



**Testimony of Luke Visconti,
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**Before the Financial Services Committee on
Oversight and Investigations**

"Diversity in the Financial Services Sector"

**Progress Since June 2006 Government
Accountability Office (GAO) report
"Overall Trends in Management-Level Diversity
and Diversity Initiatives, 1993-2004"**

Feb. 7, 2007

Chairman Watt, Ranking Member Miller, and members of the Subcommittee, I thank you for this opportunity to testify about the key findings of the GAO report on workplace diversity in financial services.

DiversityInc is a national business publication. Started in 1998 as a web site, we launched our print magazine in 2003 and now have a daily web site and monthly magazine. DiversityInc is completely owned by Foulis Peacock and me. There are no outside investors, no corporate debt and no board of directors. This independence allows us to operate a pure editorial environment and we have a complete separation of editorial and advertising functions. I am responsible for all editorial functions.

DiversityInc.com has an audience of more than 1 million unique monthly visitors. The magazine has audited circulation of more than 200,000 people.

A core component of our editorial coverage is The DiversityInc Top 50 Companies for Diversity® list. This is an open competition for any company with more than 1,000 U.S. employees. There is no fee to participate and the evaluation is independent of business conducted with our company. There are companies on our list that do no business with us.

The DiversityInc Top 50 Companies for Diversity survey, now is in its eighth year. In 2003, we had 118 corporate participants, last year we had 317, this year we will have more than 350.

In my testimony, I will explain the methodology of the DiversityInc Top 50 and how it enables us to evaluate financial-services companies. We disagree with some premises in the GAO report, especially the contention that the financial-services industry as a whole has not kept par with the changing work-force and, to a lesser extent, management demographics in this country.

GAO Report Key Findings on Workplace Diversity in Financial-Services Sector

The GAO report studied work-force and management diversity in the financial-services industry (defined loosely as banks, securities and insurance companies) and access to capital for minority-owned businesses (MBEs) and women-owned businesses (WBEs), all from 1993-2004. The GAO's basic premise in this report is that this industry is not keeping up with the changing demographics of the country, although its representation of women and people of color in management is better than the overall work force.

Our DiversityInc Top 50 data shows that segments of the financial-services sector – specifically consumer-facing banks – are actually more progressive than most U.S. companies in any industry.

There are two reasons for the discrepancy in the GAO findings and our data. First and foremost, the GAO data is too old to be valid, as it compares trends in the work force and management from 1993-2004. As the national experts in measuring diversity in corporate America, we know how quickly diversity management evolves and how rapidly

human-capital demographics change once proven best practices are implemented. That can be demonstrated by the increased participation in the Top 50 list and the turnover of companies on the list over seven years as the questions and the responses have evolved. Therefore, for purposes of this testimony, we will present the most recent data we have on the financial-services industry, which is from calendar year 2006.

Secondly, the GAO report does not differentiate the types of financial institutions and we see a wide variation. Banks, especially consumer banks that have a long history of involvement with the Black and Latino communities since the implementation of the Community Reinvestment Act in 1977, have been leaders in the Top 50 since we implemented it in 2001. They have always had the greatest participation in the Top 50 and the largest industry representation on the list. Other financial institutions, notably brokerage firms, are certainly not diversity leaders and demonstrate strong evidence of discriminatory practices.

DiversityInc Top 50 Analysis

We base our analysis on data from The 2007 DiversityInc Top 50 Companies for Diversity® competition that documents how the banks on our list are national diversity leaders. This information is based solely on information submitted to DiversityInc by the banks for the calendar year 2006.

Now in its eighth year, The DiversityInc Top 50 Companies for Diversity list is determined entirely by a statistical analysis of responses to our 200-question survey. The survey is sent to any company requesting it that has more than 1,000 U.S. employees. The methodology is unbiased and is completely independent of business conducted with DiversityInc.

Companies in The DiversityInc Top 50 Companies for Diversity demonstrate consistent strength in the four areas the survey measures: CEO Commitment, Human Capital, Organizational and Corporate Communications and Supplier Diversity. Companies are assessed within the context of their industry, company size, geographical reach and employee skill sets. Almost all of the survey's questions are consistent year to year although they are updated annually to reflect evolving best practices in the field of diversity management. To be on the Top 50, companies must demonstrate excellence in all four areas. They also must provide health benefits for same-sex domestic partners of employees

The survey also is used to determine the nine specialty lists: the Top 10 Companies for Recruitment & Retention, the Top 10 Companies for Supplier Diversity, the Top 10 Companies for African Americans, the Top 10 Companies for Latinos, the Top 10 Companies for Asian Americans, the Top 10 Companies for Executive Women, the Top 10 Companies for GLBT Employees, the Top 10 Companies for People With Disabilities, and the 25 Noteworthy Companies.

The DiversityInc Top 50 demonstrate that strong diversity management is an indication of excellent corporate governance, which is over the long run, a demonstrator of financial performance. For the past four years, the publicly traded companies in the Top 50 have been expressed as a stock index. The 40 publicly traded stocks in The DiversityInc Top

50 Stock Index have been compared by Ramirez & Associates, a minority-owned brokerage firm that has a seat on the New York Stock Exchange, against The Standard & Poor's 500, the Dow Jones Industrial Average and Nasdaq. Over a 3, 5- and 10-year period, the DI Top 50 Index is more than 20 percent higher than the other three indexes. The DI Top 50 Index is recalculated each April when a new Top 50 list is announced.

It's important to note that absent the data submitted to us by the banks themselves, there is virtually no public human-capital demographic data available broken down this way for comparative purposes. We feel the publicly available EEO data is insufficient to fully understand the demographics of an industry.

The gap between the DiversityInc Top 50 banks and the EEOC data provided by the GAO report

We examined for purposes of this testimony the averages of the banks in the Top 50 (Bank of America, JPMorgan Chase, Wachovia, Wells Fargo & Co., Citigroup, KeyBank, HSBC North America and Comerica), compared with the 2004 EEOC data provided by the GAO report.

The data below illustrates quite clearly that the DiversityInc Top 50 banks far exceed the representation of people of color when compared with the EEOC data on the financial industry. There is a finite pool of talented people of color and the DiversityInc Top 50, especially the DiversityInc Top Banks, are scooping up the best and the brightest. Our research has found that especially with people of color and women, reputation is essential. Most people do not want to be the barrier breakers, the "first" of anything. They want to work in a place where they feel welcome and where their talents can flourish. The branding as a diversity-friendly company is critical and most of the big banks have that. The brokerage companies do not and in our opinion, are perceived as impenetrable bastions reserved for the privileged few. It is our opinion that brokerage firms are not looking for people not already in "the club."

Specific data we found:

- The DiversityInc Top 50 banks averaged 35 percent people of color in the work force (defined as Blacks, Latinos, Asian Americans and Native Americans), compared with 27 percent for the financial-services industry as defined by the GAO report. The DiversityInc Top 50 banks were higher in every category of people of color. Specifically, the DiversityInc Top 50 banks had 16 percent Blacks in the work force, compared with 13.3 percent in the GAO report; 10.5 percent Latinos in the work force, compared with 6.1 percent in the GAO report,, 8 percent Asians in the work force, compared with 6.1 percent in the GAO report, and 0.6 percent Native Americans in the work force, compared with 0.4 percent in the GAO report.
- The DiversityInc Top 50 banks averaged 22 percent people of color in management, compared with 15.5 percent in the GAO report. Specifically, the DiversityInc Top 50 banks had 9 percent managers who were Black, compared with 6.6 percent in the GAO report, 6 percent managers who were Latino, compared with 4 percent in the GAO report, 6 percent managers who were Asian, compared with 4 percent in the GAO report, and 0.5 percent managers who were Native American, compared with 0.3 percent in the GA report.

- The GAO report stated that the financial companies contacted had challenges in implementing diversity initiatives, including linking managers' compensation to diversity. "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," the GAO report states. All of the top banks tie management compensation to diversity and 88 percent of their CEO's personally sign off on executive compensation linked to diversity. They average 11 percent of executive bonuses tied directly to measured diversity success.
- All of the DiversityInc Top 50 banks have employee-resource groups, which are key to recruitment, retention and promotion of under-represented groups. They allow them to meet during the workday, fund them, have a senior executive heading each group and use them for marketing and recruiting purposes
- All of the DiversityInc Top 50 banks offer diversity training. Half have mandatory training for all employees; 75 percent have mandatory training for managers; 63 percent have training that lasts for one day or more; 88 percent offer training monthly. All of the DiversityInc Top 50 banks survey their employees on diversity issues.
- Connecting with the community, which harkens back to the CRA, is vital to the DiversityInc Top 50 banks. An average of 25 percent of their philanthropic efforts go to communities of color, the gay, lesbian, bisexual and transgender community, or people with disabilities.

The brokerage firms do not participate in the DiversityInc Top 50

With the exception of Merrill Lynch, which has been a national diversity leader, no brokerage firms were among the 317 companies participating in the Top 50 last year.

Those who did **not** participate include:

Morgan Stanley
 Bear Stearns
 Goldman Sachs
 Robert W. Baird
 UBS
 Lazard Freres & Co.
 Raymond James
 C.E. Unterberg, Towbin
 Calyon Securities
 Deutsche Bank
 Friedman, Billings, Ramsey Group
 Janney Montgomery Scott
 Jefferies Group
 Oppenheimer
 Piper Jaffray

Lawsuits and Settlements

The brokerage industry has been the subject of repeated and massive discrimination lawsuits. We have been told by current and former employees who are women and people of color, especially Blacks, that they "did not fit in" and were excluded and made to feel uncomfortable.

As an example, these lawsuits show the tip of the iceberg since most employees are too afraid of retaliation to sue. Further, the settlement costs are relatively insignificant to a brokerage company – they're roughly comparable to the bonus many individual brokers earn in one year.

- In 2007, nearly 3,000 female financial advisers and registered financial-adviser trainees sued Morgan Stanley, alleging they were denied promotions because of their gender. **Settlement: \$46M**
- In 2007, Morgan Stanley was sued by 1,200 Black and Latino financial advisers and financial-adviser trainees employed with the company at any time since Oct. 12, 2002 who allegedly were denied important accounts and professional-development opportunities because of their race. **Settlement:** A confidential settlement was reached in which the firm agreed to create a fund to settle the claims. In October, word the fund held only \$16 million received major backlash from 16 African Americans involved in the suit.
- In 2005, four female financial consultants filed a national class-action lawsuit against Smith Barney, alleging discrimination on the basis of gender in account distribution, business leads, partnership opportunities, referrals, etc. This has **not been settled yet**.
- In 2005, 17 current and former Black brokers filed a national class-action lawsuit against Merrill Lynch on behalf of more than 100 Black brokers who alleged systemic discrimination on the basis of race. This has **not been settled yet**.
- In 2004, as many as 340 female employees of Morgan Stanley alleged they suffered lower salaries because of their gender and were subjected to lewd behavior from male co-workers such as slaps on their buttocks, strip-tease shows and breast-shaped birthday cakes. **Settlement: \$54M**
- In 1998, up to 22,000 women who worked at the Smith Barney from May 1993 to November 1997 were subject to sexual harassment, teasing and taunting and "boom-boom rooms." **Settlement:** Twenty-three of the 25 women named in the lawsuit agreed to settle for incentives ranging from \$20,000 to \$150,000 and Smith Barney promised to commit **\$15M** to diversity training
- In 1997, more than 900 women alleged gender-based discrimination and sexual harassment at Merrill Lynch such as finding "a dildo, some hand lotion and a sheet of perverse poetry" in a gift box on their desks. **Settlement: \$100M(+)**

Persistently Oppressive Work Environment

In our experience, the brokerage industry is uniquely recalcitrant in maintaining a frat-boy atmosphere. Last summer, we ran a three-part series on DiversityInc.com regarding the personal experience of Kimberley Copeland, a well-educated and intelligent woman I know personally through her mother, Margot, who is the chief diversity officer at KeyBank. This is a critical point. Her mother is in a position that gives her an excellent perspective on proper corporate behavior in a progressive financial-services firm. I am confident that Kimberley's experience was not unusual for a young Black woman professional at the firm where she worked.

Kimberley was heavily recruited from a blue-chip HBCU and landed a job on the revenue-generating side of one of Wall Street's most prestigious investment banks. But her excitement soon turned to humiliation and anger as she was subjected to racist and sexist intimidation and harassment.

The following is an excerpt from that article, in her own words:

Fitting in, for someone like me, was work, was as much work as actually trying to learn the job; but there were others who just had natural experiences that didn't make it very difficult to fit in.

I thought I was fitting pretty well, but my first negative interaction with middle management actually happened about eight months after I started. What had made my internship so positive was the access and exposure that I had to senior management kind of operated with the same kind of boldness that I did in the summer program.

At the time I was working as a trade assistant on the floor of the New York Stock Exchange, which was a rotation for my program, but one day I seized this opportunity to sit down with the senior MD [managing director], the director of all of equities, to talk with him about my vision, to tell him who I was and what sorts of things that I would like to be doing in the firm. And he was very receptive, and he suggested to me that I approach my manager about doing a rotation on the trading desk and spending some time with senior traders and salespeople to get a different perspective and a different level of exposure.

I was so excited. I went directly to my direct manager, and I told him all about the conversation and I asked him, "Could I have this opportunity to rotate on the desk for a few months?" and he was furious with me.

Sexual harassment was a social norm in the workplace that I was in. When I began my job, there was one other woman that I worked with directly in my space, and she was a young woman, she was white, she came from a wealthy family, she was athletic, all of that. A good fit, and someone who was really on the fast track—it was apparent. I was impressionable and really trying to work with the experience, and so I began to model my interactions after hers, and one of the things that she used to allow was for individuals to touch her in inappropriate ways in the workplace.

There was an older man that used to come up behind her daily, and squeeze her on the waist at her lower torso. And she would always laugh and joke as he did it, and kind of play it off as if it was something that was funny or it tickled or amused her. It was only a matter of time before this individual had developed a similar level of comfort with me, and this same man was coming up behind me and squeezing me in the same place, every day, whenever we saw him.

I hated it. I did. But I allowed it, because worse than these 10 seconds of daily harassment was this thought of being ostracized by this individual, by my colleagues, and of no longer being an insider in this culture, in my group, being labeled as a troublemaker. So it was this compromise that I would allow to continue to fit.

People who were senior in my group [asked me] to go with them to hotels and whatnot. I would say no, and you could feel their coldness the next day—that would often be played off as a hangover or whatnot—but it was just a chill.

An interesting story is that there was one day that there was actually a black man who made an inappropriate comment to me. I was on the train on my way to work with my gym bag, and he told me later, "You know, I saw you on the train this morning with your gym bag, and I was secretly hoping that it was an overnight bag and that you were coming from my house."

There was a woman who was an assistant like I was, but she had been one for all of her life. She had been one since she was 17 years old and she was now 60 years old, so she was sort of a Mammy figure in the workplace. She always had the BAND-AIDS and the cough drops if anyone needed them, and everyone felt like she was their mom in the workplace.

And so this woman, who didn't have great English and split a lot of her verbs, was asked by my bosses—I mean literally, there had to be two or three of my managers as a part of this conversation, they all belonged to this same country club—they asked her to call the director of membership at the country club that they all belonged to, and request membership, as a joke. It was a prank call. And she was scripted, I mean they told her to ask if they had fried chicken and collard greens on the menu, and really just send this person on the other end of the phone into a tailspin and say, "I'll come up there with my posse if you don't let me in that country club." And she did it. She made this prank call and they stood around and they were laughing.

At the same time that all of these horrible things were going on, I was recruiting; I was very active in diversity recruiting. And I would go on these trips to Spelman and to Morehouse and to Howard, and I would sell the story—the same story that was sold to me—to these young, ambitious future interns and analysts of the firm, and I was basically lying to them. But I would go and I would speak about the experience, and it was almost as if I was living off of that energy that I had had from that initial summer on Wall Street. But that was all I had, because my story was so horrible that I couldn't dare share it with them that I was pretending for them.

And that was interesting that it had come full circle that way because I realized that maybe, perhaps some of the people that they had sent down to recruit me and others were doing the same thing, were going through the same motions.

Brokerage firms are not present in diversity management seminars

Every year, for the past 10 years, I have been invited to speak at diversity events, corporate seminars, college and university events, not-for-profit fund-raisers and information symposia where information is shared and research is revealed. Last year, I spoke at more than three dozen events and meetings. To give you a sense of the scale of the number of events annually, I am paid for my speaking appearances (an average of \$6,250 per appearance last year) which we donate via the DiversityInc Foundation 501c(3) to fund scholarships at Rutgers University, Bennett College for Women and New Jersey City University. My schedule is full: Our foundation donated more than \$235,000 last year.

It is my direct observation that brokerage firms are noticeably absent from attending or sponsoring these events. There is no major industry, except the oil and construction industries, which is more absent.

For more than four years, I served on the steering committee of the Rainbow/PUSH Wall Street Project. I was awarded the "Bridge Builder Award" by Reverend Jessie Jackson in 2005. The mission of The Wall Street Project is to open dialogue, inform and instruct people who have been traditionally excluded from access to capital.

Despite being given initial sponsorship by Sandy Weil, former CEO of Citigroup, and Dick Grasso, former CEO of the New York Stock Exchange, The Wall Street Project did not enjoy widespread support from the brokerage community – even losing its ability to have a fund-raiser on the floor of the exchange after Dick Grasso left the exchange. From my personal observation, there was scant attendance of brokerage house executives at The Wall Street Project annual conference.

In just the past three years, DiversityInc has been asked to conduct research and/or present facts to several industry groups, including foodservice, banking, healthcare, technology, advertising, the military and cable television. Results were presented publicly. I know of no analogous program of research in the brokerage industry.

Brokerage firms are not active recruiters for diverse candidates

There is a high degree of competition for top-flight students of color. DiversityInc Top 50 Companies are very active in their recruitment efforts, advertising on job boards, advertising in media targeting diverse people, attending job fairs and most importantly, building pipelines for students to learn about career opportunities in their industries.

Proactive pipeline building is essential. Most Black and Brown students have no understanding of the brokerage industry and, therefore, could hardly be expected to seek it out on their own. Progressive companies – and industries – such as the banking, insurance and pharmaceutical industries, are very active in reaching out to mentor and

fund education of economically oppressed students (which are overwhelmingly students of color).

It is my observation that the brokerage industry is practically absent from these efforts, especially in consideration of the wealth generated by a relatively few corporations.

For example, I am a board member of The PhD Project, which recruits business and finance executives to earn PhDs and become professors at business and accountancy schools. DiversityInc is a sponsor. Brokerage firm sponsorship in the PhD Project is insignificant - although business schools – and their professors – are certainly key in developing the potential talent of color to work in their firms.

Net Result of a Lack of Diversity

According to Bloomberg.com (January 17, 2007), the five largest brokerage companies, Goldman Sachs Group Inc., Morgan Stanley, Merrill Lynch & Co., Lehman Brothers Holdings Inc. and Bear Stearns Cos., distributed more than \$39 billion in bonuses last year, more than any other year – and in a year in which the companies lost more than \$80 Billion, the evolving sub-prime debacle and the departure of several brokerage CEOs.

Irresponsibility demonstrated by the current sub-prime fiasco is going to cost our society in a number of ways, including impact on the stock market and destruction of investor wealth. What is more damaging but less obvious, is the effect on our society of limiting access to instruments of equity trade and finance to a small slice of our total population. Blacks and Latinos continue to invest in equities proportionately less than white people. As their numbers grow, our nation's ability to generate wealth is diminished proportionally to the exclusion they experience.

Further, when instruments of macro-trade and finance are limited to a small group in our society, the ability of the rest of the population to leverage its efforts in the business arena. This has a proportionately deleterious effect on everyone, including a corresponding hobbling of tax revenue from people who were not able to reach their earning – and tax-paying – potential.

If people are created equal, then talent is distributed equally also. The closed society of the brokerage industry continues to hobble the same targets of oppression that civil rights legislation, such as the Community Reinvestment Act, had partially opened the door to opportunity.

Our nation's best interest is in having the best talent deployed to maximum effect. The beneficiaries of such extreme largess as the brokerage industry have a moral and fiduciary responsibility to our nation.

My recommendation is to start with tracking numbers. Hiring, promotion and retention numbers – in greater detail than is available in EEO-1 data – should be collected and publicly disseminated.

A counter-argument could be made by the brokerage industry that (especially) Black and Latino students are not taking the math and finance courses necessary to excel in this

field. This is true, however, an industry that can distribute the equivalent of more than \$200,000 in bonus per employee can certainly be counted on to be intelligent and industrious enough to fund the pipelines necessary to create the student quality necessary for future employment in the industry.

I recommend that investment – proportional to the wealth of the industry – be mandated to build pipelines of properly prepared students to be employed in the brokerage industry. The goal of these programs should be to broaden the current vestigial recruiting efforts from the limited number of students at the blue-chip Historically Black Colleges and Universities to the vastly larger pool of under prepared talent as defined by socio-economic level – with emphasis in currently underrepresented groups. It is important to mandate that this investment be made in existing organizations that already serve the populations most discriminated against by the brokerage industry: women and people of color. Left to its own devices, it is easy to foresee the industry creating its own “organizations,” which could be counted on to be consistent and continue the exclusionary practices of today. Existing organizations that serve students and have an existing track record should be funded. I recommend both strategic development organizations, such as The PhD Project, and tactical student/intern mentoring organizations such as INROADS, see a dramatic increase of funding from the brokerage industry.

Finally, supplier-diversity efforts must be mandated to expand on an exponential basis. Investment capital, pension and endowment management and other sophisticated areas of the brokerage industry must be forced open to include Women and Minority Business Enterprises.