from Congressional committees, trade associations, and federal and regulatory agencies participated in this event.

IMPACTING DIVERSITY IN THE FINANCIAL SERVICES INDUSTRY

The California Public Employees Retirement System (CALPERS) and the California State Teachers Employees Retirement Systems (CALSTERS), two of the largest public pension plans in the country recently hosted a Diversity Conference where Henry Cisneros, former Secretary of Housing and Urban Development made a powerful business case for diversity. Many of our member firms participated in this historic

dialogue. In his presentation entitled, *Expanding Investment Opportunity Through Diversity*, he quoted both actual and projected population distribution data from the U.S. Census Bureau Population Division which showed the growth of ethnic minority populations in America for the years 2000, 2020 and 2050. The data showed that the White/non-Latino population grew at a much slower rate than Latino, African American, Asian American and Native American populations with these combined ethnic minority communities reaching a near majority by the year 2050. He further stated that minority populations are young and that over 31% of recent immigrants to America come from Spanish speaking countries while over 24% come from Asian countries according to the Immigration and Naturalization Service. NASP agrees with his conclusions that these fundamental population shifts have created significant minority markets for goods and services that corporate America would be ill advised to ignore. The resulting buying power of these minority communities will generate outsized profits for the companies who choose to focus on capturing their business. Individual or institutional investors will benefit from purchasing the securities of these savvy companies thus capturing exceptional investment returns.

The GAO Report found that overall between 1993 and 2004, diversity at the management level in the financial services industry did not change substantially. These findings are not surprising. Over the last ten years, while there have been some positive changes, the industry overall is still viewed as severely lacking and imbalanced when it comes to diversity. We believe that the best way to impact the disappointing diversity metrics is to do business with minorities and women wherever they are found, either within majority-owned firms or minority owned firms. <u>There must be both external and internal economic incentives to positively impact workforce diversity.</u>

The path to senior management and corporate board membership in majority firm institutions is job success. Minorities and women must have clients from whom they generate significant revenue. In minority- and women-owned firms, the same concept applies. The growth and viability of these institutions is dependent upon clients with whom they can do business.

The federal government is a significant client within the financial services industry and needs to lead by example by being diverse with its own resources. For example, there are substantial federal pools of retirement money such as the Federal Retirement Thrift Savings Plans, the Pension Benefit Guaranty Corporation and the National Railroad Trust among others. To date, no minority-owned firms manage assets for any of these agencies nor do minority-owned broker-dealers execute their trades.

To positively impact workforce diversity in the financial services industry, the federal government should establish diversity goals within the above-named agencies. The evaluation process to hire service providers should include a diversity component with weight. For example, as part of the RFP process, firms would have to answer questions about the ethnic and gender composition of their Board of Directors and senior and mid-level managers using EEOC data. All things being equal – performance, fees, continuity of the investment team etc., this additional evaluation mechanism could incentivize firms to improve their diversity profile. People of color and women would handle the business of the federal government thereby generating significant revenue leading to job success.

A similar diversity goal could apply to entities owned by minorities and women. These federal agencies could simply require that as a part of its diversity initiative, they will hire qualified minority- and women-owned firms for asset management, brokerage and other financial services. Numerous studies have been completed that show that minority- and women-owned asset management firms for example, perform as well as, if not better than, majority-owned firms. The studies are listed below.

- T.B.Williams/FIS Group, *Prudently Achieving Diversity Through an Emerging Manager Program*, CalPERS-CalSTRS Diversity Conference (April 2006) (web-address http://www.calpers.ca.gov/eip-docs/investments/video-center/view-video/expanding-diversity/Tina%20Byles%20Williams%20-%20Presentation.ppt);

- T.White/Progress Investment Management & Institute for Fiduciary Education (IFE), *Small Isn't What It Used to Be: The Changing Face of Smaller Investment Firms* (IFE-Market Makers, July 2003);

- T. Krum/Northern Trust, *Potential Benefits Of Investing With Emerging Managers: Can Elephants Dance ?* (March 2006)
  (web-address
  http://www.northerntrust.com/pws/jsp/display2.jsp?XML=pages/nt/0401/43525105_3652.xml);

A landmark minority brokerage firm survey by Consultiva Internacional clearly showed the level of technological sophistication, years of experience and quality execution offered by these firms is cited below;

- Consultiva Internacional, Inc., *Emerging Brokerage Firms in the U.S.,* Presented to Board of Trustees of the Los Angeles City Employees Retirement System (October 2005)
  (web-address http://www.lacers.org/Investments/_News/2005/20051006-EmergingBrokersConference/Emerging%20Brokerage%20Presentation%20-%20Consultiva.ppt).

In the Municipal Finance arena, the Department of Defense is encouraging public/private partnerships to improve the quality of military housing across all branches of service. The Federal Government should evaluate all underwriters and other financial service providers with the same weighted diversity component as stated above. All things being equal, **this additional evaluation mechanism could incentivize firms to improve their diversity profile.** Likewise, in keeping with the diversity initiative, minority- and women-owned firms should participate at all levels of the underwriting syndicate according to their ability.

It is interesting to note that the federal government has long established precedents for doing business with minorities and women through majority firm/minority firm prime contractor/subcontractor relationships and minority/women firms contracting through the Departments of Defense, Transportation, Energy, Housing and Urban Development among others. These policies however have rarely applied to financial services.

Three examples of government programs that have been successful in improving workforce diversity in the financial services industry involve the former Resolution Trust Corporation (RTC), Fannie Mae and Freddie Mac.

The Resolution Trust Corporation demonstrated how legislation and regulation directly impacted minorities and women, both in their own firms and in majority-owned firms. The Resolution Trust Corporation was the government agency created to dispose of the assets of the failed savings and loans. Section 1216 of FIRREA, the Financial Institution Recovery, Reform and Enforcement Act of 1989 stated "that minorities and women and entities owned by minorities and women must participate to the maximum extent possible in the disposition of thrift assets." This legislation caused billions of dollars of single family, multifamily and commercial whole loans to be securitized. Minorities at majority firms spearheaded many of these transactions, while several minority firms either came into being or thrived in this environment such as Utendahl Capital, Blaylock and Company and Williams Capital. Real estate asset management firms were formed and prospered and there was significant work for lawyers, accountants and public relations firms. Many of the firms that sprung up around the RTC are thriving businesses to this very day.

Fannie Mae's Access Program and Freddie Mac's Golden Opportunities Programs are two other examples of the federal government as "uber-client" directly contributing to the growth and viability of minority- and women-owned firms. In each instance, these firms were able to become selling group members for Fannie Mae and Freddie Mac debentures on mostly equal footing with majority-owned firms. The only constraint to doing business in these programs was the capabilities of the firms. On several occasions, minority- and women-owned firms greatly outperformed their majority-owned competitors.

The GAO Report found that while many firms have initiated programs to increase workforce diversity, including in management level positions, NASP believes these initiatives still face challenges. Some reasons are as follows:

1. Preconceived notions and prejudices about the effectiveness of minority and women professionals

2. The tendency to mentor and promote individuals from the same ethnic background regardless of merit.
3. Lack of access to critical social networks;
4. Most emphasis on recruitment – not as much on retention and promotion of minority managers. As a result, many recruited at the mid management level fail to fully assimilate into the corporate culture and end up leaving before reaching the executive level; and
5. As the GAO study found, getting employees in general to "buy in" to diversity programs is a challenge, particularly among middle managers who are often the ones responsible for implementing key aspects of such programs.

NASP Recommendations to Improve Diversity

- Link diversity components at the mid- and senior management- levels to salary/bonus compensation. This is a way of reinforcing the importance of these programs to the organization's overall business objective.
- Target recruiting efforts and establish partnerships with well known organizations that support women and minorities such as ours along with the TOIGO Foundation, INROADS, Sponsors for Educational Opportunity and the National Associations of Black and Hispanic MBAs
- Establish relationships with HBCUs and Historically Hispanic Serving Colleges and Universities
- Connect with the Executive Leadership Council, the Marathon Club, the New America Alliance and others on recruiting senior-level executives and corporate board members.
- Support the passage of resolutions and legislation such as H. CON. RES. 429 which was introduced by Congressman Gregory Meeks and Co-sponsored by 81 Members of Congress that seeks active measures to increase the demographic diversity of the financial services industry.

IMPROVING ACCESS TO CAPITAL BY MINORITY- AND WOMEN-OWNED FIRMS

As it relates to improving access to capital by minority- and women-owned firms, we recommend allowing the Small Business Administration to make loans to small investment banking firms.

We suggest that Congress assemble a Commission of the top majority-owned investment banking firms, major public pension plans, hedge funds, private equity funds and minority owned investment houses to study collectively practical solutions to access to capital for women- and minority-owned firms.

Much of the groundwork to support such a recommendation has been completed and can be found in the following studies

- T. Bates & W. Bradford, *Minorities and Venture Capital, A New Wave in American Business* (Kauffman Foundation, 2003)
- G. Yago et al., *Creating Capital, Jobs and Wealth in Emerging Domestic Markets* (Milken Institute and Ford Foundation, 2003)
- G. Yago & M. Harrington, *Mainstreaming Minority Businesses: Financing Domestic Emerging Markets* (Milken Institute and U.S. Department of Commerce, 1999)
- Boston Consulting Group, The New Agenda for Minority Business Development (2005).
- Minority Business Development Agency (MBDA). *Accelerating Job Creation and Economic Productivity, Expanding Financing Opportunities for Minority Businesses* (2004)

CONCLUSION

NASP is grateful for the opportunity to add our voice to the discussion of improving diversity in the financial services industry and increasing access to capital for minority- and women-owned firms. We stand ready to partner with the House Financial Services Committee, other trade associations, and individual firms to further our stated goal of

ensuring that people of color and women are included in all aspects and at all levels of the financial services industry. We believe that significant progress can be made on these crucial issues but only when there are clear, defined external and internal economic incentives, direct accountability, and enforcement.

Thank You.

APPENDIX A

- NASP Headquarters & Chapters

National Association of Securities Professionals
1212 New York Avenue, NW, Suite 950
Washington, DC 20005
202-371-5535/ phone • 202-371-5536/ fax

NASP has local chapters in the following U.S. Cities. Visit www.napshq.org for more information.

- Atlanta
- Boston
- Chicago
- Detroit
- Houston
- New York
- Philadelphia
- Baltimore/Washington
- Los Angeles
- San Francisco

- Mission Statement

As a professional organization, NASP serves as a resource for the minority community at large and for the minority and women professionals within the financial services industry, by providing opportunities to share information about the securities markets, including functioning as a repository for information regarding current trends, facilitating fundamental educational seminars, and creating networking opportunities.

- Objectives/Principles

The objectives of NASP are as follows:

- To pursue the highest standards of professionalism and excellence among NASP members

- To achieve equal opportunity for minorities and women in the securities industry

- To foster the growth and development of minorities and women; and, of minority-controlled and women-controlled institutions in the securities industry

- To enhance communication among members
- To increase public awareness, especially among minorities and women, of public and private finance career opportunities
- To pursue progressive and balanced policies affecting public and private finance

In pursuing our organizational objectives, NASP supports the following principles:

- We uphold the law that bans racial, ethnic or gender discrimination in employment.
- We believe that racial, ethnic or gender discrimination in employment, business contracts and related activities is immoral and an unsound business practice.
- We support equal and fair employment practices including, without limitation, the hiring, compensation, training, promotion and retention of African-Americans, Hispanic-Americans, other Americans of color, and women.
- We support the development of training programs that will prepare significant numbers of African-Americans, other minority Americans, and women for management, ownership, supervisory, administrative, clerical, sales and technical positions in all financial services business activities.
- We support equitable participation and equal opportunity in all business dealings.

- Origin & Founding

Established in 1985, The National Association of Securities Professionals (NASP) is a non-profit association of professionals in the financial services industry. NASP brings together the nation's minorities and women who have achieved recognition in the industry as brokers, asset managers, public finance professionals, consultants, investment bankers, bond counsel, commercial bank underwriters, investors, plan sponsors and other finance professionals. Membership is open to any individual or organization regularly engaged in a responsible function in the securities industry.

- NASP History

On February 2nd 1985, in the office of the Metro Equities Corporation in Chicago, 44 men and women from the financial services industry, got together with an idea and a plan of action. Donald R. Davidson, Maynard H. Jackson, Joyce M. Johnson, and Felicia O. Flowers-Smith, came together with the intention to not only inspire change within the

financial services industry, but to achieve their aspirations of equality for women and minorities in the field.
The idea: create an organization of like minded people who could exchange ideas and share the successes and frustrations of working in the financial services industry. The name of the organization, as suggested by Maynard H. Jackson, would be the National Association of Securities Professionals.

Two months later, on Friday, April 12th, 1985 the National Association of Securities Professionals reconvened in San Francisco for the second organizational meeting. It was at this meeting that an agenda for action was created.

Now, 21 years later, the National Association of Securities Professionals is still strong, still striving for excellence, and not only celebrating our legacy but charting a new course for our success.

- Wall Street Finance and Scholastic Training Program (FAST Track) Program

The Wall Street Finance and Scholastic Training Program, or FAST Track, is a rigorous curriculum that was launched in November 1996 by the New York chapter of the National Association of Securities Professionals (NASP). The program was started in an effort to attract more minorities to the securities industry by identifying high school students with an interest in the field early enough to give them training, internships, and experiences they would need to succeed. In the ten years since FAST Track was started in New York, NASP has expanded this invaluable program across the country.

All chapters are required to incorporate FAST Track into their ongoing work, although chapters are encouraged to structure the program as they see fit. As a result, no two FAST Track Programs are identical. The New York FAST Track, for instance, will differ slightly from the Philadelphia program, and the Houston program may have unique features or components not found in Philadelphia, etc. Several chapters, for example, have expanded FAST Track to include a financial literacy component. Some of these chapters tailor their financial literacy component to fit the students, while others offer targeted curricula for the parents of FAST Track participants. By integrating financial literacy into FAST Track NASP hopes to provide African Americans with the information, confidence, and skills they need to build wealth. (According to a 2002 report issued by the Consumer Federation of America, African American households have less than one-quarter the net worth of other U.S. households – $15,500 for black families, compared to $71,700 for other American families.)

The students who participate in the program are identified through a variety of channels. We work with community organizations, teachers, school administrators, and career and guidance counselors to identify bright, promising students who have expressed an interest in business, finance, or economics. Most of our FAST Track Programs target high school students, although two chapters have chosen elementary and junior high school students as their target applicant pool. The duration of the program can vary, from three months

for a summer FAST Track Program to two years. Criteria for acceptance to the program varies slightly from chapter to chapter. However, most NASP chapters require:

- that students complete a written application;
- a written personal essay that demonstrates the student's communication skills;
- a recommendation from a teacher or guidance counselor; and
- at least a B grade point average.

NASP is grateful to the many financial and law firms, corporations, small businesses, and universities that have supported this effort from its inception. These sponsors and allies have generously provided in-kind donations – such as printed materials and meeting space – and have allowed FAST Track students the opportunity to meet with and learn from their senior employees working in the industry. A few firms also have offered summer internship opportunities and have contributed money to scholarships that are awarded to college-bound FAST Track graduates. Finally, individual professionals have stepped forward to volunteer their time as mentors.

♦ NASP Chairs (Past)

Maynard H. Jackson
Joyce M. Johnson
William H. Hayden
Alphonso E. Tindall, Jr., Esq.
Ernest Green
Marquette Chester
Travers J. Bell, Jr.
David Baker Lewis, Esq.
Raymond J. McClendon
Patricia Garrison Corbin
Eugene J. Duffy
Cheryl E. Marrow

♦ NASP History at a Glance

1985- NASP founded in Chicago by Maynard H. Jackson, Felicia Flowers-Smith, Joyce M. Johnson and Donald Davidson

1986- First Annual Meeting in Washington featured Paul Volcker, Chairman, Federal Reserve

1988- First Panel on opportunities in Asset Management and Pension Funds at Annual Meeting

1990- First Annual Pension Fund Conference held in Chicago chaired by Henry Parker, former treasurer, State of Connecticut

1991- Travers J. Bell, Jr. Award established in honor of his life and for his extraordinary contributions as a national financial leader and entrepreneur

Joyce M. Johnson Award established in honor of her legacy, dedication and contributions made in the securities industry

1993- Annual Meeting in Washington featured Robert Rubin, U.S. Secretary of the Treasury

1994- NASP board members met with SEC on municipal bond regulation; NASP Washington headquarters opened with first full-time executive director, Teresa Doke

Pacesetter Award established in recognition of individuals that have ensured or promoted the full involvement of women and minorities in the securities industry

1995- 10th Anniversary Celebration and Annual Meeting & Conference featured keynote speaker Andrew Young, Vice Chairman, Law Companies Group, Inc.

1998- Annual Pension Fund Conference in Detroit featured keynote speaker Reverend Jesse L. Jackson, President & CEO, Rainbow/PUSH Coalition and Carol Moseley-Braun, First African American woman elected to U.S. Senate

2000- 15th NASP Anniversary celebrated at Annual Pension Fund Conference in New York

2003- Co-Founder Maynard H. Jackson delivered his last address at the 14th Annual Pension Fund Conference in Atlanta, Georgia

2004- 15th Anniversary of the Annual Pension Fund Conference in Chicago celebrated our NASP legacy with a special tribute to late Co-Founder Maynard H. Jackson

Maynard Jackson Entrepreneur of the Year Award was established to honor the financial service professional that best exemplifies entrepreneurial achievement, community service and high moral standards.

- Partners and Sponsors of the 2006 Annual Pension Fund and Financial Services Conference

- Citigroup
- Comerica
- Invesco
- Lehman Brothers
- Lewis & Munday
- Siebert Brandford Shank & Co., LLC
- UBS
- Brown Capital Management
- Earnest Partners
- Northern Trust
- Toyota
- Goldman Sachs Asset Management
- Wells Fargo
- Williams Capital
- AA Capital Partners, Inc.
- Advent Capital Management
- Ariel Capital Management
- Davis Hamilton Jackson & Associates

- Holland Capital Management
- The Edgar Lomax Company
- MR Beal & Company
- ICAP
- Jackson Securities
- Mercer Investment Consulting
- New Amsterdam Partners
- Progress Investment Management Company
- Edwards & Angell
- Alliance Bernstein
- Alpine Global Investments
- Ambassador Capital Management
- Boeing
- Channing Capital Management
- Cooke & Bieler
- Delaware Investments
- FIS Group
- Globalt Investments
- Goode Investment Management
- Greektown Casino
- Gabire Roeder Smith & Co.
- Loop Capital Markets
- Lord Abbett
- Loomis Sayles
- MDL Capital Management
- Merrill Lynch
- Mesirow Financial
- Morgan Stanley
- New England Pension Consultants
- Nixon Peabody
- Oracle Capital Partners
- Paradigm Asset Management
- Piedmont Investment Advisors
- Safeco Insurance
- SBK-Brooks
- Seneca Capital Management
- Shell
- Smith Graham & Company
- Smith Whiley & Company
- Synovus
- Taplin, Canida & Habacht
- Wolf Haldenstein Adler Freeman & Herz
- The Yucaipa Companies

Independent Insurance Agents
& Brokers of America, Inc.

STATEMENT FOR THE RECORD
ON BEHALF OF THE
INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

July 12, 2006

Chairman Kelly, Ranking Member Gutierrez, and Members of the Committee, the IIABA is grateful for the opportunity to submit this written testimony to your Subcommittee for the July 12, 2006 hearing on Diversity: The Government Accountability Office Report.

IIABA is the nation's oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than 300,000 agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of different insurance companies. These small, medium, and large businesses offer all lines of insurance – property, casualty, life, health, employee benefit plans, and retirement products.

Background

The IIABA is grateful for the opportunity to share its views with the Committee on what we feel is a matter of utmost importance. As the intermediaries between consumers and their insurers who operate in urban and rural setting across America, our members serve an incredibly diverse customer base. As such, the IIABA has long recognized that we need to take steps to both encourage greater understanding and sensitivity of diversity within our current membership AND take steps to increase the diversity of our membership itself to reflect the increased diversity of insurance consumers.

The IIABA is focusing on simultaneously helping our independent agencies and agents (especially minority-owned) to be successful and to increase the participation of minority agencies and agents in our state and national associations.

Towards this end, the IIABA has created the IIABA Diversity Task Force. The Diversity Task Force is a cooperative industry group comprised of Big "I" agents and brokers, members of groups representing Latin-American, African-American and Asian-American agents, and nine leading insurance companies—Aetna, AIG Agency Auto, Chubb Group of Insurance Companies, CNA, The Hartford, MetLife Auto & Home, Safeco Insurance Company, Selective Insurance Company and St. Paul Travelers.

The Diversity Task Force was created as a standing Task Force and is charged with fostering a profitable independent agency force that reflects, represents and capitalizes on the opportunities of the diverse U.S. population.

The IIABA feels that the Diversity Task Force's mission will only become more important in the future, as the U.S. Census Bureau has estimated that by 2050, 47.2% of the U.S. population will be minorities. At this time, fully one quarter of the U.S. population describes themselves as something other than Caucasian. The growth in the minority percentage of the U.S. population naturally will lead to an increase in the minority customer base for independent insurance agents. Besides just being the "right thing to do," working to increase the diversity of the IIABA membership will be vital to ensuring the continued success of the independent agency system, and

the numbers above illustrate that this will become even more of an economic reality in the coming years.

For these reasons, we are incredibly proud of the development of the Diversity Task Force and the work all of our volunteers who have dedicated their time and resources towards helping develop and implement its mission and strategies.

The Diversity Task Force recently developed a strategic plan that outlines several key goals, and the Task Force is currently working with these goals in mind. They are:

- To build strategic alliances with diverse organizations and bring recognition to its efforts in the insurance industry and the business community;
- To increase IIABA Board and state association awareness of the Diversity Task Force's goals and enlist their support;
- To develop a database of diverse agents and minority-owned agencies;
- To increase the number of company appointments for diverse agents;
- To export the Associate in Insurance Agency Operations (AIAO) program to state associations and insurance companies; and
- To create a value proposition for IIABA state associations to help them increase diverse-agent memberships.

Again, the key goals above were created with two overarching goals in mind; to help diverse agencies and agents to be successful and prosperous, and to recruit those diverse agencies and agents into the state and national association. Using those principles as a guide we have begun working on the following specific ongoing initiatives to achieve those key goals.

Associate in Insurance Agency Operations (AIAO)

The Associate in Insurance Agency Operations (AIAO) program, created by the IIABA, conveys to minority-owned and urban independent agencies the tools and strategies necessary to be attractive business partners to top national and regional agency carriers and to position themselves for long-term growth and success. The goal of the AIAO is to help those minority-owned and

urban independent agencies to be successful small businesses. The program is conducted over eight days—two three-day sessions and one two-day session during a 12-month period—comprising 64 hours of classroom instruction. The three sessions of the AIAO course—strategic planning, sales training, and superior customer service— have been granted continuing-education credit in Virginia, Maryland, the District of Columbia, and New Jersey. The Diversity Task Force is currently working to export the AIAO to state associations and insurance companies.

Building Membership in Untapped Markets

The Diversity Task Force recently completed a toolkit for IIABA state association executives, volunteer leadership and staff. This step-by-step guide advises state associations on how to recruit and retain a diverse membership through their governance, products, service offerings and association activities. As the IIABA is composed of members who belong to their state association, it is vital that, as we work towards increasing the diversity of our members, we work from the ground up by encouraging and helping our state associations to recruit and retain diverse members. Conversely, we also feel that it is vital that diverse agents experience the benefits of membership first-hand to gain an appreciation for the benefits of belonging and participating in their state and the national association. Towards this end, we have begun working on a plan to have companies sponsor diverse agents by paying their membership dues in their state association for the first year. We are confident that, once a diverse agency or agent experience the benefits of belonging to the state association and the IIABA, they will want to stay active and involved in the membership.

Diversity Database Survey

Developing a database of minority agents has been identified as a priority for the Diversity Task Force. Though it may be exceedingly difficult to complete, having an accurate database of minority agents will be vital in our efforts to both help the diverse agencies and agents to be successful and towards our efforts to increase the recruitment and retention of those diverse members. The task force has determined that this will be a three phase process and has commissioned a feasibility study that is currently under-way.

Conclusion

In conclusion, we commend you, Mr. Chairman, for convening today's hearing, and we hope that it will continue a much needed analysis of the diversity of the workforce in the financial services sector.

Our members work with consumers from a wide background and in every region, and we have already begun to learn that, in order to better serve these diverse consumers and our increasingly diverse membership, we as a national association need to take specific steps to help our diverse members to succeed and to increase the diverse membership of our association. Though we may, through our Diversity Task Force, be one of the first on this front in the financial services sector, I'm sure that other national associations and corporations will recognize the same needs of consumers that we have and will take similar steps over the coming years.

We stand ready to assist your efforts in any way we can, and we urge you to continue this much needed review.

Oversight Subcommittee Hearing On "Diversity in Financial Services: GAO's Perspective"
July 12, 2006
GAO Response to Congressman Joe Baca's Post Hearing Questions

1. **To address objective #2, you stated that you interviewed a number of firms to assess their efforts to promote diversity and the challenges involved. I would like to request a copy of the actual survey and results, including the list of the companies that were contacted, those that responded, the response rate in actual number, and the questions that were asked.**

To identify the types of initiatives that financial services industry and related organizations have taken to promote workforce diversity and the challenges involved, we interviewed a cross section of associations and firms. Although we did not conduct a survey, we interviewed selected officials from 17 financial services firms, including commercial banks, securities firms, and equity/venture capital organizations. We chose these firms based on whether they had ever received public recognition for their diversity programs or on the recommendation of trade associations or other industry officials. Given the potential sensitivity of the issue, among other reasons, we chose to conduct interviews instead of a formal survey. We asked company representatives three general questions related to workforce diversity:

1. Discuss the types of initiatives your organization has to promote the diversity in your workforce, especially at the senior level. In your view, which types of diversity initiatives tend to be the most effective?

2. What are some of the specific challenges financial institutions experience in achieving workforce diversity, especially at the senior level?

3. What specific employment and career obstacles, if any, do minorities face when pursuing a career in financial services?

We also asked selected officials about the ability of minority- and women-owned businesses to obtain access to capital in financial markets and for relevant companies, we also asked about any initiatives these companies have undertaken to make capital more available to minority- and woman-owned businesses. Finally, we also interviewed 22 industry and trade associations to obtain their views.

2. **In anticipation of the GAO's release of its comprehensive report on Hispanic underrepresentation in the Federal workforce, the National Hispanic Leadership Agenda (NHLA) recently published an evaluation of OPM's efforts in this area. The report concludes that "OPM has failed to accomplish measurable progress in addressing the underrepresentation of Hispanics in the federal workforce, and has failed to hold federal agencies accountable for their poor performance."**

a. What can Congress do to ensure better accountability of OPM's efforts to improve Hispanic representation in the federal workforce, including our federal financial regulators?

As the government's human capital manager, OPM's mission is to build a high-quality and diverse federal workforce based on merit system principles. In carrying out its mission, OPM assists agencies in carrying out their responsibilities under the Federal Equal Opportunity Recruitment Program (FEORP), which, among other provisions, requires executive agencies to conduct a continuing program for recruiting minorities. Under Executive Order No. 13171, *Hispanic Employment in the Federal Government*, aimed at improving the representation of Hispanics in the federal government, OPM's responsibilities include taking the lead in promoting diversity to executive agencies, providing guidance, and chairing an Interagency Task Force on Hispanic employment in the federal government to review best practices, provide advice, assess overall executive branch progress, and recommend further actions related to Hispanic representation.

Congress receives an annual report from OPM as required under FEORP and OPM submits annual reports to the President under Executive Order No. 13171. These reports can be a valuable source of information for Congress to exercise oversight over OPM's and agencies' efforts to implement these programs. Periodic reports from agency inspectors general and GAO, along with congressional hearings, provide additional avenues for Congress to help ensure accountability.

b. What type of recruitment initiatives are being implemented to increase the number of Hispanics hired annually, pursuant to Executive Order 13171?

In our August 2006 report, *The Federal Workforce: Additional Insights Could Enhance Agency Efforts Related to Hispanic Representation*,[1] we present recruitment initiatives that selected federal agencies told us they implemented to enhance their ability to recruit and develop Hispanics. These included reaching out to the Hispanic community and Hispanic-serving

[1] GAO, *The Federal Workforce: Additional Insights Could Enhance Agency Efforts Related to Hispanic Representation*, GAO-06-832 (Washington, D.C.: Aug. 17, 2006).

organizations; participating in conferences; recruiting at Hispanic-Serving Institutions;[2] sponsoring interns through the Hispanic Association of Colleges and Universities (HACU) National Internship Program; advertising in both English- and Spanish-language Hispanic media; and using student employment programs—such as the Student Career Experience Program (SCEP) and Federal Career Intern Program (FCIP)—and career development and training programs. We also provided examples of specific agency practices as reported to us. For example, according to the United States Air Force (USAF) their outreach strategy focuses on partnering and improving working relationships with Hispanic-serving organizations at the national, regional, and local levels. At the national level, the USAF stated that they have established relationships with professional, educational, and broad-based Hispanic-serving organizations such as the League of United Latin American Citizens. Through the Department of Defense partnership with HACU, the USAF participates in a national working group that meets semiannually to develop initiatives to expand recruitment at Hispanic-Serving Institutions. At the local and regional levels, the USAF has a variety of outreach efforts that involve both providing information to, and gaining feedback from, the Hispanic community such as sponsoring "train the trainer" workshops with organizations, high schools, and colleges and universities; serving as mentors for Hispanic students; and regularly providing vacancy announcements to, and having ongoing dialogues with, local Hispanic community organizations.

c. What are the causes of high separation rates for Hispanic federal employees and what is needed to ensure their long term retention?

Under the Equal Employment Opportunity Commission's Management Directive 715 (MD-715), which provides guidance and standards to federal agencies for establishing and maintaining effective equal employment opportunity programs, agencies are to assess their workforces to determine whether barriers to equal employment opportunity exist and to identify and develop strategies to mitigate those barriers. As part of their barrier analyses, agencies are to analyze and annually report on separation rates for racial/ethnic and gender groups.

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[2]Statute defines Hispanic Serving Institutions as an eligible institution having an undergraduate enrollment of at least 25 percent Hispanic full-time students and at least 50 percent of the institution's Hispanics students qualifying as low income. See 20 U.S.C. sec. 1101a(a)(5).

d. What can be done to increase the number of students that get placed in Federal agencies through internship programs such as the National Association for Equal Opportunity in Higher Education(NAFEO) internship program and the Hispanic Association of Colleges and Universities (HACU) national internship program? How many of these interns get placements in agencies that have oversight of our nation's financial institutions?

As discussed above, in August we reported on approaches agencies told us enhanced their ability to recruit and develop Hispanic employees. These included utilizing student employment programs such as the Student Career Experience Program (SCEP). Under SCEP, agencies may hire students as interns while they are pursuing high school diplomas or equivalent vocational or technical certificates, and associate's, bachelor's, graduate, or professional degrees. Upon completion of their degree program and SCEP requirements, agencies may noncompetitively convert participants to permanent employment. Recently revised SCEP regulations allow agencies to credit up to 320 hours of the 640 hours of career-related work experience required for conversion from active duty military service or from comparable nonfederal internship, work-study, or student volunteer programs where work is performed at federal agencies.[3] Comparable work experience can include those internships sponsored by NAFEO, HACU, and others if requirements are met. The regulations also permit agencies to waive up to 320 SCEP hours of required work experience for students who have demonstrated exceptional job performance and outstanding academic achievement.

Although we did not assess the extent to which interns are placed in specific agencies, we recommended that the director of OPM assess the extent of participation by racial and ethnic groups in student employment programs such as SCEP. As part of this effort, we recommended that OPM (1) analyze participation in, and conversion rates to, permanent positions from these programs and (2) report governmentwide and agency-specific demographic data for the different racial and ethnic groups reflecting participation in, and rates of conversion to, permanent employment from these programs.

[3] 71 Fed. Reg. 181,161 (Apr. 11, 2006). 5 C.F.R. sec. 213.3202(b).

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