



SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

ASSET MANAGEMENT & CUSTODY ACTIVITIES

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0103

Prepared by the
Sustainability Accounting Standards Board®

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ASSET MANAGEMENT & CUSTODY ACTIVITIES

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability issues for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization and is accredited to set standards by the American National Standards Institute (ANSI).

SASB is developing standards for more than 80 industries in 10 sectors. SASB's standards-setting process includes evidence-based analysis with in-depth industry research and engagement with a broad range of stakeholders. The end result of this process is the creation of a complete, industry-specific accounting standard which accurately reflects the material issues for each industry.

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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for Asset Management & Custody Activities.

SASB Standards are comprised of (1) disclosure guidance and (2) accounting standards on sustainability topics for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB's disclosure guidance identifies sustainability topics at an industry level, which may be material— depending on a company's specific operating context— to a company within that industry.

Each company is ultimately responsible for determining which information is material and is therefore required to be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB's accounting standards provide companies with standardized accounting metrics to account for performance on industry-level sustainability topics. When making disclosure on sustainability topics, companies adopting SASB's accounting standards will help to ensure that disclosure is standardized and therefore useful, relevant, comparable, and auditable.

Industry Description

Companies in the Asset Management & Custody Activities Industry manage financial investments and provide financial planning for corporate, individual, government, and institutional clients. Select companies in this industry are also engaged in private equity and other investment structures.

Guidance for Disclosure of Material Sustainability Topics in SEC filings

1. Industry-Level Material Sustainability Topics

For the Asset Management & Custody Activities Industry, SASB has identified the following material sustainability topics:

- **Employee Incentives & Risk Taking**
- **Employee Inclusion**
- **Transparent Information & Fair Advice for Customers**
- **Management of the Legal & Regulatory Environment**
- **Systemic Risk Management**
- **Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory**

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.”¹

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SIC industry. SASB recognizes, however, that each company is ultimately responsible for determining what is material to it.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K “any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.”²

Furthermore, Instructions to Item 303 state that the MD&A “shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition.”

In determining whether a trend or uncertainty should be disclosed, the SEC has stated that management should use a two-part assessment based on probability and magnitude:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- If a company’s management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant’s financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management’s Discussion and Analysis

Companies should consider making disclosure on sustainability topics as a complete set in the MD&A, in a sub-section titled **“Sustainability Accounting Standards Disclosures.”**³

b. Other Relevant Sections of Form 10-K

¹ TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

² C.F.R. 229.303(Item 3030)(a)(3)(ii).

³ [SEC \[Release Nos. 33-8056; 34-45321; FR-61\] Commission Statement about Management’s Discussion and Analysis of Financial Condition and Results of Operations](#): “We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing.”

In addition to the MD&A section, companies should consider disclosing sustainability information in other sections of Form 10-K, as relevant, including:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Specifically Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State, and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations targeting discharge of materials into the environment or primarily for the purpose of protecting the environment.
- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, “such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>.

Guidance on Accounting of Material Sustainability Topics

For sustainability topics in the Asset Management & Custody Activities Industry, SASB identifies two categories of accounting metrics: 1) Quantitative and 2) Discussion and Analysis.

SASB recommends that each company consider using these sustainability accounting metrics when disclosing its performance with respect to each of the sustainability topics it has identified as material.

As appropriate—and consistent with Rule 12b-20⁴—for each sustainability topic, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy and comparability of the data reported. Where not addressed by the specific accounting metrics, but relevant, the registrant should discuss the following related to the topic:

⁴ SEC Rule 12b-20: “In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading.”

- the registrant's **strategic approach** to managing performance on material sustainability issues;
- the registrant's **competitive positioning**;
- the **degree of control** the registrant has;
- any **measures the registrant has undertaken** or **plans to undertake** to improve performance; and
- data for registrant's **last three completed fiscal years** (when available).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the [Sustainability Industry Classification System \(SICS™\)](#). If a registrant generates significant revenue from multiple industries, SASB recommends that it consider the materiality of the sustainability issues that SASB has identified for those industries and disclose the associated SASB accounting metrics.

Users of the SASB Standards

The SASB Standards are intended for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act)⁵, for use in SEC filings, including, without limitation, annual reports on Form 10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Nevertheless, disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities in which the registrant has a controlling interest and therefore are consolidated for financial reporting purposes (controlling interest is generally defined as ownership of 50% or more of voting shares);⁶
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that such registrant considers the information necessary for investors to understand its performance with respect to sustainability issues (typically this disclosure would be limited to risks and opportunities associated with these entities).

⁵ Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than \$10 million in assets.

⁶ See US GAAP consolidation rules (Section 810).

Reporting Format

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparison of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed “activity metrics” —may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for users of SASB accounting metrics (e.g., investors) in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant – however, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.

Where relevant, SASB recommends specific activity metrics that – at a minimum – should accompany SASB Sustainability Accounting Metric disclosures to aid investors in interpretation, analysis, and benchmarking.

For the Financials Sector, metrics measuring revenue, returns, margins, and regulatory capital are relevant for normalizing and analyzing SASB disclosures. Because these and other relevant financial metrics are readily available in financial statements and from financial data vendors, SASB does not specify activity metrics for the industries within the Financials Sector.

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables like the imperfectness of third-party reporting systems or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may be necessary for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company and, therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward Looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as forward looking and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

Assurance

In reporting on SASB Standards, it is expected that registrants report with the same level of rigor, accuracy, and responsibility as all other information contained in their SEC filings.

SASB encourages registrants to use independent assurance (attestation), for example, an Examination Engagement as described in AT Section 701.

The following sections contain the technical protocols associated with each accounting metric such as guidance on definitions, scope, accounting guidance, compilation, and presentation.

The term “shall” is used throughout this Standard to indicate those elements that reflect SASB’s mandatory disclosure requirements. The terms “should” and “may” are used to indicate guidance, which, although not mandatory, provides a recommended means of disclosure.

Table 1. Material Sustainability Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Employee Incentives & Risk Taking	Discussion of variable compensation policies and practices	Discussion and Analysis	n/a	FN0103-01
	Percentage of total compensation that is variable for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-02
	Percentage of variable compensation that is equity for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-03
	Percentage of employee compensation which includes ex-post adjustments for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-04
Employee Inclusion	Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others	Quantitative	Percentage (%)	FN0103-05
Transparent Information & Fair Advice for Customers	Amount of fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services ⁷	Quantitative	U.S. dollars (\$)	FN0103-06
	Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflicts of interest	Discussion and Analysis	n/a	FN0103-07
Management of the Legal & Regulatory Environment	Amount of legal and regulatory fines and settlements associated with financial fraud and percentage that resulted from whistleblowing actions ⁸	Quantitative	U.S. dollars (\$), percentage (%)	FN0103-08
	Number of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated ⁹	Quantitative	Number (#), percentage (%)	FN0103-09

⁷ Note to **FN0103-06** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

⁸ Note to **FN0103-08** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

⁹ Note to **FN0103-09** – Disclosure shall include a description of the nature of the inquiries, complaint, or issues, and of any corrective actions taken by the registrant in response to information received by its legal and compliance office through an internal monitoring and/or reporting system.

Table 1. Material Sustainability Topics & Accounting Metrics (cont.)

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Systemic Risk Management	(1) Registered and (2) unregistered assets under management	Quantitative	U.S. dollars (\$)	FN0103-10
	Value of collateral received from securities lending and amount received from repurchase agreements involving clients' assets	Quantitative	U.S. dollars (\$)	FN0103-11
	Net exposure to written credit derivatives	Quantitative	U.S. dollars (\$)	FN0103-12
	(1) Tier 1 common capital ratio (2) Tier 1 capital ratio (3) Total risk-based capital ratio (4) Tier 1 leverage ratio	Quantitative	Ratio in U.S. dollars (\$)	FN0103-13
	Basel III Liquidity Coverage Ratio (LCR)	Quantitative	Ratio in U.S. dollars (\$)	FN0103-14
Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory	Discussion of how environmental, social, and governance (ESG) factors are integrated into investment analysis and decisions and of how this integration intersects with fiduciary duties	Discussion and Analysis	n/a	FN0103-15
	Percentage of assets under management, by major asset class, that employ: (1) Integration of ESG factors (2) Sustainability themed investing (3) Screening (exclusionary, inclusionary, or benchmarked) (4) Impact or community investing	Quantitative	Percentage (%) in U.S. dollars	FN0103-16
	Percentage of total proxies voted, and number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action	Quantitative	Percentage (%), number (#)	FN0103-17
	Ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management	Quantitative	Tons CO ₂ / U.S. dollars (\$)	FN0103-18

Employee Incentives & Risk Taking

Description

Employee compensation in the asset management and custody activities industry can incentivize short-term or long-term performance. Structures that focus on short-term performance or allow managers to share in investors' upside gains can encourage risk taking and lead to a concentration of investments in certain asset classes or securities. Both practices can present significant adverse implications for long-term client and corporate value. Subsequently, improved disclosure on employee compensation, focusing on the use of performance metrics and variable remuneration, will provide shareholders with a clear understanding of how companies in this industry are protecting corporate value.

Accounting Metrics

FN0103-01. Discussion of variable compensation policies and practices

- .01 The registrant shall describe how it determines the variable portion of employees' compensation, including how performance is measured qualitatively, what quantitative variables are used, and how risk is taken into consideration.
- .02 For the purposes of this disclosure, variable compensation shall consist of both cash awards and short and long-term equity compensation. It includes bonus, incentive payments, commissions, overtime, retirement matches (e.g., 401K), and associated payroll tax. Pensions, insurance, perquisites, and payroll taxes shall be excluded.
- .03 Where underlying processes and performance factors differ significantly across employee categories (e.g., Executives/Sr. Managers, Mid-level Managers, etc.), regions (e.g., Americas, Europe/Middle East/Africa, etc.), or job functions (e.g., sales & marketing, investment management, corporate, technology), the registrant should identify separate groups of employees and describe variable compensation structures for each group.
- .04 The registrant should use employee categories defined by the U.S. Equal Employment Opportunity Commission in its [EEO-1 Job Classification Guide](#).
- .05 The registrant shall discuss key factors in its determination of variable compensation for employees, such as the following: the level of decision-making required by employees, qualitative performance (e.g., those relating to skill, knowledge, or ability), financial variables, external variables (e.g., share price), relative measures of performance (i.e., peer-to-peer comparison as opposed to absolute value generation), or the use of discretion or qualitative assessments of risk and performance.
- .06 The registrant shall discuss how it factors risks taken by employees into its variable compensation determinations, such as the use of performance measures that include risk considerations or the use of risk adjustments (e.g., risks weightings, such as *ex ante* adjustments which are risk adjustments to compensation made as compensation is accrued and awarded, to take into account potential adverse developments in the future).
- .07 The registrant shall provide a description of the length of deferral (e.g., in years) of variable compensation and the vesting schedule (e.g., annual intervals).

- .08 The registrant shall disclose if there is a provision where vesting of the variable portion of compensation accelerates during retirement.

FN0103-02. Percentage of total compensation that is variable for: (1) executives and (2) all others

- .09 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .10 For the purposes of this disclosure, variable compensation shall consist of both cash awards and short and long-term equity compensation. It includes bonuses, incentive payments, commissions, overtime, retirement matches (e.g., 401K), and associated payroll tax. Pensions, insurance, perquisites, and payroll taxes shall be excluded from the calculation of variable and total compensation.
- .11 For both employee categories, the registrant shall calculate the percentage as variable compensation aggregated for all employees in that category divided by total compensation aggregated for all employees in that category.
- .12 Total compensation is defined as the sum of fixed, base pay (i.e., salary) and any variable, bonus, or performance-based pay.

FN0103-03. Percentage of variable compensation that is equity for: (1) executives and (2) all others

- .13 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .14 For the purposes of this disclosure, variable compensation shall consist of both cash awards and short and long-term equity compensation. It includes bonus, incentive payments, commissions, overtime, retirement matches (e.g., 401K), and associated payroll taxes. Pensions, insurance, perquisites, and payroll taxes shall be excluded from the calculation of variable and total compensation.
- .15 Equity compensation is defined as compensation in the form of the registrant's stock, including stock options, restricted stock units (RSUs), or performance share units (PSUs).
- .16 The registrant shall calculate the value of equity compensation according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718.
- .17 For both employee categories, the registrant shall calculate the percentage as variable equity compensation aggregated for all employees in that category divided by total variable compensation (i.e., cash and equity) aggregated for all employees in that category.

FN0103-04. Percentage of employee compensation which includes ex-post adjustments for: (1) executives and (2) all others

- .18 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).

- .19 An *ex-post* adjustment is defined as adjusting accrued remuneration during (e.g., through a malus clause) or after (e.g., through a clawback clause) a deferral period in light observations of risk and performance during that period.
- .20 A malus clause is defined as a contractual term that permits the registrant to adjust accrual of all or part of the amount of deferred compensation as it accrues.
- .21 A clawback clause is defined as a contractual term that permits the registrant to retroactively adjust compensation that has already accrued and been awarded in light of observed risk and performance outcomes.
- .22 For both employee categories, the registrant shall calculate the percentage as the amount of total compensation that is subject to a malus clause, a clawback clause, or another *ex post* adjustment.

Employee Inclusion

Description

Asset management and custody activities companies face a high degree of competition for skilled employees. As the industry continues to undergo rapid innovation through the introduction of more complex financial products and computerized algorithmic and high-frequency trading, the ability of companies to attract and retain employees will likely be increasingly material. In addition, companies can generate significant value through meaningful employee engagement strategies and by ensuring diversity through inclusive training and development practices. Enhanced disclosure of employee engagement and diversity of employees and applicants will allow shareholders to assess how companies in this industry are managing the risks and opportunities associated with employee development and inclusion.

Accounting Metrics

FN0103-05. Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others

.23 The registrant should summarize and disclose employee representation by employee category in the following table format:

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	Female	NA*	White	Black or African American	Hispanic or Latino	Asian	Other^	NA*
Executives/Sr. Managers									
All others									

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classification

- .24 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .25 The registrant shall categorize the gender of its employees as: male, female, not disclosed/available.
- .26 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's [EEO-1 Report](#): White, Black or African American, Hispanic or Latino, Asian, and Other (includes: American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.
- .27 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.
 - Where relevant the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

Transparent Information & Fair Advice for Customers

Description

Asset managers have legal obligations and fiduciary duties related to record keeping, operating and marketing, disclosure requirements, and prohibitions on fraudulent activities. Regulations surrounding this industry are intended to align the interests of companies and their clients and to limit conflicts of interest. This alignment, coupled with the fact that most asset managers earn fees based on the amount of assets under management, provides a significant incentive for companies to provide clients with strategies that match their risk-return profiles. Despite required disclosures, companies still face significant challenges in ensuring that clients understand the nature of risks taken in investment strategies. Enhanced disclosure on how firms are managing these risks will provide shareholders with an advanced understanding of long-term value preservation.

Accounting Metrics

FN0103-06. Amount of fines and settlements associated with the failure to provide adequate, clear, and transparent information about products and services

- .28 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with information transparency, including those related to truthful advertising, transparency of small print, marketing to vulnerable groups (e.g., small investors), transparency of fees, mis-selling products, overcharging clients, and legal responsibility of the firm with respect to transparent information and fair advice.
- .29 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

NOTE TO FN0103-06

- .30 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., advertising-related, breach of contract, negligence, etc.) of the fines and settlements.
- .31 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN0103-07. Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflicts of interest

- .32 The registrant shall describe its strategy for communicating information about its products and services to customers in a clear, transparent manner, including the focus of the content, communication method, frequency of communication, and responsibility for communication.

- .33 Relevant content includes, where applicable, topics such as risk, suitability, investment alternatives, and the disclosure of conflicts of interest.
- Relevant risks include those related to complex or high-yield products that may be subject to volatility, credit risk exposure, sensitivity to interest rates, or liquidity concerns, or otherwise may be misaligned with clients' risk tolerance.
 - Relevant aspects of suitability are those addressed in FINRA's [suitability rules](#), where registrants "and their associated persons must have a reasonable basis to believe" that a transaction or investment strategy involving securities that they recommend is suitable for the customer. This reasonable belief must be based on the information obtained through the reasonable diligence of the firm or associated person to ascertain the customer's investment profile.¹⁰
 - Relevant conflicts of interest include those related to services (e.g., research) paid for by clients' commissions, the allocation of trades amongst clients, and rules for the registrant's employees' personal accounts (PAs).
- .34 Communication methods may include client statements, supplemental brochures, product prospectuses, website listing, or verbal communications.
- .35 The registrant may choose to disclose the style of communication, such as the use of legal disclaimers, plain English, etc.
- .36 Where necessary, the registrant shall describe differences in communication strategies, content, method, etc., between retail customers and institutional clients.
- .37 The registrant should describe the internal personnel responsible for developing and executing its communications strategy, such as the roles of client services, legal and compliance, sales and marketing, etc.

¹⁰ <http://www.finra.org/investors/protectyourself/beforeyouinvest/p197434>

Management of the Legal & Regulatory Environment

Description

The regulatory environment surrounding the asset management and custody activities industry continues to evolve both nationally and internationally. Companies are subsequently required to adhere to a complex and inconsistent set of rules relating to both performance and disclosure on issues including insider trading, clearing requirements in over-the-counter derivatives markets, and tax evasion. Asset management and custody activities companies are also subject to strict legal requirements as fiduciaries or custodians for their clients. Firms that are able to manage these regulatory concerns and ensure compliance will be better positioned to protect shareholder value and limit future liabilities.

Accounting Metrics

FN0103-08. Amount of legal and regulatory fines and settlements associated with financial fraud and percentage that resulted from whistleblowing actions

- .38 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with financial fraud including, but not limited to, money laundering, insider trading, and tax evasion.
- .39 Disclosure shall also include enforcements related to activities adjudicated by federal regulators with an enforcement mandate broader than the financial industry, such as Foreign Corrupt Practices Act violations (enforced by the U.S. Department of Justice), violations of the Specially Designated Nationals List (enforced by the U.S. Treasury Department through its Office of Foreign Asset Control), or Foreign Account Tax Compliance Act violations (enforced by the U.S. Internal Revenue Service).
- .40 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).
- .41 The registrant shall calculate the percentage as the total dollar amount of fines or settlements that resulted from whistleblowing actions divided by the total amount of fines or settlements, where whistleblowing actions are defined as reports of insider illegal activities that have been made public by an employee, contractor, client, or other individual, such as through disclosure to the SEC Office of the Whistleblower or the IRS Whistleblower Office.
- .42 Disclosure shall exclude fines and settlements reported above in FN0103-08 that are associated with the failure to provide adequate, clear, and transparent information about products and services.

NOTE TO FN0103-08

- .43 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., fraud, anti-trust, insider trading, etc.) of fines and settlements.
- .44 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN0103-09. Number of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated

- .45 The registrant shall disclose the total number of instances when legal or regulatory issues were brought to its attention, such as through a monitoring program, reporting system (e.g., a hotline), direct employee communication (e.g., open-door policy, email, etc.), or internal whistleblowing action.
- .46 This total shall include issues identified by the registrant's compliance system (e.g., internal audit function, risk and compliance software, etc.) and shall exclude whistleblowing actions reported externally, such as to regulators or media.
- .47 The percentage shall be calculated as the total number of instances or incidents that were substantiated (including fully or partially) divided by the total number of recordable inquiries, complaints, or issues.
- .48 The scope of disclosure shall focus on issues that relate to legal and regulatory compliance, excluding workplace code of conduct matters such as discrimination or harassment.

NOTE TO FN0103-09

- .49 The registrant shall categorize and disclose the nature of inquiries, reports, complaints, and allegations, which may include allegations of insider trading, reports of fraud or misconduct, specific questions about the registrant's conflict of interest policy, identifications of risks to compliance, etc.
- .50 The registrant shall describe any corrective actions it has implemented as a result of incidents including, but not necessarily limited to, those that were substantiated. Disclosure may include a description of specific changes in operations, management, processes, products, business partners, training, or technology.

Systemic Risk Management

Description

Asset managers have the potential to pose, amplify, or transmit a threat to the financial system. Companies in this industry can subsequently be designated by regulators as systemically important financial institutions. Although the regulatory implications of this designation are yet to be finalized, firms will be subject to stricter prudential regulatory standards and oversight by the Federal Reserve Board. Asset managers will likely face limitations relating to risk-based capital, leverage, liquidity, and credit exposure. In addition, firms will be required to maintain a plan for rapid and orderly dissolution in the event of financial distress. To demonstrate how these risks are being managed, asset managers should enhance disclosure on key aspects of systemic risk management.

Accounting Metrics

FN0103-10. (1) Registered and (2) unregistered assets under management

- .51 The registrant shall disclose its registered assets under management (AUM), where registered AUM are managed subject to the regulations of the Investment Company Act of 1940 (1940 Act), such as mutual funds.
- .52 The registrant shall disclose its unregistered AUM, where unregistered AUM are those that are not managed subject to the 1940 Act, such as separately managed accounts (SMA), private funds, and hedge funds (e.g., exempt under 3(c)7 or 3(c)1).
- .53 The registrant shall calculate the percentage of registered AUM as the amount of registered AUM divided by its total AUM.
- .54 The registrant shall calculate the percentage of unregistered AUM as the amount of unregistered AUM divided by its total AUM.

FN0103-11. Value of collateral received from securities lending and amount received from repurchase agreements involving clients' assets

- .55 The registrant shall disclose the amount of collateral it received from lending securities, including the amount of cash (in U.S. dollars) or market value (in U.S. dollars) of non-cash collateral instruments (e.g., government securities, mortgage-backed securities, or letters of credit).
- .56 The registrant shall disclose the amount of cash it received from the sale of securities in repurchase agreements.
- .57 The scope of disclosure shall be limited to the lending or sale of client securities and shall exclude lending or repos associated with the registrant's own assets.

FN0103-12. Net exposure to written credit derivatives

- .58 The registrant shall calculate its net exposure to written credit derivatives as the maximum notional payout of written credit derivatives less the maximum notional payout of purchased credit derivatives on the same reference names, provided:
 - the credit protection purchased is on a reference obligation which ranks pari passu with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives;

- the remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative

.59 For additional guidance the registrant shall refer to paragraph 30 and its accompanying notes in the [Basel Committee on Bank Supervision, Basel III leverage ratio framework and disclosure requirements](#) (Basel: Bank for International Settlements, January 2014).

FN0103-13. (1) Tier 1 common capital ratio
(2) Tier 1 capital ratio
(3) Total risk-based capital ratio
(4) Tier 1 leverage ratio

.60 The registrant shall summarize its capital ratios for the end of the reporting period in the following table format:

Table 1. Capital Ratios

	FY End
Tier 1 common capital ratio (%)	
Tier 1 capital ratio (%)	
Total risk-based capital ratio (%)	
Tier 1 leverage ratio (%)	

.61 Capital ratios shall be calculated according to the “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action; Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements” adopted by the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (Fed), and the Office of the Comptroller of the Currency (OCC).

FN0103-14. Basel III Liquidity Coverage Ratio (LCR)

.62 The registrant shall calculate its LCR as the stock of high-quality liquid assets (HQLA) divided by the total net cash outflows over the next 30 calendar days.

.63 The registrant shall disclose its average monthly LCR (%) throughout the reporting year.

.64 The registrant shall calculate its LCR, HQLA, and net cash outflows according to the methodology outlined by the Bank for International Settlements’ (BIS) Basel Committee on Banking Supervision’s [“Basel III: The Liquidity Coverage Ratio and Liquidity Risk Monitoring Tools”](#) (January 2013).

Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory

Description

Asset management and custody activities companies maintain a fiduciary responsibility to their clients. These companies must therefore consider and integrate an analysis of all material issues into investment decisions, including environmental, social, and governance factors. As the management and use of non-financial forms of capital increasingly contribute to market value, asset management and custody activities companies that fail to address these risks and opportunities could face diminished returns for clients and ultimately, reduced value for shareholders.

Accounting Metrics

FN0103-15. Discussion of how environmental, social, and governance (ESG) factors are integrated into investment analysis and decisions and of how this integration intersects with fiduciary duties

.65 ESG integration is defined broadly as the incorporation of environmental, social, and governance factors alongside traditional financial considerations in the range of activities and decision-making processes involved in managing assets on behalf of a client.

Client Portfolio or Fund Level

.66 The registrant shall discuss how it integrates ESG factors when defining its clients' needs and assessing their risk tolerance (investment mandate).

.67 The registrant should discuss how ESG factors are incorporated into its diversification strategies (within an asset class) at the fund or client portfolio level.

- This may include whether and how the registrant assesses for concentrations of ESG risks or negative externalities and attempts to mitigate them through the diversification of these risks.

.68 The registrant should discuss how ESG factors intersect with, or influence, its view of fundamental factors (economic conditions, Federal Reserve policy, industry trends, geopolitical risks, etc.).

.69 The registrant should discuss how it assesses risks to its funds and/or clients' portfolios presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, including the identification of specific industries of exposure.

- The registrant should identify specific industries (or sectors) in which it has exposure to risks from broad sustainability trends, where industries are categorized according to a standard industry classification system (e.g., GICS, ICB, NAICS, etc.).

- The registrant should quantify its exposure to sustainability risks as the dollar amount of investment in industries most susceptible to the risks that the registrant has identified or, if available, as a risk-adjusted exposure (e.g., to cash flow or discount rates) to these industries.
 - Climate change risks should be understood to include, but not be limited to, direct regulatory costs (e.g., emissions trading costs), anticipated shifts in demand, supply chain impacts, damage to physical assets, capital expenditures requirements for adaptation or greenhouse gas (GHG) emissions reductions, etc.
 - Natural resource constraints risk should be understood to include, but not be limited to, decreased availability, increased competition, and/or volatility in the availability of water, forestry products, fossil fuels, and extractives.
 - Human rights risks should be understood to include, but not be limited to, operational risks (project delays or cancellation), legal and regulatory risks (lawsuits or fines), and reputational risks (negative press coverage and brand damage) associated with violations to basic human rights (i.e., those enumerated in the U.N. Universal Declaration of Human Rights).
 - Other broad sustainability trends include, but are not limited to, high-risk (or predatory) lending, offshore outsourcing, global supply chains, or shifting population demographics.
- .70 The registrant should discuss how ESG factors are integrated into its asset allocation practices, including whether asset classes are allocated—in part—based on sustainability risks/exposures and opportunities particular to specific asset classes.
- Discussion may include integration in the context of strategic asset allocation (where asset classes are fixed and rebalanced with periodic management) or tactical asset allocation (where there is a range in the balance of asset classes with more active management).

Investment or Asset Level

- .71 The registrant shall discuss how it integrates ESG into the selection and/or recommendation process for individual investments or assets, including—but not limited to—during the following:
- Initial screening for opportunities within the investment mandate of the portfolio or fund
 - Conducting qualitative due diligence on management quality, tax and legal compliance, peers, and business model strength
 - Performing technical analysis, including valuation and pricing
 - The identification and prioritization of risks to the thesis
- .72 The registrant shall discuss how it incorporates ESG metrics into its quantitative financial analysis and modeling, including what metrics, standards, benchmarks, or datasets are used and how they are weighed alongside traditional financial metrics in valuation and pricing.
- .73 The registrant shall discuss how ESG integration processes intersect with the registrant’s definition and understanding of fiduciary duties, including whether the registrant, as a fiduciary, considers ESG integration to be part of the duty owed to its entrustors (i.e., its clients, the asset owners).

.74 The registrant should discuss its strategy of ESG integration into its corporate strategy and organizational philosophy.

FN0103-16. Percentage of assets under management, by major asset class, that employ:

(1) Integration of ESG factors

(2) Sustainability themed investing

(3) Screening (exclusionary, inclusionary, or benchmarked)

(4) Impact or community investing

.75 The registrant shall consider major asset classes to be equity, fixed income (sovereign and municipal bonds), cash/equivalents, and other.

.76 Assets under management (AUM) shall be defined broadly as per Section 203A of the Investment Advisers Act of 1940 Section 203A as, “the securities portfolios with respect to which an adviser provides continuous and regular supervisory or management services.”

.77 Integration of ESG factors is defined as the systematic and explicit inclusion of material ESG factors into traditional fundamental financial analysis through the use of qualitative risks and opportunities, quantitative metrics, and the incorporation of ESG variables into models, etc.

.78 Sustainability themed investing is focused on trends such as climate change or sustainable agriculture. Sustainability themes are exploited through investments in clean tech funds, green bonds, low carbon, and energy efficiency-focused corporations.

- Note: Conventional thematic investing, on the other hand, seeks to identify any trend that may drive profits within an industry or across industries (e.g., such as high-speed Internet, nanotechnology, etc.).

.79 Screening of investment is defined by the use of negative, positive, or norms-based selection filters. Negative (also referred to as exclusionary) screening for risk considerations may occur at the sector or company level, or it could be triggered by an activity or action. Positive (also referred to as “best in class”) screening includes the selection of companies (or sectors) that outperform their peers in terms of ESG performance. Norms-based (also referred to as benchmark) screening is the screening of investments against a minimum set of ESG criteria (e.g., selected by the AM, industry best practice, international norms).

.80 Impact investing (sometimes referred to as community investing) is characterized by investments in social enterprises that seek to generate measureable, positive social impact alongside financial returns. Though most often occurring through private ownership, impact investing may occur in public markets through active ownership or focused exchange-traded funds (ETF).

.81 The registrant shall identify and disclose the amount of AUM (in U.S. dollars) broken down by the amount, employing:

- Integration of ESG factors
- Sustainability themed investing
- Screening (exclusionary, inclusionary, or benchmarked)
- Impact or community investing

- .82 The registrant shall identify and disclose the amount of any AUM managed using more than one ESG integration strategy (e.g., screening and integration).
- .83 If the registrant cannot classify its ESG management strategy according to one of the four categories identified, then it should provide a description of its practices, indicating the key aspects in which it differs from the categories listed.

FN0103-17. Percentage of total proxies voted, and number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action

- .84 The registrant shall calculate the percentage as the total number of shareholder resolutions on which the registrant voted (i.e., cast a vote for/in support or against/in opposition) divided by the total number of shareholder resolutions on which the registrant was eligible to cast a vote as a shareholder or proxy (i.e., including votes where no ballot was cast or the registrant abstained).
- .85 The registrant shall calculate the number of proxy votes supporting environmental, social, and/or governance (ESG) issues as votes where the registrant casts a vote for/in support of a shareholder proposal relating to one or more of the following topics as listed in the [Ceres Shareholder Resolution database](#):
- Air pollution
 - Biodiversity
 - Climate change
 - Coal
 - Community impacts
 - Energy efficiency
 - Forests
 - Governance
 - Greenhouse gas emissions
 - Human rights
 - Hydraulic fracturing
 - Executive compensation's link to ESG performance
 - Mountaintop removal mining
 - Packaging
 - Palm oil
 - Renewable energy use
 - Solid waste
 - Supply chain sustainability
 - Sustainability reporting
 - Water pollution
 - Water scarcity
 - Worker safety
- .86 The registrant shall calculate the percentage of shareholder resolutions resulting in company action as the total number of instances in which the registrant voted in support of a shareholder resolution and the management of the company took action to address the resolution divided by the total number of proxy votes cast in support of ESG issues (0.87 above).
- .87 Company action includes specific actions to fully or substantially address the shareholder resolution or a commitment to do so.

FN0103-18. Ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management

- .88 The embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees is defined as the estimated potential carbon dioxide emissions of proved reserves held by companies in which the registrant has invested its clients' assets.
- .89 Proved reserves are those classified following guidance published by the Securities and Exchange Commission (SEC) in its [Oil and Gas Reporting Modernization](#) (Section §229.1202 [Item 1202] Disclosure of Reserves) and disclosed in SEC filings such as the Form 10-K, 20-F, and 40-F.
- For companies not under the jurisdiction of SEC requirements, the registrant shall use reserves figures disclosed to the Society of Petroleum Engineers (SPE)'s Petroleum Resources Management System (PRMS).
- .90 Embedded carbon dioxide emissions are defined as: (estimated potential carbon dioxide emissions from a company's proved reserves) * (equity share of the company represented by the registrant's AUM).
- .91 Equity share is defined as the share ownership stake at year end / total shares outstanding at year end.
- .92 The registrant shall sum the embedded carbon dioxide emissions associated with all assets under management (AUM) and disclose this figure normalized to total AUM.
- .93 Estimated potential carbon dioxide emissions from proved hydrocarbon reserves shall be calculated according to the following formula, derived from [Meinshausen et al.](#):
- $E = R \times V \times C$, where
 - E are the potential emissions in kilograms of carbon dioxide (kg CO₂);
 - R are the proved reserves in gigagrams (Gg);
 - V is the net calorific value in terajoules per gigagram (TJ/Gg); and
 - C is the effective carbon dioxide emission factor in kilograms CO₂ per terajoule (kg/TJ).
- .94 Default net calorific values and default carbon dioxide content values shall be taken from the [2006 IPCC Guidelines for National Greenhouse Gas Inventories](#), Table 1.2 and Table 1.4, respectively.
- .95 The registrant shall use engineering estimates to determine the weight of its hydrocarbons reserves in gigagrams, such as the type of hydrocarbon reserves and its API gravity as published by the American Petroleum Institute.

Additional references

Meinshausen et al. "Greenhouse gas emission targets for limiting global warming to 2°C" *Nature* **458**, 1158-1162 (30 April 2009)
<http://www.nature.com/nature/journal/v458/n7242/extref/nature08017-s1.pdf>

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