

**TESTIMONY OF
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**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 15, 2004

Madam Chairwoman and members of the Subcommittee:

I am Marc Lackritz, President of the Securities Industry Association¹, and I appreciate the opportunity to testify on SIA’s and our member-firms’ commitment to encouraging diversity within 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, our industry, and our investors.

I am proud of SIA’s efforts over the last decade to make the securities industry an inclusive, multicultural place to work. I am also proud of the progress our firms have made to develop diversity initiatives in the workplace and improve their marketing to diverse customers. While our efforts are clearly beginning to pay off, we recognize that more work needs to be done. We are seriously committed to creating a non-discriminatory workplace and an industry where anyone can succeed on his or her merits.

¹ The Securities Industry Association, established in 1972 through the merger of the Association of Stock Exchange Firms and the Investment Banker's Association, brings together the shared interests of nearly 600 securities firms to accomplish common goals. SIA member-firms (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 780,000 individuals. Industry personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2003, the industry generated an estimated \$209 billion in domestic revenue and \$278 billion in global revenues. (More information about SIA is available on its home page: www.sia.com.)

I will focus my testimony today on several initiatives we have developed to support member-firms in their efforts to increase inclusion in the workplace. Specifically, I will discuss the results of the biennial survey we conducted in 2003 and highlight some of the most successful programs our firms have implemented. I will also touch briefly on the 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 the 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 survey² – which helps track industry employment of minorities and women – in 1999 so we could keep tabs on our progress over time. Importantly, our industry experienced one of the most significant recessions ever during the 1999-2003 time period the survey covers. Given the difficult market conditions and severe cost-cutting measures our firms had to take, our progress is even more remarkable. Some of the encouraging results include:

- The percentage of women and minorities in key securities-industry management positions is increasing, especially in large firms,³ which have all had diversity initiatives in place since at least 2001. Twenty-seven percent of those employees categorized as “executive management” are either women or minorities, as compared with 20 percent in 2001. Representation among branch managers remained consistent at 15 percent; among managing directors, it increased slightly from 17 to 20 percent.
- Thirty-three percent of the investment bankers in large firms were women or minorities, a nine-percent increase from 2001. Twenty-seven percent of traders at the large firms participating in the survey were women or minorities, compared with 23 percent in 2001. These two groups accounted for 22 percent of the brokers at the large firms (up slightly from 2001’s 20 percent).
- All of the large firms have diversity training included in their employee orientation programs, as compared with 89 percent in 2001. And 92 percent of the large firms

² The full report is available at http://www.sia.com/diversity_resource_guide/pdf/FinalSurveyReport2003.pdf.

³ Defined as 8,000 or more employees.

responding had formal mentoring programs in place, up from 78 percent in 2001. Some large firms have plans to add and expand their diversity efforts worldwide.

- All the mid-size firms⁴ have a diversity initiative as well. A number of them are engaged in as many diversity activities as the large firms. Eighty-three percent of mid-size firms have a management-level person dedicated to diversity, and the percentage of mid-size firms incorporating diversity training, employee networks, and formal mentoring programs more than doubled from 2001 to 2003.

Almost all of SIA's large member-firms are dedicated to helping minority kids receive scholarships, summer internships, and other opportunities for advancement. Although our survey does not catalogue every initiative, we know that they are extensive and pervasive. The many positive changes that have occurred are a tribute to the efforts started more than a decade ago. Yet some of the trends indicate that we still need to make further inroads and improvements. We are dedicated to doing our best to ensure that equal opportunity is a hallmark of firms' employment.

Recognizing Outstanding Leadership

SIA's Diversity Committee began offering a "Leadership Award" in 2002 to encourage innovation in the policies and programs that firms use to attract and retain minority employees. The award honors one firm's commitment to building a strong diversity initiative that is implemented proactively. It also showcases the depth and variety of diversity programs within the securities industry. Edward Jones and Quick & Reilly were the first two recipients of this award. In addition to the ease with which the program can be replicated – a key criterion for the award – we found several elements in common that contribute to a firm's success. They include:

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

⁴ Defined as 1,000-7,999 employees.

- Delegation of responsibility for diversity to target-strategy teams or dynamic task forces (rather than a diversity council or advisory board);
- 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 and provide support, including 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 obstacles 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. The Committee developed a Diversity Resource Guide in 1999 that provides extensive information about the numerous types of initiatives and programs undertaken by SIA member-firms in their recruitment, retention, and marketing efforts. In addition, the Committee maintains a

comprehensive Web site with links to online resources, and holds quarterly teleconferences that allow human resources and diversity managers to share experiences and suggestions that helped to strengthen their own firms' initiatives.

We have also introduced diversity into the core curriculum of the Securities Industry Institute. The Securities Industry Institute – held at the Wharton School of the University of Pennsylvania – is the industry's premier development program for industry professionals. By including diversity in the core curriculum, participants will develop the necessary skills to help them 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, The Stock Market Game, an 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. Nearly 700,000 students in grades 4-12 participate in this engaging investment education program annually.

SIA is proud to partner with the 100 Black Men of America's New York Chapter in establishing The Stock Market Game at the newly founded Eagle Academy for young men in the South Bronx. We hope that through partnerships such as this, young people will be introduced to the many career opportunities available in the financial services industry.

Conclusion

SIA and our member-firms are committed to creating a non-discriminatory 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 can further improve our diversity programs, and we look forward to working with you to achieve that important goal.

Thank you.