



SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

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# COMMERCIAL BANKS

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0101

Prepared by the  
Sustainability Accounting Standards Board®

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Provisional Version

# COMMERCIAL BANKS

## 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 Commercial Banks.

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 Commercial Banks Industry accept deposits and make loans to individuals and corporations. Some firms in this industry are engaged in lending for infrastructure, real estate, and other projects.

Note: The SASB Commercial Banks (FN0101) Standard addresses “pure play” commercial banking services, which SASB recognizes may not include all the activities of integrated financial institutions, such as investment banking & brokerage services, mortgage finance, consumer finance, asset management & custody services, and insurance. Separate SASB accounting standards are available that address the sustainability issues for activities in those industries.

## Guidance for Disclosure of Material Sustainability Topics in SEC filings

### 1. Industry-Level Material Sustainability Topics

For the Commercial Banks Industry, SASB has identified the following material sustainability topics:

- **Financial Inclusion & Capacity Building**
- **Customer Privacy & Data Security**
- **Management of the Legal & Regulatory Environment**
- **Systemic Risk Management**
- **Integration of Environmental, Social, and Governance Risk Factors in Credit Risk Analysis**

## 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.”<sup>1</sup>

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SICs 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.”<sup>2</sup>

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.”**<sup>3</sup>

### b. Other Relevant Sections of Form 10-K

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

<sup>3</sup> [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 Commercial Banks 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-20<sup>4</sup>—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:

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<sup>4</sup> 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)<sup>5</sup>, 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);<sup>6</sup>
- 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).

<sup>5</sup> 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.

<sup>6</sup> 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.

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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
<b>Financial Inclusion &amp; Capacity Building</b>	Percentage of new accounts held by first-time account holders	Quantitative	Percentage (%)	FN0101-01
	Percentage of total domestic loans for underserved and underbanked business segments	Quantitative	Percentage (%) in U.S. dollars (\$)	FN0101-02
	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers <sup>7</sup>	Quantitative	Number (#)	FN0101-03
	Loan-to-deposit ratio for: (1) Overall domestic lending (2) Underserved and underbanked business segments	Quantitative	Ratio in U.S. dollars (\$)	FN0101-04
	Loan default rates for: (1) Overall domestic lending (2) Underserved and underbanked business segments	Quantitative	Rate in U.S. dollars (\$)	FN0101-05
<b>Customer Privacy &amp; Data Security</b>	Number of data security breaches and percentage involving customers' personally identifiable information <sup>8</sup>	Quantitative	Number (#), percentage (%)	FN0101-06
	Discussion of management approach to identifying and addressing vulnerabilities and threats to data security	Discussion and Analysis	n/a	FN0101-07
<b>Management of the Legal &amp; Regulatory Environment</b>	Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions <sup>9</sup>	Quantitative	U.S. dollars (\$), percentage (%)	FN0101-08
	Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated <sup>10</sup>	Quantitative	Number (#), percentage (%)	FN0101-09

<sup>7</sup> Note to **FN0101-03** – Disclosure shall include a description of financial literacy initiatives.

<sup>8</sup> Note to **FN0101-06** – Disclosure shall include a description of corrective actions.

<sup>9</sup> Note to **FN0101-08** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>10</sup> Note to **FN0101-09** – Disclosure shall include a description of the nature of the inquiries, complaints, or issues and of any corrective actions taken by 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
<b>Systemic Risk Management</b>	Results of stress tests under adverse economic scenarios, <sup>11</sup> including the following measures (actual and projection): (1) Loan losses (2) Losses, revenue, and net income before taxes (3) Tier 1 common capital ratio (4) Tier 1 capital ratio (5) Total risk-based capital ratio (6) Tier 1 leverage ratio	Quantitative	U.S. dollars (\$), ratio in U.S. dollars (\$)	FN0101-10
	Basel III Liquidity Coverage Ratio (LCR)	Quantitative	Ratio in U.S. dollars (\$)	FN0101-11
	Net exposure to written credit derivatives	Quantitative	U.S. dollars (\$)	FN0101-12
	Level 3 assets: (1) total value and (2) percentage of total assets	Quantitative	U.S. dollars (\$), percentage (%)	FN0101-13
	Skewness and kurtosis of trading revenue	Quantitative	n/a	FN0101-14
<b>Integration of Environmental, Social, and Governance Risk Factors in Credit Risk Analysis</b>	Discussion of how environmental, social, and governance (ESG) factors are integrated into the lending process	Discussion and Analysis	n/a	FN0101-15
	Discussion of credit risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends	Discussion and Analysis	n/a	FN0101-16
	Amount and percentage of lending and project finance that employs: (1) Integration of ESG factors (2) Sustainability themed lending or finance (3) Screening (exclusionary, inclusionary, or benchmarked) (4) Impact or community lending or finance	Quantitative	U.S. dollars (\$), percentage (%)	FN0101-17
	Total loans to companies in the following sectors/ industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities	Quantitative	U.S. dollars (\$)	FN0101-18

<sup>11</sup> Note to **FN0101-10** –Disclosure shall include a description of the most significant drivers of changes in regulatory capital ratios.

# Financial Inclusion & Capacity Building

## Description

*Emerging financing models coupled with legislative incentives provide commercial banks with opportunities to offer products and services to underserved populations. In addition, the recent financial crisis demonstrated the importance of diversified and resilient funding sources that these communities can provide. Commercial banks should disclose how they are enhancing shareholder value through efforts to expand inclusion and build capacity.*

## Accounting Metrics

### **FN0101-01. Percentage of new accounts held by first-time account holders**

.01 An individual shall be considered a first-time account holder if he/she does not have any deposit accounts listed on a bank history report.

- Valid bank history reports are those produced by verification services companies governed by the federal Fair Credit Reporting Act (FCRA).

.02 The registrant shall calculate the percentage as the total number of new checking and savings accounts approved for first-time account holders during the fiscal year divided by the total number of checking and savings accounts opened during the fiscal year.

### **FN0101-02. Percentage of total domestic loans for underserved and underbanked business segments**

.03 The registrant shall disclose the average net amount (in U.S. dollars) of commercial and industrial lending portfolios for underserved business segments as a percentage of the average net amount (in U.S. dollars) of all commercial and industrial lending.

.04 The registrant shall calculate the average net loan amount in conformance with the Federal Financial Institutions Examination Council's (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

.05 The scope includes lending that qualifies as a Small Business Administration (SBA) 7(a) loan for small businesses, lending to businesses that qualify for Small Business Administration's 8(a) Business Development Program (e.g., minority owned businesses), lending to businesses that have minority-owned or women-owned certification (e.g., National Minority Supplier Development Council, Women's Business Enterprise National Council), Community Reinvestment Act of 1977 (CRA) qualified lending (e.g., for small businesses, small farms, and community development), and lending to businesses located in and serving low-income neighborhoods.

.06 The scope of disclosure excludes residential and commercial mortgage activities.

**FN0101-03. Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers**

- .07 The registrant shall disclose the number of individuals that participated in financial literacy initiatives including, but not limited to, educational programs, workshops, seminars, courses, counseling, and community partnerships.
- The registrant shall calculate the total number of unique individuals who are documented to have participated in at least one of its initiatives during the fiscal year.
  - Disclosure shall include participants in ongoing programs in the case that active participation can be documented during the fiscal year.
- .08 Unbanked customers are those in households without a checking or savings account who may rely on alternative financial services (AFS), such as payday loans, non-bank money orders, non-bank check cashing services, non-bank remittances, rent-to-own services, pawn shops, or refund anticipation loans (RALs).
- .09 Underbanked customers are in households that have a checking and/or a savings account but may still regularly use AFS.
- .10 Underserved customers include those who are unbanked, underbanked, or otherwise have limited access to mainstream financial services, often due to limited or no credit history. These customers commonly include young adults, immigrants and/or non-native English speakers, the elderly, ethnic minorities, low-income customers (i.e., with less than \$30,000 in household income), or members of the military.
- .11 The scope of disclosure shall include both individual retail customers and relevant commercial customers (e.g., small and medium enterprises, minority owned business, etc.).

NOTE TO FN0101-03

- .12 The registrant shall describe its initiatives, programs, or financial services that are focused on enhancing the financial literacy of unbanked, underbanked, or underserved customers.

**FN0101-04. Loan-to-deposit ratio for:**

**(1) Overall domestic lending**

**(2) Underserved and underbanked business segments**

- .13 The registrant shall calculate the loan-to-deposit (LTD) ratio as the average net loans divided by the average deposits, where:
- Average net loan value (in U.S. dollars) is calculated in conformance with the Federal Financial Institutions Examination Council's (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.
  - Average deposits (in U.S. dollars) are calculated in conformance with the Federal Financial Institutions Examination Council's (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

- .14 The LTD ratio shall be calculated and disclosed for the registrant's overall domestic lending, which includes all U.S. consumer and wholesale loans.
- In the case that the registrant is non-U.S. domiciled, domestic lending shall include all consumer and wholesale lending within the registrant's country of domicile.
- .15 The LTD ratio shall be calculated and disclosed for the registrant's lending to underserved and/or underbanked business segments, including all loans disclosed in FN0101-02.

**FN0101-05. Loan default rates for:**

**(1) Overall domestic lending**

**(2) Underserved and underbanked business segments**

- .16 The registrant shall calculate the loan default rate as the sum of all loan charge-offs (in U.S. dollars) divided by the average net loan amount (in U.S. dollars).
- Charge-offs are the amount of loans in default (i.e., 120 past due) for which the value of loans has been removed from the registrant's books and charged against loss reserves, less the amount recovered from delinquent borrowers.
  - Average net loan value (in U.S. dollars) is calculated in conformance with Federal Financial Institutions Examination Council's (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.
- .17 The loan default rate shall be calculated and disclosed for the registrant's overall domestic lending, which includes all U.S. consumer and wholesale loans.
- In the case that the registrant is non-U.S. domiciled, domestic lending shall include all consumer and wholesale lending within the registrant's country of domicile.
- .18 The loan default rate shall be calculated and disclosed for the registrant's lending to underserved and/or underbanked business segments, including all loans disclosed in FN0101-02.
- .19 The scope of disclosure excludes residential and commercial mortgage activities.

# Customer Privacy & Data Security

## Description

*Ensuring the privacy and data security of personal financial data is an essential responsibility of the commercial banks industry. Companies that fail to manage performance in this area are susceptible to decreased revenue and consumer confidence. Further, although many states have passed laws requiring businesses to notify authorities in the event of a security breach, the current absence of federal standards has led to increased costs as companies are required to comply with a patchwork of state laws. Enhanced disclosure on the number and nature of security breaches and management strategies to address these risks will allow shareholders to understand how commercial banks are protecting shareholder value.*

## Accounting Metrics

### **FN0101-06. Number of data security breaches and percentage involving customers' personally identifiable information**

- .20 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.
- .21 The scope of disclosure shall be limited to data security breaches, cyber security risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.
  - Disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from people, process, or technology deficiencies or failures.
  - Disclosure shall exclude disruptions of service due to equipment failures.
- .22 "Personally Identifiable Information" refers to any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, social security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information<sup>12</sup>.
- .23 The registrant shall disclose the percentage of data security breaches involving customers' unencrypted personally identifiable information and the customers were notified of the breach.
  - Notification includes that which is voluntary by the registrant or required by state law.
  - Disclosure shall include incidents when encrypted data were acquired with an encryption key that was also acquired.
  - The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise such an investigation.

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<sup>12</sup> GAO Report 08-536, *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, May 2008



.24 Disclosure shall follow, but not be limited to, the U.S. Security and Exchange Commission's (SEC) [CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

- At a minimum, this includes when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

#### NOTE TO FN0101-06

- .25 The registrant shall describe the corrective actions taken in response to specific incidents, trends in security breaches, or future security uncertainties, such as changes in operations, management, processes, products, business partners, training, or technology.
- .26 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.

#### **FN0101-07. Discussion of management approach to identifying and addressing vulnerabilities and threats to data security**

- .27 The registrant shall identify which attack vectors it has identified as posing a threat or vulnerability, where:
- A threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the Nation through an information system via unauthorized access, destruction, disclosure, or modification of information, and/or denial of service.
  - Vulnerability is defined as weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a threat source.
- .28 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including but not limited to, through operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.
- .29 The registrant should discuss trends it has observed in type, frequency, and origination of attack vectors.
- .30 Disclosure shall include, but not be limited to, preparation, detection, containment, and post-incident activity that is disclosed according to the U.S. Security and Exchange Commission's (SEC) [CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).
- At a minimum this includes when the costs or other consequences associated with one or more known incidents – or the risk of potential incidents – represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition or would cause reported financial information not to be necessarily indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

- .31 All disclosure shall be sufficient such that it is specific to the risks the registrant faces but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.
- .32 The registrant's disclosure should include a discussion of data and system security efforts that relate to new and emerging attack vectors facing the financial services industry, such as mobile devices (e.g., though mobile banking applications and/or the device itself).

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## Definitions

### [NIST-defined](#) attack vectors:

- External/Removable Media – an attack executed from removable media or a peripheral device—for example, malicious code spreading onto a system from an infected USB flash drive.
- Attrition – an attack that employs brute force methods to compromise, degrade, or destroy systems, networks, or services (e.g., a DDoS intended to impair or deny access to a service or application; a brute force attack against an authentication mechanism, such as passwords, captchas, or digital signatures).
- Web – an attack executed from a website or web-based application—for example, a cross-site scripting attack used to steal credentials or a redirect to a site that exploits browser vulnerability and installs malware.
- Email – an attack executed via an email message or attachment—for example, exploit code disguised as an attached document or a link to a malicious website in the body of an email message.
- Improper Usage – any incident resulting from violation of an organization's acceptable usage policies by an authorized user, excluding the above categories—for example, a user installs file sharing software, leading to the loss of sensitive data; or, a user performs illegal activities on a system.
- Loss or Theft of Equipment – the loss or theft of a computing device or media used by the organization, such as a laptop or smartphone.
- Other – an attack that does not fit into any of the other categories.

### Additional references

National Institute of Standards and Technology (NIST) [800-30 Rev 1](#), September 2012.

# Management of the Legal & Regulatory Environment

## Description

*The regulatory environment surrounding the commercial banks industry continues to evolve both nationally and internationally. Companies must now adhere to a complex and inconsistent set of rules relating to both performance and disclosure on issues including insider trading, anti-trust, price fixing, and market manipulation. In addition, commercial banks are subject to rules against tax evasion, fraud, money laundering, and corrupt practices. Finally, enhanced rewards for whistleblowers established under the Dodd-Frank Act may increase the number of complaints brought to regulators. Firms that can manage these regulatory concerns and ensure compliance will be better positioned to protect shareholder value and limit future liabilities.*

## Accounting Metrics

### **FN0101-08. Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions**

- .33 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of financial industry regulations, including SEC rules, Federal Reserve Board requirements (e.g., capital adequacy rules), Commodities Futures Trading Commission rules, rules of the Office of Comptroller Currency, provisions of Dodd-Frank (such as those enforced by the Consumer Financial Protection Bureau), FINRA regulations, and Federal Deposit Insurance Corporation policies.
- .34 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), and Foreign Account Tax Compliance Act violations (enforced by the U.S. Internal Revenue Service).
- .35 Disclosure shall include civil actions (e.g., civil judgments, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgments, penalties, or restitutions) taken by any entity (government, businesses, or individuals).
- .36 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.

#### NOTE TO FN0101-08

- .37 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, insider trading, etc.) of fines and settlements.

.38 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.

**FN0101-09. Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated**

.39 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.

.40 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.

.41 The percentage shall be calculated as the total number of instances or incidents that were substantiated (fully or partially), divided by the total number of recordable inquiries, complaints, or issues.

.42 The scope of disclosure shall focus on those issues that relate to legal and regulatory compliance, excluding workplace code-of-conduct matters such as discrimination or harassment.

NOTE TO FN0101-09

.43 The registrant shall categorize and disclose the nature of inquiries, reports, complaints, allegations, which may include: allegations of insider trading, reports of fraud or misconduct, specific questions about registrant's conflict of interest policy, identifications of risks to compliance, etc.

.44 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

*The recent financial crisis articulated the importance of managing risks to capital in the commercial banks industry. Specifically, firms that failed to ensure adequate capital reserves were unable to protect shareholder value and contributed to a significant market disruption. The systemic nature of the risk results from the interconnectedness of financial institutions and has become a central concern of federal and international regulators. As a result, many banks are required to undergo supervisory stress tests to evaluate whether the company has the capital to absorb losses, continue operations, and meet obligations in the event of adverse economic and financial conditions. In an effort to demonstrate how these risks are being managed, commercial banks should enhance disclosure on metrics, including the results of annual stress tests, Basel III liquidity coverage ratios, exposure to over-the-counter derivatives, and management of risk limits.*

## Accounting Metrics

**FN0101-10. Results of stress tests under adverse economic scenarios, including the following measures (actual and projection):**

- (1) Loan losses**
- (2) Losses, revenue, and net income before taxes**
- (3) Tier 1 common capital ratio**
- (4) Tier 1 capital ratio**
- (5) Total risk-based capital ratio**
- (6) Tier 1 leverage ratio**

- .45 If the registrant is a “covered institution,” it shall report the results of its internally conducted Dodd-Frank Act Stress Test (DFAST) under the severely adverse economic scenario prescribed by the Federal Reserve.
- .46 “Covered Institutions” are those financial institutions with total consolidated assets above \$10 billion that are required under Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act to conduct self-administered stress tests.
- .47 If the registrant is not a “covered institution,” it shall report the results of its voluntary stress test administered following [guidance](#) recommended by the Office of the Comptroller of Currency.
- .48 The registrant shall summarize its actual loan losses, and those projected under a stressed scenario, by loan type in the following table format:

Table 1. Projected Loan Losses by type under stressed scenario<sup>(1)</sup>

Loan Category	FY End	Stress Period Loss Rate	Stress Period Losses
First lien mortgages, domestic			
Junior liens and home equity lines of credit, domestic			
Commercial and industrial			
Commercial real estate, domestic			
Credit card			
Other consumer			
<b>Total (aggregate)</b>			

<sup>(1)</sup> Projected loan losses should exclude held-for-sale loans and loans measured at fair value.

.49 The registrant shall summarize projected losses, revenue, and net income before taxes under a stressed scenario in the following table format:

Table 2. Projected losses, revenue, and net income before taxes under stressed scenario

	Billions (\$)	Percent of Average Assets
Pre-provision net revenue <sup>(1)</sup>		
Other revenue <sup>(2)</sup>		
Less:		
Provision for loan and lease losses		
Realized gains/losses on securities (AFS/HTM) <sup>(3)</sup>		
Trading and counterparty losses <sup>(4)</sup>		
Other losses/gains <sup>(5)</sup>		
<b>Total losses</b>		
<b>Net income before taxes</b>		

<sup>(1)</sup> Pre-provision net revenue (PPNR) includes net revenues and operating expenses (including operational risk events, mortgage put-back expenses, and other real estate owned costs).

<sup>(2)</sup> Other revenue includes one-time income and (expense) items not included in PPNR.

<sup>(3)</sup> Gains/losses on securities represent both available-for-sale ("AFS") and held-to-maturity ("HTM") securities.

<sup>(4)</sup> Trading and counterparty losses include mark-to-market losses, incremental default risk ("IDR") losses and changes in credit valuation adjustments ("CVA") associated with the global market shock, and credit IDR losses for the remainder of the planning horizon.

<sup>(5)</sup> Other losses / gains primarily include the projected change in the fair value of loans and loan commitments accounted for under the fair value option associated with the global market shock.

.50 The registrant shall summarize its actual capital ratios for the end of the reporting period and its projected capital ratios under a stressed scenario (including the minimum ratio through the scenario planning period) in the following table format: drivers of changes in regulatory capital ratios such as:

Table 3. Projected Capital Ratios under stressed scenario

	Actual	Stressed	
	FY End	End of Period	Minimum
Tier 1 common capital ratio (%)			
Tier 1 capital ratio (%)			
Total risk-based capital ratio (%)			
Tier 1 leverage ratio (%)			

.51 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), Board of Governors of the Federal Reserve System (Fed), and the Office of the Comptroller of the Currency (OCC).

NOTE TO FN0101-10

.52 The registrant shall describe the most significant drivers of changes in regulatory capital ratios such as:

- Types of losses (e.g., changes to CVA, loan defaults, decreased origination of junior lien mortgages, etc.) that contributed most significantly
- Aspects of the stressed scenario that had the most significant impact (e.g., unemployment, home prices, inflation, Treasury yield, etc.)

**FN0101-11. Basel III Liquidity Coverage Ratio (LCR)**

.53 The registrant shall calculate its LCR as: Stock of high quality liquid assets (HQLA) / Total net cash outflows over the next 30 calendar days.

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

.55 The registrant shall calculate its LCR, HQLA, and net cash outflows according to 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).

### **FN0101-12. Net exposure to written credit derivatives**

- .56 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
- .57 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).

### **FN0101-13. Level 3 assets: (1) total value and (2) percentage of total assets**

- .58 Level 3 assets are defined as those whose fair value cannot be determined using observable measures, such as market prices or models; they tend to be illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.
- .59 Level 3 assets shall be identified and classified in the same manner as they are under GAAP Topic 820 Fair Value Accounting where inputs to Level 3 assets are defined as “unobservable inputs for assets or liability.”
- .60 The registrant shall report its Level 3 assets as a percentage of its total assets (i.e., the sum of Level 1, Level 2, and Level 3 assets).
- Level 1 assets are defined as assets for which quoted prices (unadjusted) exist in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
  - Level 2 assets are defined as assets for which there is not a quoted price, but for which a price is observable, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 asset must be observable for substantially the full term of the asset or liability.

### **FN0101-14. Skewness and kurtosis of trading revenue**

- .61 The registrant shall calculate the skewness and kurtosis of its trading profits and losses using standard statistical methods, excluding spread profits and losses.
- .62 Spread profits and losses are defined as the portion of portfolio profit and loss that generally includes revenue generated by a trading unit from charging higher prices to buyers than the trading unit pays to sellers of comparable instruments over the same period of time (i.e., charging a “spread,” such as the bid-ask spread).
- .63 Skewness is a statistical measure of asymmetry from the normal distribution in a set of data; skewness can be “negative” or “positive,” depending on whether data points are skewed to the left (negative skew) or to the right (positive skew) of the data average.



- .64 Kurtosis is a statistical measure of the “peakedness” or “flatness” of a frequency distribution; it shows if data points are concentrated near the mean or towards the tails of a distribution (as compared with a normal distribution).
- .65 Skewness and kurtosis measurements may help capture asymmetric, “fat tail” risks that (1) are not well captured by simple volatility measures, (2) may not be well captured by internal risk measurement metrics, such as VaR, and (3) can be associated with trading strategies that seek to earn short-term profits by taking exposures to these types of risks.
- .66 The calculation period for skewness and kurtosis shall be 30 days, 60 days, and 90 days.

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GENERAL NOTE TO FN0101-12

*N.B.* Notional amounts do not reflect the economic exposure in these markets, which is a small fraction of the notional value, but the growth noted here is indicative of the growth in exposure.

Additional references

Federal Insurance Deposit Insurance Corporation (FDIC), [Stress Testing Requirements for Certain Banks Final Rules](#), October 9, 2012.  
[Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and relationship with, hedge fund and private equity funds](#), commonly known as the Volcker Rule and adopted jointly by the OCC, Federal Reserve Board, FDIC, and SEC.

# Integration of Environmental, Social, and Governance Risk Factors in Credit Risk Analysis

## Description

*Environmental, social, and governance (ESG) factors are increasingly contributing to the financial performance of specific projects and companies at large. Commercial banks that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. Companies should subsequently disclose how ESG factors are integrated into lending processes and the current level of portfolio risk associated with specific sustainability trends. In particular, investor and regulatory pressure is mounting for banks to disclose how they address climate change related risks. Relatedly, banks must monitor and manage “financed emissions” – or the greenhouse gas emissions of firms in which banks are invested or to whom they provide lending.*

## Accounting Metrics

### **FN0101-15. Discussion of how environmental, social, and governance (ESG) factors are integrated into the lending process**

- .67 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 lending and project finance.
- .68 Environmental, social, and governance (ESG) factors are defined – and their basic uses in financial analysis is described – in the [SASB Conceptual Framework](#) in the section, “Key Definitions and Characteristics of Sustainability Accounting and Disclosure.”
- .69 The registrant shall discuss how it integrates ESG factors into its lending decisions, including but not limited to during the following activities or aspects:
- Credit risk analysis – assessing the increased potential for default (non-performing loans) or payment rescheduling due to ESG factors.
  - Valuation of underlying secured assets – assessing the risk of devaluation of collateral and potential for stranded, illiquid assets due to ESG factors.
  - Evaluating reputational risk – assessing any potential risks to the registrant’s reputation due to management or mismanagement of ESG factors associated with a loan purpose or project, such that it may affect the registrant’s ultimate decision to offer lending.
  - Assessment of macroeconomic factors – assessing how ESG factors may impact macroeconomic conditions – which in turn may affect credit risk or loan quality – such as GDP, inflation, interest rates, money supply, or industrial production.
- .70 The registrant shall discuss how it incorporates ESG metrics into its quantitative analysis, modeling, and statistical methods, including what metrics, standards, benchmarks, or datasets are used and how they are weighed alongside traditional financial metrics in credit risk analysis.

- .71 The registrant should discuss how ESG factors are incorporated into its diversification strategies at a firm level, including if the registrant assesses for concentration of ESG risks and attempts to mitigate them through diversification of these risks.
- This may include how ESG factors intersect with or influence the registrant’s view of fundamental factors (economic conditions, Federal Reserve policy, industry trends, geopolitical risks, etc.).
- .72 The registrant should discuss how it factors the macroeconomic value of loans into its lending decisions, where this broadly may include considering one or more of the following alongside the projected financial returns of a loan:
- Whether the lending could create or contribute to systemic risk for the economy
  - Whether the borrower’s activities could create negative social or environmental externalities
- .73 The registrant may choose to disclose quantitative data related to its Equator Principles (EP III) implementation, such as the number of projects screened according to Equator Principles (or equivalent) by EP Category.
- .74 The registrant may choose to disclose a qualitative description of its EP III implementation, including at a minimum: (1) how concepts have been incorporated into the bank’s credit and risk management policies and procedures, (2) responsibility for implementation within the bank, and (3) internal adoption processes and implementation efforts and timetables, as well as staff training to ensure that bank staff are fully informed of the standards.
- .75 The registrant may choose to disclose quantitative data related to its Carbon Principles implementation, such as the number of coal plant power plants financed and the percentage subject to Carbon Principles screening.

**FN0101-16. Discussion of credit risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends**

- .76 The registrant shall discuss how it assesses risks to its loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends.
- 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, capital expenditures requirements for adaptation or 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 availability for water, forestry products, fossil fuels, and extractives.
  - Human rights concerns 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 or 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.

.77 The registrant shall identify specific industries (or sectors) in which it has exposure to risks from the trends it has identified, 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 the registrant has identified, or if available, as a risk-adjusted exposure (e.g., to cash flow or discount rates) to these industries.

.78 The registrant shall identify specific geographies (e.g., regions, countries, states, etc.) and/or demographic segments (e.g., income, education, etc.) in which the registrant has activity and recognizes risks from the broad sustainability trends disclosed.

**FN0101-17. Amount and percentage of lending and project finance that employs:**

**(1) Integration of ESG factors**

**(2) Sustainability themed lending or finance**

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

**(4) Impact or community lending or finance**

.79 Lending and project finance shall be defined generally as receivables activities disclosed per FASB Section 310 Receivables (Loans and Trade Receivables).

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

.81 Sustainability themed lending or project finance is defined as lending that identifies, prioritizes, and encourages companies and/or projects that address key sustainability trends (e.g., climate change or sustainable agriculture). Examples of this type of thematic lending may relate to loans to low carbon, energy efficiency-focused corporations, sustainable agriculture-focused companies, or finance for green building, renewable energy, or energy efficiency projects.

.82 Screening of loans 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 companies or projects against a minimum set of ESG criteria (e.g., selected by the registrant, industry best practices, or international norms).

.83 Impact lending (sometimes referred to as community lending) is characterized by lending to or project finance for social enterprises that seek to generate measureable, positive social impact alongside financial returns. This type of lending or project finance may include lending for basic housing, rural water delivery, maternal health, or primary education.

- .84 The registrant shall identify and disclose the amount of lending (in U.S. dollars) broken down by the amount that employ:
- Integration of ESG factors
  - Sustainability-themed investing
  - Screening (exclusionary, inclusionary, or benchmarked)
  - Impact or community investing
- .85 The registrant shall identify and disclose the amount of any lending that employs more than one ESG integration strategy (e.g., screening and integration).
- .86 If the registrant cannot classify its ESG lending or project finance 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.

**FN0101-18. Total loans to companies in the following sectors/industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities**

- .87 The registrant shall calculate the value of total loans as the sum of the average net amount (in U.S. dollars) of each outstanding loan.
- .88 The registrant shall disclose the total amount of loans in each of the following Global Industry Classification Standard (GICS®) sectors or Industry Classification Benchmark (ICB) industries:

Table 1. Lending by sector/industry

GICS Sector	ICB Industry	Outstanding loans (U.S. dollars)
Energy (10)	Oil and Gas (0001)	
Materials (15)	Basic Materials (1000)	
Industrials (20)	Industrials (2000)	
Utilities (55)	Utilities (7000)	

Additional references

[The Carbon Principles.](#)

[The Equator Principles \(EP\) III](#), June 2013.

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# INVESTMENT BANKING & BROKERAGE

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0102

Prepared by the  
Sustainability Accounting Standards Board®

February 2014  
Provisional Version

# INVESTMENT BANKING & BROKERAGE

## 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 Investment Banking & Brokerage.

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 Investment Banking & Brokerage Industry underwrite, originate, and maintain markets for clients issuing securities. Firms may also offer advisory services, act as principals in buying or selling securities, and help in facilitating corporate mergers and acquisitions.

Note: The SASB Investment Banking & Brokerage (FN0102) Standard addresses “pure play” investment banking and brokerage services, which SASB recognizes may not include all the activities of integrated financial institutions, such as mortgage finance, commercial banking, consumer finance, asset management & custody services, and insurance. Separate SASB accounting standards are available that address the sustainability issues for activities in those industries.

# Guidance for Disclosure of Material Sustainability Topics in SEC filings

## 1. Industry-Level Material Sustainability Topics

For the Investment Banking & Brokerage Industry, SASB has identified the following material sustainability topics:

- **Employee Incentives & Risk Taking**
- **Employee Inclusion**
- **Management of the Legal & Regulatory Environment**
- **Systemic Risk Management**
- **Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Brokerage Activities**

## 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.”<sup>1</sup>

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.”<sup>2</sup>

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.

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

### 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."**<sup>3</sup>

#### b. Other Relevant Sections of Form 10-K

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/>.

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<sup>3</sup> 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."

# Guidance on Accounting of Material Sustainability Topics

For sustainability topics in the Investment Banking & Brokerage 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-20<sup>4</sup>—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:

- 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)<sup>5</sup>, 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.

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<sup>4</sup> 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."

<sup>5</sup> 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.

# 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);<sup>6</sup>
- 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).

## 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.

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<sup>6</sup> See US GAAP consolidation rules (Section 810).

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.

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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
<b>Employee Incentives &amp; Risk Taking</b>	Discussion of variable compensation policies and practices	Discussion and Analysis	n/a	FN0102-01
	Percentage of total compensation that is variable for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-02
	Percentage of variable compensation that is equity for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-03
	Percentage of employee compensation which includes ex post adjustments for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-04
	Number of instances when risk limits were breached and number and percentage by response: (1) position reduced, (2) risk limit temporarily increased, (3) risk limit permanently increased, (4) other	Quantitative	Number (#), percentage (%)	FN0102-05
<b>Employee Inclusion</b>	Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others	Quantitative	Percentage (%)	FN0102-06
<b>Management of the Legal &amp; Regulatory Environment</b>	Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions <sup>7</sup>	Quantitative	U.S. dollars (\$), percentage (%)	FN0102-07
	Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated <sup>8</sup>	Quantitative	Number (#), percentage (%)	FN0102-08
	Number of conflicts of interest disclosed to clients, customers, and/or counterparties	Quantitative	Number (#)	FN0102-09

<sup>7</sup> Note to **FN0102-07** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>8</sup> Note to **FN0102-08** – Disclosure shall include a description of the nature of the inquiries, complaints, 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
<b>Systemic Risk Management</b>	Results of stress tests under adverse economic scenarios, <sup>9</sup> including the following measures (actual and projection): (1) Loan losses (2) Losses, revenue, and net income before taxes (3) Tier 1 common capital ratio (4) Tier 1 capital ratio (5) Total risk-based capital ratio (6) Tier 1 leverage ratio	Quantitative	U.S. dollars (\$), ratio in U.S. dollars (\$)	FN0102-10
	Basel III Liquidity Coverage Ratio (LCR)	Quantitative	Ratio in U.S. dollars (\$)	FN0102-11
	Net exposure to written credit derivatives	Quantitative	U.S. dollars (\$)	FN0102-12
	Level 3 assets: (1) total value and (2) percentage of total assets	Quantitative	U.S. dollars (\$), percentage (%)	FN0102-13
	Skewness and kurtosis of trading revenue	Quantitative	n/a	FN0102-14
<b>Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Brokerage Activities</b>	Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services	Discussion and Analysis	n/a	FN0102-15
	Amount of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting <sup>10</sup>	Quantitative	U.S. dollars (\$)	FN0102-16
	Deal size of advisory and underwriting transactions for companies in the following sectors/industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities	Quantitative	U.S. dollars (\$)	FN0102-17

<sup>9</sup> Note to **FN0102-10** – Disclosure shall include a description of the most significant drivers of changes in regulatory capital ratios.

<sup>10</sup> Note to **FN0102-16** – Disclosure shall include a description of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting.

# Employee Incentives & Risk Taking

## Description

*Employee compensation in the investment banking and brokerage industry can incentivize short-term or long-term performance. Structures that focus on the short term are likely to encourage risk-taking and present adverse implications for long-term corporate value. Concern over this issue has led to increased regulatory and shareholder scrutiny since the financial crisis. Subsequently, improved disclosure of employee compensation, focusing on the use of performance metrics and variable remuneration, will provide shareholders with a clear understanding of how investment banking companies are protecting corporate value.*

## Accounting Metrics

### **FN0102-01. 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 a provision where vesting of the variable portion of compensation accelerates during retirement.

**FN0102-02. 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 taxes. 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.

**FN0102-03. 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 tax. 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.

**FN0102-04. 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 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.

**FN0102-05. Number of instances when risk limits were breached and number and percentage by response: (1) position reduced, (2) risk limit temporarily increased, (3) risk limit permanently increased, (4) other**

- .23 The registrant shall report the total number of instances when it breached any internal risk limits for following categories of risk: trading risk (e.g., exceeding daily VaR limits), counterparty risks (e.g., exceeding single counterparty exposure limits), interfinancial (e.g., exceeding limits for assets or liabilities tied to other financial institutions), concentration risks (e.g., geographic or sector exposure limits), or other risk category managed by the registrant.
- .24 Relevant risk limits include those for individuals, desks, divisions, and/or aggregate risk limits.
- .25 The registrant shall disclose its response when risk limits were approached or breached, including the number of times it reduced its risk position, temporarily increased a limit (e.g., through an exception), or permanently increased a risk limit.
- .26 If the registrant took other actions in response to a risk limit being breached it shall describe the response(s) and disclose the number of times it took such action.
- .27 The registrant shall report the absolute number and percentage of total response for each type: position reduced, limit temporarily increased, limit permanently increased, and other.

# Employee Inclusion

## Description

Investment banking and brokerage 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

### **FN0102-06. Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others**

.28 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

- .29 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).
- .30 The registrant shall categorize the gender of its employees as: male, female, not disclosed/available.
- .31 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.
- .32 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.

# Management of the Legal & Regulatory Environment

## Description

*The regulatory environment surrounding the investment banking and brokerage 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, anti-trust, price fixing, and market manipulation. In addition, investment banking and brokerage companies are subject to rules against tax evasion, fraud, money laundering, and corrupt practices. Finally, enhanced rewards for whistle blowers established under the Dodd-Frank act may lead to an increase in the number of complaints brought to regulators. 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

### **FN0102-07. Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions**

- .33 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of financial industry regulations, including SEC rules, Federal Reserve Board requirements (e.g., capital adequacy rules), Commodities Futures Trading Commission, the Office of Comptroller Currency, provisions of Dodd-Frank (such as those enforced by the Consumer Financial Protection Bureau), FINRA regulations, and Federal Deposit Insurance Corporation policies.
- .34 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), and Foreign Account Tax Compliance Act violations (enforced by the U.S. Internal Revenue Service).
- .35 Disclosure shall include civil actions (e.g., civil judgments, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).
- .36 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.

.37 Disclosure shall exclude fines and settlements reported above in FN0102-08 that are associated with failure to provide adequate, clear, and transparent information about products and services.

NOTE TO FN0102-07

.38 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, insider trading, etc.) of fines and settlements.

.39 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.

**FN0102-08. Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated**

.40 The registrant shall report 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.

.41 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.

.42 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.

.43 The scope of disclosure shall focus on those issues that relate to legal and regulatory compliance, excluding workplace code of conduct matters such as discrimination or harassment.

NOTE TO FN0102-08

.44 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.

.45 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.

**FN0102-09. Number of conflicts of interest disclosed to clients, customers, and/or counterparties**

.46 The registrant shall disclose the number of instances of conflict of interest in which it provided disclosure, described below in 0.47a.

.47 A conflict of interest is defined according to the rule (the "Volcker Rule") implementing section 13 of the Bank Holding Company Act of 1956, which was added by section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

.48 A material conflict of interest between a banking entity and its clients, customers, or counterparties exists if the registrant engages in any transaction, class of transactions, or activity that would involve or result in the banking entity's interests being materially adverse to the interests of its client, customer, or counterparty with



respect to such transaction, class of transactions, or activity, and the banking entity has not taken at least one of the [following] actions:

- Prior to effecting specific transactions or class or type of transactions, or engaging in a specific activity with clients, customers, or counterparties, it has made clear, timely, and effective disclosure of the conflict of interest, together with other necessary information, in reasonable detail and in a manner sufficient to permit a reasonable client, customer, or counterparty to meaningfully understand the conflict of interest; and such disclosure was made in a manner that provided the client, customer, or counterparty the opportunity to negate, or substantially mitigate, any materially adverse effect on the client, customer, or counterparty created by the conflict of interest.
- Has established, maintained, and enforced information barriers that are memorialized in written policies and procedures, such as physical separation of personnel, or functions, or limitations on types of activity, that are reasonably designed, taking into consideration the nature of the banking entity's business, to prevent the conflict of interest from involving or resulting in a materially adverse effect on a client, customer, or counterparty. A banking entity may not rely on such information barriers if, in the case of any specific transaction, class or type of transactions or activity, the banking entity knows or should reasonably know that, notwithstanding the banking entity's establishment of information barriers, the conflict of interest may involve or result in a materially adverse effect on a client, customer, or counterparty.

.49 Conflicts of interest that meet the requirements of 0.47 a. or b. are not considered "material" conflicts of interest.

# Systemic Risk Management

## Description

*The recent financial crisis articulated the importance of managing risks to capital in the investment banking and brokerage industry. Specifically, firms that failed to ensure adequate capital reserves were unable to protect shareholder value and contributed to a significant market disruption. The systemic nature of the risk results from the interconnectedness of financial institutions and has become a central concern of federal and international regulators. As a result, many banks are required to undergo supervisory stress tests to evaluate whether the company has the capital to absorb losses, continue operations, and meet obligations in the event of adverse economic and financial conditions. In an effort to demonstrate how these risks are being managed, investment banking and brokerage companies should enhance disclosure on metrics, including the results of annual stress tests, Basel III liquidity coverage ratios, exposure to over-the-counter derivatives, and management of risk limits.*

## Accounting Metrics

**FN0102-10. Results of stress tests under adverse economic scenarios, including the following measures (actual and projection):**

- (1) Loan losses**
- (2) Losses, revenue, and net income before taxes**
- (3) Tier 1 common capital ratio**
- (4) Tier 1 capital ratio**
- (5) Total risk-based capital ratio**
- (6) Tier 1 leverage ratio**

- .50 If the registrant is a “covered institution,” it shall report the results of its internally conducted Dodd-Frank Act Stress Test (DFAST) under the severely adverse economic scenario prescribed by the Federal Reserve.
- .51 “Covered Institutions” are those financial institutions with total consolidated assets above \$10 billion that are required under Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act to conduct self-administered stress tests.
- .52 If the registrant is not a “covered institution,” it shall report the results of its voluntary stress test administered following [guidance](#) recommended by the Office of the Comptroller of Currency.
- .53 The registrant shall summarize its actual loan losses, and those projected under a stressed scenario, by loan type, in the following table format:

Table 1. Projected Loan Losses by type under stressed scenario<sup>(1)</sup>

Loan Category	FY End	Stress Period Loss Rate	Stress Period Losses
First lien mortgages, domestic			
Junior liens and home equity lines of credit, domestic			
Commercial and industrial			
Commercial real estate, domestic			
Credit card			
Other consumer			
<b>Total (aggregate)</b>			

<sup>(1)</sup> Projected loan losses should exclude held-for-sale loans and loans measured at fair value.

.54 The registrant shall summarize projected losses, revenue, and net income before taxes under a stressed scenario in the following table format:

Table 2. Projected losses, revenue, and net income before taxes under stressed scenario

	Billions (\$)	Percent of Average Assets
Pre-provision net revenue <sup>(1)</sup>		
Other revenue <sup>(2)</sup>		
Less:		
Provision for loan and lease losses		
Realized gains/losses on securities (AFS/HTM) <sup>(3)</sup>		
Trading and counterparty losses <sup>(4)</sup>		
Other losses/gains <sup>(5)</sup>		
<b>Total losses</b>		
<b>Net income before taxes</b>		

<sup>(1)</sup> Pre-provision net revenue (PPNR) includes net revenues and operating expenses (including operational risk events, mortgage put-back expenses, and other real estate owned costs).

<sup>(2)</sup> Other revenue includes one-time income and (expense) items not included in PPNR.

<sup>(3)</sup> Gains/losses on securities represent both available-for-sale ("AFS") and held-to-maturity ("HTM") securities.

<sup>(4)</sup> Trading and counterparty losses include mark-to-market losses, incremental default risk ("IDR") losses and changes in credit valuation adjustments ("CVA") associated with the global market shock, and credit IDR losses for the remainder of the planning horizon.

<sup>(5)</sup> Other losses / gains primarily include the projected change in the fair value of loans and loan commitments accounted for under the fair value option associated with the global market shock.

.55 The registrant shall summarize its actual capital ratios for the end of the reporting period and its projected capital ratios under a stressed scenario (including the minimum ratio through the scenario planning period) in the following table format:

Table 3. Projected Capital Ratios under stressed scenario

	Actual	Stressed	
	FY End	End of period	Minimum
Tier 1 common capital ratio (%)			
Tier 1 capital ratio (%)			
Total risk-based capital ratio (%)			
Tier 1 leverage ratio (%)			

.56 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), Board of Governors of the Federal Reserve System (Fed), and the Office of the Comptroller of the Currency (OCC).

NOTE TO FN0102-10

.57 The registrant shall describe the most significant drivers of changes in regulatory capital ratios, such as:

- Types of losses (e.g., changes to CVA, loan defaults, decreased origination of junior lien mortgages, etc.) that contributed most significantly
- Aspects of the stressed scenario that had the most significant impact (e.g., unemployment, home prices, inflation, Treasury yield, etc.)

**FN0102-11. Basel III Liquidity Coverage Ratio (LCR)**

.58 The registrant shall calculate its LCR as: Stock of high quality liquid assets (HQLA) / Total net cash outflows over the next 30 calendar days.

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

.60 The registrant shall calculate its LCR, HQLA, and net cash outflows according to 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).

## **FN0102-12. Net exposure to written credit derivatives**

- .61 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
- .62 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).

## **FN0102-13. Level 3 assets: (1) total value and (2) percentage of total assets**

- .63 Level 3 assets are defined as those whose fair value cannot be determined using observable measures, such as market prices or models; they tend to be illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.
- .64 Level 3 assets shall be identified and classified in the same manner as they are under GAAP Topic 820 Fair Value Accounting, where inputs to Level 3 assets are defined as “unobservable inputs for assets or liability.”
- .65 The registrant shall report its Level 3 assets as a percentage of its total assets (i.e., the sum of Level 1, Level 2, and Level 3 assets).
- Level 1 assets are defined as assets for which quoted prices (unadjusted) exist in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
  - Level 2 assets are defined as assets for which there is not a quoted price, but for which a price is observable, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 asset must be observable for substantially the full term of the asset or liability.

## **FN0102-14. Skewness and kurtosis of trading revenue**

- .66 The registrant shall calculate the skewness and kurtosis of its trading profits and losses using standard statistical methods, excluding spread profits and losses.
- .67 Spread profits and losses are defined as the portion of portfolio profit and loss that generally includes revenue generated by a trading unit from charging higher prices to buyers than the trading unit pays to sellers of comparable instruments over the same period of time (i.e., charging a “spread,” such as the bid-ask spread).
- .68 Skewness is a statistical measure of asymmetry from the normal distribution in a set of data; skewness can be “negative” or “positive,” depending on whether data points are skewed to the left (negative skew) or to the right (positive skew) of the data average.
- .69 Kurtosis is a statistical measure of the “peakedness” or “flatness” of a frequency distribution; it shows if data points are concentrated near the mean or towards the tails of a distribution (as compared with a normal distribution).

- .70 Skewness and kurtosis measurements may help capture asymmetric, “fat tail” risks that (i) are not well captured by simple volatility measures, (ii) may not be well captured by internal risk measurement metrics, such as VaR, and (iii) can be associated with trading strategies that seek to earn short-term profits by taking exposures to these types of risks.
- .71 The calculation period for skewness and kurtosis shall be 30 days, 60 days, and 90 days.

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GENERAL NOTE TO FN0102-12

*N.B.* Notional amounts do not reflect the economic exposure in these markets, which is a small fraction of the notional value, but the growth noted here is indicative of the growth in exposure.

Additional references

Federal Insurance Deposit Insurance Corporation (FDIC), [Stress Testing Requirements for Certain Banks Final Rules](#), October 9, 2012.

[Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and relationship with, hedge fund and private equity funds](#), commonly known as the Volcker Rule and adopted jointly by the OCC, Federal Reserve Board, FDIC, and SEC.

# Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Brokerage Activities

## Description

*Environmental, social, and governance (ESG) risk factors are increasingly contributing to the financial performance of specific projects and companies at large. Investment banking and brokerage companies that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. Companies should subsequently disclose how ESG factors are integrated into their core products and services. In particular, investor and regulatory pressure is mounting for banks to disclose how they address climate change related risks. Relatedly, banks must monitor and manage “financed emissions” – or the greenhouse gas emissions of firms in which banks are invested or to whom they provide lending.*

## Accounting Metrics

### **FN0102-15. Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services**

- .72 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 investment banking activities, including research, advisory services, origination, underwriting activities, sales and trading, and principal transaction.
- .73 Environmental, social, and governance (ESG) factors are defined – and their basic use in financial analysis is described – in the [SASB Conceptual Framework](#) in the section, “Key Definitions and Characteristics of Sustainability Accounting and Disclosure.”
- .74 Key ESG factors include, but are not limited to, climate change, natural resource constraints, human rights concerns, or other broad sustainability trends.
- 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, capital expenditures requirements for adaptation or 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 availability for water, forestry products, fossil fuels, and extractives.
  - Human rights concerns 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.

- .75 The registrant shall discuss how ESG integration aligns with the registrant's understanding of its transaction-based and/or trust-based relationships with counterparties. Where relevant, the registrant should:
- Identify situations in which it considers ESG integration to be its responsibility in transactions and/or relationships with its counterparties.
  - Discuss whether or not ESG integration intersects with the registrant's understanding of its contractual obligations, such as with respect to the implied covenant of good faith and fair dealing.
- .76 The registrant shall discuss how it integrates ESG factors into its products or services, including – but not limited to – during the following activities or aspects:
- Advisory services – evaluating ESG risks, opportunities, or liabilities on behalf of clients during transactions such as mergers and acquisitions.
  - Origination – incorporating ESG risks into the origination, structuring, and execution of structured financial products, derivative hedging strategies, and other financial services.
  - Underwriting (private placement) – assessing ESG risks of counterparties and disclosing them while raising debt or equity.
  - Underwriting (public offering) – incorporating ESG factors into the valuation, pricing, and potential risks and returns of offerings, including an indication of if this is disclosed.
  - Research – incorporating ESG risks and opportunities into sell-side equity research
- .77 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.
- .78 The registrant may choose to disclose quantitative data related to its Equator Principles (EP III) implementation, such as the number of projects screened according to Equator Principles (or equivalent) by EP Category.
- .79 The registrant may choose to disclose a qualitative description of its EP III implementation, including, at a minimum: (1) how concepts have been incorporated into the bank's credit and risk management policies and procedures; (2) responsibility for implementation within the bank; and (3) internal adoption processes and implementation efforts and timetables, as well as staff training to ensure that bank staff are fully informed of the standards.
- .80 The registrant may choose to disclose quantitative data related to its Carbon Principles implementation, such as the number of coal plant power plants financed and the percentage subject to Carbon Principles screening.

**FN0102-16. Amount of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting**

- .81 For each category of products and services (origination, market making, and advisory and underwriting services), the registrant shall disclose the value (in U.S. dollars) of securities traded by the registrant during the fiscal year.



- .82 The scope of origination activities shall include origination of securities (debt, equity, or derivatives) that offset environmental risk or promote the development of ESG markets, including:
- Catastrophe (CAT) bonds, defined broadly as a debt instrument to raise money in case of a natural catastrophe.
  - Green bonds, defined broadly as a debt instrument to finance projects related to clean energy, recycling, sustainable agriculture, or green building, including those that meet the requirements of “Climate Bond Certified.”
  - Social impact bonds, defined broadly as a debt instrument to finance public sector services or social enterprises that seek to generate measureable, positive social impact alongside financial returns, where the bond is repaid through cost savings (e.g., decreased recidivism, reduced dropout rate) associated with the investment.
- .83 The scope of market-making activities disclosed shall include those for emissions trading or other environmental commodities, such as:
- Emissions trading includes credits or permits associated with the EU Emissions Trading System, such as EUAs (European Union Allowances), CERs (Certified Emission Reductions), and ERUs (Emissions Reduction Units).
  - Emissions trading includes credits or permits associated with other carbon markets (e.g., California Cap-and-Trade).
  - Other environmental commodities, which may include renewable energy credits (REC) or water credits.
- .84 The scope of advisory services shall include advisory and underwriting activities (public or private) for companies that address key sustainability trends (e.g., such as climate change or sustainable agriculture), such as clean technology corporations, energy efficiency-focused corporations, or sustainable agriculture-focused companies.

NOTE TO FN0102-16

- .85 The registrant shall describe its activities and products that are focused on environmental and/or social sustainability in the following categories: origination, market making, and advisory and underwriting services.

**FN0102-17. Deal size of advisory and underwriting transactions for companies in the following sectors/ industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities**

- .86 The registrant shall calculate the deal size for each of the following:
- Debt Capital Markets, based on bookrunner-apportioned deal proceeds. Included are all Corporate and Financial Bonds, SSA Issuance (Sovereign, Supranational and Agency) and Securitizations. Figures exclude Money Market instruments (CDs, Bank Notes) and Short Term Debt (securities with tenor less than 18 months).
  - Equity Capital Markets, based on bookrunner-apportioned deal value (including over-allotment). Included are all equity capital markets transactions (IPO, Follow-On & Convertible). Figures exclude Closed End Funds, Chinese A-Shares and Saudi Domestic Issues.

- Mergers & Acquisitions, based on deal value at announcement, including assumption of debt. Included are deals announced but not withdrawn. Regional rankings are based on the target, acquiror, acquiror subsidiary or divestor being from the specified region and full credit is allocated to each advisor unless representing a minority divestor.
- Syndicated Loans, based on Mandated Lead Arranger apportioned deal value. Included are loans made available by two or more providers under the same credit agreement. Ranking credit is assigned on the date the loan agreement is signed.

.87 The registrant shall disclose the aggregate deal size in each of the following Global Industry Classification Standard (GICS®) sectors or Industry Classification Benchmark (ICB) industries:

Table 1. Deal size by sector/industry

GICS Sector	ICB Industry	Deal size (U.S. dollars)
Energy (10)	Oil and Gas (0001)	
Materials (15)	Basic Materials (1000)	
Industrials (20)	Industrials (2000)	
Utilities (55)	Utilities (7000)	

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SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

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# ASSET MANAGEMENT & CUSTODY ACTIVITIES

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0103

Prepared by the  
Sustainability Accounting Standards Board®

February 2014  
Provisional Version

# 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.”<sup>1</sup>

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SICs 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.”<sup>2</sup>

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.”**<sup>3</sup>

### b. Other Relevant Sections of Form 10-K

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

<sup>3</sup> [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-20<sup>4</sup>—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:

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<sup>4</sup> 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)<sup>5</sup>, 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);<sup>6</sup>
- 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).

<sup>5</sup> 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.

<sup>6</sup> 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.

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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
<b>Employee Incentives &amp; Risk Taking</b>	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
<b>Employee Inclusion</b>	Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others	Quantitative	Percentage (%)	FN0103-05
<b>Transparent Information &amp; Fair Advice for Customers</b>	Amount of fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services <sup>7</sup>	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
<b>Management of the Legal &amp; Regulatory Environment</b>	Amount of legal and regulatory fines and settlements associated with financial fraud and percentage that resulted from whistleblowing actions <sup>8</sup>	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 <sup>9</sup>	Quantitative	Number (#), percentage (%)	FN0103-09

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

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

<sup>9</sup> 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
<b>Systemic Risk Management</b>	(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
<b>Integration of Environmental, Social, and Governance Risk Factors in Investment Management &amp; Advisory</b>	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 <sub>2</sub> / 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.<sup>10</sup>
  - 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.

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<sup>10</sup> <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 CO<sub>2</sub>);
  - 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 CO<sub>2</sub> 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.

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#### 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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SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

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# CONSUMER FINANCE

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0201

Prepared by the  
Sustainability Accounting Standards Board®

February 2014  
Provisional Version



# CONSUMER FINANCE

## 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 Consumer Finance.

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 Consumer Finance Industry provide personal finance through credit and debit card products. Certain companies within this industry provide transaction processing and payment technology for debit and credit cards.

Note: The SASB Consumer Finance (FN0201) Standard is limited to the abovementioned consumer finance services. A separate SASB accounting standard addresses the sustainability issues for mortgage finance activities.

## Guidance for Disclosure of Material Sustainability Topics in SEC filings

### 1. Industry-Level Material Sustainability Topics

For the Consumer Finance Industry, SASB has identified the following material sustainability topics:

- **Financial Inclusion**
- **Customer Privacy & Data Security**
- **Transparent Information & Fair Advice for Customers**
- **Responsible Lending & Debt Prevention**

## 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.”<sup>1</sup>

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SICs 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.”<sup>2</sup>

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.”**<sup>3</sup>

### b. Other Relevant Sections of Form 10-K

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

<sup>3</sup> [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 Consumer Finance 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-20<sup>4</sup>—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:

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<sup>4</sup> 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)<sup>5</sup>, 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);<sup>6</sup>
- 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).

<sup>5</sup> 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.

<sup>6</sup> 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.

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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
<b>Financial Inclusion</b>	Revenue from credit and debit products targeting unbanked and underbanked segments	Quantitative	U.S. dollars (\$)	FN0201-01
	Percentage of new accounts held by first-time credit card holders	Quantitative	Percentage (%)	FN0201-02
<b>Customer Privacy &amp; Data Security</b>	Number of data security breaches and percentage involving customers' personally identifiable information <sup>7</sup>	Quantitative	Number (#), percentage (%)	FN0201-03
	Amount of fraudulent transaction activity, percentage from: (1) card-not-present fraud and (2) card-present and other fraud	Quantitative	U.S. dollars (\$), percentage (%)	FN0201-04
	Description of data security and fraud prevention efforts related to new and emerging technologies and/or new and emerging threats	Discussion and Analysis	n/a	FN0201-05
<b>Transparent Information &amp; Fair Advice for Customers</b>	Amount of legal and regulatory fines and settlements associated with disclosure, transparency, or marketing <sup>8</sup>	Quantitative	U.S. dollars (\$)	FN0201-06
	Payout ratio for add-on products <sup>9</sup>	Quantitative	Ratio in U.S. dollars (\$)	FN0201-07
<b>Responsible Lending &amp; Debt Prevention</b>	For customers with FICO scores above and below 640 (subprime): (1) average customer debt (2) average APR (3) mean and median age of accounts (4) average monthly full payment rate	Quantitative	U.S. dollars (\$), percentage (%), years, rate	FN0201-08
	Percentage of applications accepted for applicants with FICO scores above and below 640 (subprime)	Quantitative	Percentage (%)	FN0201-09
	Average annual fees per account for pre-paid transaction products	Quantitative	U.S. dollars (\$)	FN0201-10

<sup>7</sup> Note to **FN0201-03** – Disclosure shall include a description of corrective actions implemented in response to data security incidents or threats.

<sup>8</sup> Note to **FN0201-06** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>9</sup> Note to **FN0201-07** – Disclosure shall include a description of the type of add-on products offered and of how compensation of sales representatives is related to the sales of these products.

# Financial Inclusion

## Description

*In the U.S., an estimated 11 percent of consumers are unbanked, and an additional 11 percent are underbanked. Advancements in payment technology provide opportunities for consumer finance companies to expand access to financial services to these populations, domestically and abroad. Expansion into new markets and technologies can provide significant sources of revenue; however, firms must also ensure that the associated regulatory and financial risks are managed. In addition, technological advancements have lowered barriers to entry and allowed new companies to enter the consumer finance industry, thereby increasing competition and putting pressure on incumbents. Enhanced disclosure on financial inclusion will provide shareholders with an understanding of how companies are increasing shareholder and societal value*

## Accounting Metrics

### **FN0201-01. Revenue from credit and debit products targeting unbanked and underbanked segments**

- .01 The registrant shall disclose revenue from financial products that are targeted toward unbanked and underbanked customer segments.
- .02 Disclosure shall include revolving credit products, such as credit cards and pre-paid debit cards that serve an unmet financial need (e.g., bill paying, receiving direct deposits, basic savings, etc.).
- .03 Specific financial products targeted toward unbanked and underbanked segments may include, but are not limited to:
  - Secured credit cards
  - Student credit cards
  - Fair credit cards
  - Low-credit limit cards
  - Prepaid reloadable (i.e., general purpose reloadable) cards
- .04 The scope of disclosure shall exclude the following products and services:
  - Non-revolving credit, such as unsecured loans (e.g., payday loans, personal loans)
  - Prepaid non-reloadable cards (e.g., stored-value gift cards)
  - Services, such as check-cashing and remittances
  - Money orders, bank (cashiers) checks, and remittances (domestic or international)
- .05 Unbanked customers are those in households without a checking or savings account who may rely on alternative financial services (AFS), such as payday loans, non-bank money orders, non-bank check cashing services, non-bank remittances, rent-to-own services, pawnshops, or refund anticipation loans (RALs).

- .06 Underbanked customers are in households that have a checking and/or a savings account but may still regularly use AFS.
- .07 Revenue shall be calculated as the aggregate amount of all fees (e.g., for late payment, account maintenance, opening an account, depositing money, checking balances, withdrawing money, etc.) and interest charged during the fiscal year.
- This figure shall include “pre-accounts fees” that are charged to customers prior to opening an account, such as an application fee or a processing fee for account approval.

**FN0201-02. Percentage of new accounts held by first-time credit card holders**

- .08 An individual shall be considered a first-time account holder if he/she does not have any account listed on his/her credit history report of the type “credit card” or “bankcard.”
- Valid credit history reports are those produced by a national consumer credit reporting agency such as Equifax, Transunion, or Experian.
- .09 The registrant shall calculate the percentage as the total number of new credit card accounts approved for first-time credit card holders during the fiscal year divided by the total number of credit card accounts approved during the fiscal year.

# Customer Privacy & Data Security

## Description

*Ensuring the privacy and security of personal financial data is an essential responsibility of the consumer finance industry. Companies that fail to manage performance in this area are susceptible to decreased revenues and consumer confidence. Further, although many states have passed laws requiring businesses to notify authorities in the event of a security breach, the current absence of federal standards has led to increased costs, as companies are forced to comply with a patchwork of state laws. Disclosure of the number of security breaches, the extent of fraudulent charges, and efforts to manage these risks will allow shareholders to understand how consumer finance companies are protecting long-term value.*

## Accounting Metrics

### **FN0201-03. Number of data security breaches and percentage involving customers' personally identifiable information**

- .10 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.
- .11 The scope of disclosure shall be limited to data security breaches, cyber security risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.
  - Disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from people, process, or technology deficiencies or failures.
  - Disclosure shall exclude disruptions of service due to equipment failures.
- .12 "Personally Identifiable Information" refers to any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, social security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>10</sup>
- .13 The registrant shall disclose the percentage of data security breaches involving customers' unencrypted personally identifiable information and the customers were notified of the breach.
  - Notification includes that which is voluntary by the registrant or required by state law.
  - Disclosure shall include incidents when encrypted data were acquired with an encryption key that was also acquired.
  - The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise such an investigation.

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<sup>10</sup> GAO Report 08-536, *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, May 2008

.14 Disclosure shall follow, but not be limited to, the U.S. Security and Exchange Commission's (SEC) [CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

- At a minimum, this includes when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

#### NOTE TO FN0201-03

- .15 The registrant shall describe the corrective actions taken in response to specific incidents, trends in security breaches, or future security uncertainties, such as changes in operations, management, processes, products, business partners, training, or technology.
- .16 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.

#### **FN0201-04. Amount of fraudulent transaction activity, percentage from: (1) card-not-present fraud and (2) card-present and other fraud**

- .17 The registrant shall calculate fraudulent activity as the total value (in U.S. dollars) of account holder transactions refunded to account holders (card holders) due to fraud.
- .18 The scope shall include losses from the unauthorized use of revolving consumer credit cards, including instances of card-present fraud and instances of card-not-present fraud, where the registrant is liable for losses (e.g., such as when a merchant is using a chargeback protection service).
- .19 The scope shall also include transactions determined to be fraudulent that the registrant charged back to merchants (and/or their acquiring banks), including those related to card-not-present fraudulent activity.
- .20 The registrant shall report the percentage (by dollar amount) of fraudulent activity attributable to card-present fraud and "other types of fraud" and the percentage attributable to card-not-present fraud.
- .21 Card-not-present (CNP) fraud is characterized by the unauthorized use of a credit card number, the security code printed on the card, and/or the cardholder's address details for a transaction in a non-face-to-face setting with a merchant.
- CNP fraud includes that which is conducted online, through mail, or over the phone.
- .22 Card-present fraud is characterized by the unauthorized use of a physical credit card for a transaction in a face-to-face setting with a merchant.
- "Other types of fraud" includes identify theft and any fraudulent transaction that cannot be classified as CNP fraud.

**FN0201-05. Description of data security and fraud prevention efforts related to new and emerging technologies and/or new and emerging threats**

- .23 The registrant shall describe its customer data security and fraud prevention efforts, such as physical technologies, data analysis, merchant programs (e.g., training), fraud prevention services, consumer education, and partnerships (e.g., with peers, law enforcement, or business partners).
- .24 New and emerging technologies with data security and fraud risks include, but are not limited to, near-field communication (NFC) payment systems, mobile banking, and web-based banking.
- .25 New and emerging threats to data security include, but are not limited to, hacking, social engineering, malware, and digital eavesdropping.
- .26 New and emerging fraud threats include, but are not limited to, skimming and other card-not-present frauds.
- .27 All disclosure shall be sufficient such that it describes the registrant's data security and fraud prevention efforts, but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.

# Transparent Information & Fair Advice for Customers

## Description

*Consumer finance companies will continue to face scrutiny as the Consumer Financial Protection Bureau (CFPB) attempts to ensure transparency and enhanced disclosure. The CFPB's attention to the industry's marketing practices as they relate to credit card add-on products (i.e., debt cancellation, identity theft protection, and credit reporting and monitoring) is demonstrated by recent fines and enhanced oversight. The ability of consumer finance companies to ensure that customers are provided with transparent information and fair advice related to these and other products is likely to have material implications.*

## Accounting Metrics

### **FN0201-06. Amount of legal and regulatory fines and settlements associated with disclosure, transparency, or marketing**

- .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, transparency of fees and penalties, and notices and notifications.
- .29 Disclosure shall include, but not be limited to, violations of the Credit CARD Act of 2009, Truth in Lending Act, Federal Trade Commission (FTC) Act, or Dodd-Frank Wall Street Reform and Consumer Protection Act.
- .30 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 FN0201-06

- .31 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., advertising-related, breach of contract, negligence, etc.) of fines and settlements.
- .32 The registrant shall describe any corrective actions that 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.

### **FN0201-07. Payout ratio for add-on products**

- .33 The registrant shall disclose the payout ratio from add-on products that offer any form of debt cancellation, deferment, or forbearance in exchange for regular payment, including those marketed as "debt protection," "payment protection," or "credit insurance."
- .34 The payout ratio (loss ratio) shall be calculated as the total amount (in U.S. dollars) of benefits to customers (i.e., claims paid or debt forgiven) divided by the total amount of revenue or premiums received from these products (i.e., fees).



NOTE TO FN0201-07

.35 The registrant shall disclose the type of add-on products it offered during the fiscal year or has current plans to offer, where an add-on product is any optional additional product or service associated with a credit card account. These include, but are not limited to:

- Debt protection, payment protection, or credit insurance
- Credit monitoring or alert services, which provide credit report and score notifications
- Identity theft protection or fraud monitoring, which provide alerts of activities occurring related to an account

.36 The registrant shall describe how its representatives' compensation is linked to sales of add-on products, such as the incentive structures employed.

- Where relevant, the registrant should describe systems in place to ensure that fair, transparent, and truthful information about the benefits and risks of add-on products is communicated during the sales process.

# Responsible Lending & Debt Prevention

## Description

*An increase in subprime lending and payment delinquency indicates that lenders are lowering standards and providing capital to consumers that are prone to excessive credit card debt. Although consumer finance companies can benefit in the short-term from increased customer debt through late fees and interest charges, a reliance on these revenue streams can have a negative impact on results. The disclosure of key characteristics of a lending portfolio, including average customer debt, mean and median age of accounts, and average monthly full payment rate will allow shareholders to determine which consumer finance companies are better positioned to protect value.*

## Accounting Metrics

### **FN0201-08. For customers with FICO scores above and below 640 (subprime):**

- (1) average customer debt**
- (2) average APR**
- (3) mean and median age of accounts**
- (4) average monthly full payment rate**

- .37 The registrant shall disclose (1), (2), (3), and (4) for all customers with FICO scores above 640 and for all customers with FICO scores equal to, or below, 640.
- .38 Average customer debt shall be calculated as a simple weighted average by aggregating all revolving credit extended to individuals at the end of the fiscal year and dividing by the total number of individuals with credit card accounts.
  - The registrant shall exclude non-revolving consumer credit, such as motor vehicle loans, education loans, or other loans (e.g., boat, trailers, and mobile home loans).
- .39 The registrant shall disclose the average APR for all accounts assessed interest during the fiscal year, calculated as the annualized ratio of total finance charges to the total average daily balances, against which the finance charges were assessed (excluding accounts for which no finance charges were assessed).
- .40 The mean and median age of account (in months) shall be calculated according to standard statistical methods from the date that each active account was opened until the close of the fiscal year.
  - Accounts closed during the fiscal year shall be excluded from the calculation.
- .41 The average monthly full payment rate shall be calculated as the number of monthly customer statements for which the statement balance was paid in full divided by the total number of months that customer accounts were active.

### **FN0201-09. Percentage of applications accepted for applicants with FICO scores above and below 640 (subprime)**

- .42 The registrant shall calculate its acceptance rate for applicants with prime FICO scores as the number of approved credit card account applications for customers with FICO scores above 640 divided by all new credit card applications.

- .43 The registrant shall calculate its acceptance rate for applications with subprime FICO scores as the number of approved applications for customers with FICO scores equal to or below 640 divided by all new credit card applications.
- .44 The scope of applications used in calculation shall be those the registrant approved or denied during the fiscal year, regardless of when the application was received.

**FN0201-10. Average annual fees per account for pre-paid transaction products**

- .45 The registrant shall calculate the average fees per account (in U.S. dollars) as a weighted average by aggregating all revenue received from pre-paid fees during the fiscal year divided by the total number of accounts.
- .46 The registrant shall disclose revenue from pre-paid transaction products, including prepaid reloadable (i.e., general purpose reloadable) cards and prepaid non-reloadable cards (e.g., stored-value gift cards).
- .47 Revenue shall be calculated according to the same method as in FN0201-01, as the aggregate amount of all fees (e.g., for late payment, account maintenance, opening an account, depositing money, checking balances, withdrawing money, etc.).

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SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

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# MORTGAGE FINANCE

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0202

Prepared by the  
Sustainability Accounting Standards Board®

February 2014  
Provisional Version

# MORTGAGE FINANCE

## 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 Mortgage Finance.

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 Mortgage Finance Industry lend capital to individual and commercial customers with property as collateral. Loans are typically securitized and issued to investors.

## Guidance for Disclosure of Material Sustainability Topics in SEC filings

### 1. Industry-Level Material Sustainability Topics

For the Mortgage Finance Industry, SASB has identified the following material sustainability topics:

- **Environmental Risk to Mortgaged Properties**
- **Responsible Lending & Debt Prevention**
- **Transparent Information & Fair Advice for Customers**
- **Management of the Legal & Regulatory Environment**



## 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.”<sup>1</sup>

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SICs 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.”<sup>2</sup>

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.”**<sup>3</sup>

### b. Other Relevant Sections of Form 10-K

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

<sup>3</sup> [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 Mortgage Finance 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-20<sup>4</sup>—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:

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<sup>4</sup> 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)<sup>5</sup>, 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);<sup>6</sup>
- 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).

<sup>5</sup> 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.

<sup>6</sup> 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.

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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
<b>Environmental Risk to Mortgaged Properties</b>	Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas	Quantitative	Number (#), U.S. dollars (\$)	FN0202-01
	Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting	Discussion and Analysis	n/a	FN0202-02
	Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region	Quantitative	U.S. dollars (\$), percentage (%)	FN0202-03
<b>Transparent Information &amp; Fair Advice for Customers</b>	Description of variable compensation structure of loan originators	Discussion and Analysis	n/a	FN0202-04
	Number and value of mortgages issued to minorities	Quantitative	Number (#), U.S. dollars (\$)	FN0202-05
	Number and value of mortgages provided to low or moderate-income individuals/families	Quantitative	Number (#), U.S. dollars (\$)	FN0202-06
	Amount of fines and settlements associated with violation of the mortgage industry provisions of Regulation Z (Truth in Lending Act) relating to communications to customers <sup>7</sup>	Quantitative	U.S. dollars (\$)	FN0202-07
<b>Responsible Lending &amp; Debt Prevention</b>	Number and value of Qualified Mortgages (QMs), by minority status and income classification	Quantitative	Number (#), U.S. dollars (\$)	FN0202-08
	Number and value of mortgages of the following types: (1) Hybrid or Option ARM (2) Prepayment Penalty (3) Higher Rate Overall, by minority status, and by income classification	Quantitative	Number (#), U.S. dollars (\$)	FN0202-09
	Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages	Quantitative	Ratio in U.S. dollars (\$)	FN0202-10
	Number of: (1) modifications, (2) foreclosures, (3) short sales or deeds in lieu of foreclosure, and (4) total mortgages	Quantitative	Number (#)	FN0202-11
	Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, and nonconventional	Quantitative	Percentage (%)	FN0202-12
	Amount of fines and settlements associated with mortgage industry regulations <sup>8</sup>	Quantitative	U.S. dollars (\$)	FN0202-13

<sup>7</sup> Note to **FN0202-07** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>8</sup> Note to **FN0202-13** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

# Environmental Risk to Mortgaged Properties

## Description

*An increase in the frequency of extreme weather events associated with climate change may have an adverse impact on the mortgage finance industry. Specifically, hurricanes, floods, and other climate change-related events have the potential to lead to missed payments and loan defaults, while also decreasing the value of underlying assets. Disclosure of overall exposure, loan forgiveness programs, and the incorporation of climate change into lending analysis will allow shareholders to determine which mortgage finance firms are best positioned to protect value in light of environmental risks.*

## Accounting Metrics

### **FN0202-01. Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas**

- .01 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.
- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.
- .02 FEMA special flood hazard areas (SFHAs) are defined as land areas covered by the floodwaters of the base flood on National Flood Insurance Program (NFIP) maps. The SFHA is the area where the NFIP's floodplain management regulations must be enforced, and the area where the mandatory purchase of flood insurance applies. The SFHA includes Zones A, AO, AH, A1-30, AE, A99, AR, AR/A1-30, AR/AE, AR/AO, AR/AH, AR/A, VO, V1-30, VE, and V.

### **FN0202-02. Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting**

- .03 The registrant shall describe how it has incorporated climate change and other environmental risks into its mortgage origination underwriting processes, where these risks include:
- The increased frequency and severity of weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires)
  - The occurrence of geophysical events (e.g., earthquakes and volcanic eruptions)
- .04 Specifically, the registrant shall disclose how and if these risks affect its origination and underwriting models and decisions, including:
- How the risk impacts the valuation of collateral, such as accounting for inherent risks due to location or assessing for the implementation of basic adaptive measures (e.g., reinforcement, hurricane shutters).
  - How natural disaster risks affect credit risk analysis, including if the registrant assumes that increases in natural disaster frequency and severity will increase the likelihood of default due to properties being un- or under-insured.



**FN0202-03. Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region**

- .05 The registrant shall disclose the expected loss (in U.S. dollars) and percentage of total expected loss given default (in U.S. dollars) attributable to:
- Mortgage loan default and delinquency due to weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires) and excluding geophysical events (e.g., earthquakes and volcanic eruptions)
- .06 The registrant shall use the basic formula that expected loss = probability of default \* loss given default \* exposure at default, or equivalent.
- .07 The registrant shall provide this amount and percentage by geographic region, where regions are determined by the registrant, but which may include: Gulf Coast, California, Northeast, Mountain, Midwest, etc.

# Transparent Information & Fair Advice for Customers

## Description

*The Mortgage Reform and Anti-Predatory Lending Act established significant consumer protection laws in the wake of the 2008 financial crisis. The new regulations seek to limit the predatory lending practices that encouraged qualified and unqualified borrowers to assume subprime mortgages. In addition, the law prohibits mortgage originators from receiving compensation that is tied to the value of the loan and requires that additional disclosures be given to borrowers. Mortgage finance companies that are able to provide transparent information and fair advice are more likely to protect shareholder value.*

## Accounting Metrics

### **FN0202-04. Description of variable compensation structure of loan originators**

- .08 The registrant shall disclose how the compensation of loan officers relates to the terms and conditions of loans, such as size of the mortgage loan, interest rates, up-front points or fees, or the ability of the loan to be securitized.
- .09 The registrant shall describe relevant aspects of the compensation structure, including the use of bonuses, commissions, pooled compensation, profit-sharing, or other financial incentives for loan originators, officers, or brokers.
  - The registrant shall consider compensation provided directly to the loan originator from a consumer to be within the scope of disclosure.
- .10 Loan originators are defined per the Federal Reserve's Regulation Z as persons who, for compensation or other monetary gain, or in expectation of compensation or other monetary gain, arranges, negotiates, or otherwise obtains an extension of consumer credit for another person.

### **FN0202-05. Number and value of mortgages issued to minorities**

- .11 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.
  - The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.
- .12 Race and ethnicity categories shall be based upon Office of Management and Budget "[Standards for the Classification of Federal Data on Race and Ethnicity](#)," but classification shall be done by self-identification (e.g., during the application process).
  - Race categories include: American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, and White.
  - Ethnicity categories include: "Hispanic or Latino" and "Not Hispanic or Latino."

- .13 Minority is defined according to the Federal Financial Institutions Examination Council as: (1) all races other than White and (2) Whites of Hispanic or Latino origin.
- For mortgage applications where applicants are of one or more race or ethnicity, and/or for applicants where there are joint applicants of different races or ethnicities, the registrant shall follow the [categorization process](#) used in FFIEC Home Mortgage Disclosure Act (HMDA) disclosure.

**FN0202-06. Number and value of mortgages provided to low or moderate-income individuals/families**

- .14 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.
- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.
- .15 Low or moderate income individuals/families are as defined by the Federal Financial Institutions Examination Council:
- Income is classified with respect to the median family income of a census tract, where tracts correspond to classifications defined by the HMDA and CRA regulations.
  - If the median family income of a mortgage holder is <50% and >0 of the median family income of the tract in which it is located, then the income level is low.
  - If the median family income of a mortgage holder is ≥50% and <80% of the median family income of the tract in which it is located, then the income level is moderate.
- .16 Where relevant, the scope of disclosure should include Community Reinvestment Act-compliant lending.

**FN0202-07. Amount of fines and settlements associated with violation of the mortgage industry provisions of Regulation Z (Truth in Lending Act) relating to communications to customers**

- .17 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with Regulation Z (Truth in Lending Act) provisions relating to disclosure communications to customers, including Subpart E.
- .18 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 FN0202-07

- .19 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, insider trading, etc.) of fines and settlements.
- .20 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.
- .21 The registrant should disclose any corrective actions specifically related to providing clear, transparent, and timely communications to customers about mortgage risks, terms, and fees.

# Responsible Lending & Debt Prevention

## Description

Between 2003 and 2006, the percentage of mortgage originations that were subprime increased from eight to 20. This increase was driven by strategic decisions to steer borrowers into more risky products as well as to offer loans to those who were previously unable to qualify. These practices, which represented an industry shift away from traditional mortgages to the creation of financial instruments that were sold to third parties, increased the risk of default and led to an estimated four million foreclosures between 2007 and December 2012. Further, these deceptive and predatory practices led to major losses and high-profile bankruptcies of major lenders and contributed to a tarnished reputation of the industry. Responsible lending and debt prevention, in addition to contributing to a company’s social capital, can have a direct impact on a company’s performance and profitability. Enhanced disclosure on key elements of lending practices, including the number and value of Dodd-Frank Qualified Mortgages, foreclosure rates, and the prevalence of different mortgage types, will allow shareholders to determine which companies are better positioned to protect value.

## Accounting Metrics

### FN0202-08. Number and value of Qualified Mortgages (QMs), by minority status and income classification

- .22 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.
  - The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.
- .23 Dodd-Frank QMs are defined according to the Consumer Finance Protection Bureau (CFPB) and Department of Housing and Urban Development (HUD) and aligned with the “ability-to-repay” criteria set out in the Truth in Lending Act (TILA).
- .24 The registrant shall disclose the aggregate number and value of Dodd-Frank QMs, the number and value issued to minorities, and the number and value issued to low or moderate-income individuals/families, summarized in the following table:

Table 1. Dodd-Frank Qualified Mortgages

	Number	Loan Value	Percent of total
<b>Total QMs</b>			
<b>Minority held</b>			
<b>Low/moderate income held</b>			

- .25 Race and ethnicity categories shall be based upon Office of Management and Budget "[Standards for the Classification of Federal Data on Race and Ethnicity](#)," but classification shall be done by self-identification (e.g., during the application process).
- Race categories include: American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, and White.
  - Ethnicity categories include: "Hispanic or Latino" and "Not Hispanic or Latino."
- .26 Minority is defined according to the Federal Financial Institutions Examination Council as: (1) all races other than White and (2) Whites of Hispanic or Latino origin.
- For mortgage applications where applicants are of one or more race or ethnicity, and/or for applicants where there are joint applicants of different races or ethnicities, the registrant shall follow the [categorization process](#) used in FFIEC Home Mortgage Disclosure Act (HMDA) Disclosure.
- .27 Low or moderate-income individuals/families are as defined by the Federal Financial Institutions Examination Council:
- Income is classified with respect to the median family income of a census tract, where tracts correspond to classifications defined by the HMDA and CRA regulations.
  - If the median family income of a mortgage holder is <50% and >0 of the median family income of the tract in which it is located, then the income level is low.
  - If the median family income of a mortgage holder is ≥50% and <80% of the median family income of the tract in which it is located, then the income level is moderate.

**FN0202-09. Number and value of mortgages of the following types: (1) Hybrid or Option ARM, (2) Prepayment Penalty, (3) Higher Rate; overall, by minority status, and by income classification**

- .28 The number of mortgages shall include the absolute number of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant holds as loan assets, and the value shall be the current asset value of all such mortgages.
- The scope excludes mortgages held for sale, mortgage-backed securities, and mortgages serviced by the registrant.

29 Disclosure shall be summarized in the following table:

Table 1. Mortgage loans by feature

Feature	Number	Loan Value	Minority held		Low/moderate Income held	
			Number	Value	Number	Value
Hybrid or Option ARM						
Higher Rate						
Prepayment Penalty						

.30 Hybrid or option adjustable-rate mortgages (ARMs) are defined as mortgages with interest rate resets of less than five years, negative amortization, and/or interest-only payment schedules.

.31 Higher-rate mortgages are defined as those that are at least 300 basis points above treasuries of comparable maturity.

.32 Prepayment penalties are defined as mortgage contracts that include a clause that assesses a penalty if the mortgage is paid in full within a certain time period.

**FN0202-10. Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages**

.33 The registrant shall calculate the ratio of principal reduction to foreclosures as the dollar amount of first lien principal reduction (forgiveness) divided by the amount of foreclosed assets.

.34 Principal reduction shall apply to modifications of first lien mortgages and exclude junior lien forgiveness and write-offs associated with short sales or deeds in lieu of foreclosure.

**FN0202-11. Number of: (1) modifications, (2) foreclosures, (3) short sales or deeds in lieu of foreclosure, and (4) total mortgages**

.35 The registrant shall calculate the aggregate number of first lien and junior lien mortgages that the registrant considered assets during the fiscal year, and the number that were modified, entered foreclosure status, or were subject to short sale or deed in lieu of foreclosure (“deed in lieu”).

.36 Modifications are defined as mortgages where one or more of the following was changed from the original terms: the principal amount, the payment amount, the length of the term of the loan, the interest rate (e.g., the rate was lowered or changed from a floating to a fixed rate), or the assessment of fees or penalties.

.37 Foreclosures are defined as when a borrower has defaulted on a mortgage and sale of the underlying property asset is forced, through legal or statutory means.

- The scope of disclosure shall include consumer real estate assets that entered foreclosure during the fiscal year, regardless of whether they were sold or held for sale.

.38 Short sales are defined as transactions in which the registrant agrees to accept less than the full amount of the debt owed by the borrower and releases its lien on the asset.

- .39 A deed in lieu of sale is defined as a property asset for which the borrower conveys all interest to the registrant to satisfy a mortgage loan that is in default and avoid foreclosure.
- .40 Modifications, foreclosures, and short sales and deed in lieu rates shall be summarized according to the following table format:

Table 1. Mortgage settlements by type

Settlement type	Number	Percent of total
Modification		
Foreclosure		
Short Sale/Deed in Lieu		
Total Mortgages		

**FN0202-12. Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, and nonconventional**

- .41 The registrant shall calculate the foreclosure rate as the number of mortgage loan assets that entered foreclosure during the fiscal year divided by the total number of mortgage loan assets.
- .42 Foreclosure rates shall be summarized according to the following table format:

Table 1. Foreclosure rate by loan segment

Loan Segment	Number	Percent of total
Subprime		
Non-subprime jumbo		
Non-subprime conventional		
Nonconventional		

- .43 Subprime mortgages are those held by borrowers with credit ratings of 640 or lower and are typically nonconventional mortgages.
- .44 Non-subprime jumbo mortgages are prime mortgages that exceed the loan limits standards imposed by the Federal Housing Finance Agency and therefore cannot be backed by government sponsoring entities (e.g., Fannie Mae or Freddie Mac).
- .45 Non-subprime conventional mortgages include prime mortgages that conform to Federal Housing Finance Agency standards to be backed by government sponsoring entities (e.g., Fannie Mae or Freddie Mac), as well as Alt-A mortgages (those that have a risk profile between prime and subprime).
- .46 Nonconventional mortgages are those that are not reported in 0.50 above and are typically insured or guaranteed by the federal government through the following agencies: the Federal Housing Administration, the U.S. Department of Veterans Affairs, and the U.S. Department of Agriculture.

# Management of the Legal & Regulatory Environment

## Description

*Mortgage finance companies continue to face significant penalties and lawsuits associated with the 2008 mortgage crisis. Although many of the practices implicated in these settlements did not violate existing regulations, they were indicative of significant failures in governance. The resulting impact on the individual companies and the economy as a whole demonstrates the risks to shareholder value associated with failures to assess risk accurately and to comply with regulations. Enhanced disclosure of fines and settlements associated with legal and regulatory compliance will allow investors to accurately assess performance on this issue.*

## Accounting Metrics

### **FN0202-13. Amount of fines and settlements associated with mortgage industry regulations**

- .47 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of mortgage industry regulations, including provisions of Dodd-Frank (e.g., revisions to Regulation X and Regulation Z enforced by the Consumer Financial Protection Bureau).
- .48 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 FN0202-13

- .49 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., predatory lending, fraud, violation of loan officer compensation rules, etc.) of fines and settlements.
- .50 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.
- .51 Disclosure shall exclude fines and settlements, reported above in FN0202-07, which are associated with violation of Regulation Z (Truth in Lending Act) mortgage industry provisions relating to communications to customers.



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SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

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# SECURITY & COMMODITY EXCHANGES

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0203

Prepared by the  
Sustainability Accounting Standards Board®

February 2014  
Provisional Version

# SECURITY & COMMODITY EXCHANGES

## 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 Security & Commodity Exchanges.

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 Security & Commodity Exchanges Industry operate physical or electronic marketplaces for trading financial securities, commodities, and other financial instruments.

## Guidance for Disclosure of Material Sustainability Topics in SEC filings

### 1. Industry-Level Material Sustainability Topics

For the Security & Commodity Exchanges Industry, SASB has identified the following material sustainability topics:

- **Promoting Transparent & Efficient Capital Markets**
- **Managing Conflicts of Interest**
- **Managing Business Continuity & Technology Risks**

## 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.”<sup>1</sup>

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.”<sup>2</sup>

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.”**<sup>3</sup>

### b. Other Relevant Sections of Form 10-K

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

<sup>3</sup> [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 Security & Commodity Exchanges 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-20<sup>4</sup>—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:

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<sup>4</sup> 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)<sup>5</sup>, 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);<sup>6</sup>
- 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).

<sup>5</sup> 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.

<sup>6</sup> 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.

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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
<b>Promoting Transparent &amp; Efficient Capital Markets</b>	Discussion of alert policy regarding timing and nature of public release of information	Discussion and Analysis	n/a	FN0203-01
	Number and average duration of (1) halts related to public release of information and (2) pauses related to volatility	Quantitative	Number (#), time (hours)	FN0203-02
	Percentage of trades generated from automated trading systems <sup>7</sup>	Quantitative	Percentage (%)	FN0203-03
	Description of policy to encourage or require listed companies to publicly disclose governance, social, and/or environmental information	Discussion and Analysis	n/a	FN0203-04
<b>Managing Conflicts of Interest</b>	Description of process to identify and assess conflicts of interest between the exchange's regulatory obligations and the interests of its members, its market operations, its listed issuers, and, in the case of a demutualized self-regulatory organization (SRO), its shareholders	Discussion and Analysis	n/a	FN0203-05
	Amount of legal and regulatory fines and settlements associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other business ethics violations <sup>8</sup>	Quantitative	U.S. dollars (\$)	FN0203-06
<b>Managing Business Continuity &amp; Technology Risks</b>	Description of efforts to prevent technology errors, security breaches, and market disruptions	Discussion and Analysis	n/a	FN0203-07
	Number of significant market disruptions and duration of downtime <sup>9</sup>	Quantitative	Number (#), time (hours/days)	FN0203-08
	Number of data security breaches and percentage involving customers' personally identifiable information <sup>10</sup>	Quantitative	Number (#), percentage (%)	FN0203-09

<sup>7</sup> Note to **FN0203-03** – Disclosure shall include a discussion of risks and opportunities (short and long-term) associated with automated trading systems including algorithmic or high frequency trading.

<sup>8</sup> Note to **FN0203-06** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

<sup>9</sup> Note to **FN0203-08** – Disclosure shall include, for each disruption: the type and extent of the disruption, a discussion of the root cause, and a description of any corrective actions implemented in response.

<sup>10</sup> Note to **FN0203-09** – Disclosure shall include a description of corrective actions implemented in response.

# Promoting Transparent & Efficient Capital Markets

## Description

*Security and commodity exchanges have a responsibility to ensure equal access to capital markets for all investors. As public markets, these companies play a critical role in efficient capital allocation and need to provide for the equal application of rules to all participants. In addition, companies must manage the release of public information to prevent asymmetries. Disclosure of policies relating to information releases, halts of trading, and the risks and opportunities associated with algorithmic or high-frequency trading will allow investors to further understand how security and commodity exchanges are protecting shareholder value.*

## Accounting Metrics

### **FN0203-01. Discussion of alert policy regarding timing and nature of public release of information**

.01 The registrant shall describe its alert policy relating to listed companies' public release of information or company developments that may affect a stock price (positively or negatively), such as:

- Changes related to the financial health of the company
- Major corporate transactions, including restructurings or mergers
- Significant positive or negative information about its products
- Changes in key management individuals
- Legal or regulatory developments that affect the company's ability to conduct business

.02 Relevant aspects of an alert policy, including guidelines around:

- Timing of release of information in relation to market hours
- Newspaper agencies and wire services, such as a specification of which outlets should be notified
- The mechanisms of alert to the exchange (e.g., by telephone, fax, email) and public disclosure (e.g. website, social media, press release, etc.)

.03 The registrant shall describe its provisions for halting, delaying, or pausing trading when it is necessary to ensure fair, complete, and transparent access to information.

- Number and duration of events shall be disclosed in FN0203-02.

### **FN0203-02. Number and average duration of (1) halts related to public release of information and (2) pauses related to volatility**

.04 The registrant shall disclose the number of halts and pauses and a simple average duration (in minutes) of the duration of each.

.05 Trading halts are defined as when an exchange suspends or delays trading of an equity to allow market participants to digest information or company developments that may have a material effect on trading activity, such as:

- Changes related to the financial health of the company
- Major corporate transactions, including restructurings or mergers
- Significant positive or negative information about its products
- Changes in key management individuals
- Legal or regulatory developments that affect the company's ability to conduct business
- When the company releases information without notifying the exchange in advance
- Another company announces an unsolicited tender offer for the company whose stock is now subject to the trading halt

.06 Trading pauses are defined as when an exchange briefly suspends trading of an equity (e.g., for five minutes) due to extreme volatility or erratic trading.

.07 The scope of disclosure excludes suspension of trading by the SEC (e.g., due to failure of a company to filing periodic reports) or market-wide circuit breakers required by the SEC (e.g., due to market wide volatility).

.08 The registrant shall summarize halts and pauses in the following table format:

Table 1. Trading Halts, Pauses, and Circuit Breakers

Type	Number	Duration
Halt		
Pause		

**FN0203-03. Percentage of trades generated from automated trading systems**

.09 Automated or algorithmic trading is defined as the use of electronic platforms for entering trading orders with an automated algorithm that executes pre-programmed trading instructions.

- This includes high-frequency trading.
- This excludes program trading.

.10 The percentage of trades shall be calculated as the volume of trades executed (i.e., bought, sold, and sold short) by an automated algorithm divided by the total volume of trades.

.11 The scope of disclosure includes trades occurring on public stock exchanges, in dark pools, or through other trading systems.

NOTE TO FN0203-03

- .12 The registrant shall identify risks associated with automated or algorithmic trading occurring on its exchange(s) or in dark pools that it operates, such as regulatory, reputational, volatility, or risks to capital expenditures (e.g., risk that data centers become stranded assets if the need for latency declines).
- .13 The registrant shall identify opportunities associated with automated or algorithmic trading occurring on its exchange(s) or in dark pools that it operates, such as increased trading volume, revenue from co-location facilities, and sales of trading software.

**FN0203-04. Description of policy to encourage or require listed companies to publicly disclose governance, social, and/or environmental information**

- .14 The registrant shall describe policies for companies listed on its exchange(s) related to governance, social, and/or environmental information, including:
  - If guidelines are rules-based (i.e., companies must meet certain structural or performance criteria) or if they are disclosure-based (i.e., companies must disclose certain information)
  - If rules or disclosures are a requirement of listing (and/or continued listing) or compliance is voluntary for listed companies (i.e., recommended or encouraged by the registrant)
- .15 The scope shall be limited to rules, requirements, and disclosures that are additional to size, distribution, and financial criteria for an initial public offering (IPO) and/or continued listing.
- .16 Governance information includes, but is not limited to, rules and disclosures related to board structure and independence, committees of the board, and codes of conduct or ethics.
- .17 Social and environmental information includes, but is not limited to, information typically found in corporate sustainability reports or integrated reports.
- .18 Examples of encouraging companies to meet governance, social, or environmental rules or disclosure standards include, but are not limited to:
  - Promoting and facilitating transfer of information among regulators, investors, and companies
  - Participation in disclosure programs such as the Sustainable Stock Exchange Initiative

# Managing Conflicts of Interest

## Description

*Security and commodity exchanges are responsible for the regulatory oversight of member companies. Specifically, firms in this industry monitor membership information and regulatory compliance to ensure market integrity. Recent controversies relating to market manipulation, tax fraud, investor protection rules, and anti-trust have articulated concern about conflicts of interest that arise due to security and commodity exchanges' position as self-regulatory organizations. Companies that manage these issues will maintain market integrity and limit reputational risks, thereby enhancing shareholder value.*

## Accounting Metrics

### **FN0203-05. Description of process to identify and assess conflicts of interest between the exchange's regulatory obligations and the interests of its members, its market operations, its listed issuers, and, in the case of a demutualized self-regulatory organization (SRO), its shareholders**

- .19 The registrant shall describe its processes for identifying and assessing conflicts of interest, such as the use of corporate policies, monitoring procedures, dedicated personnel, or board oversight.
- .20 The registrant may describe efforts to minimize conflicts of interest including:
  - Education, interpretation, or guidance to broker-dealer members with respect to regulatory compliance
  - Technical mechanisms to enforce compliance
  - Ceding some self-regulatory powers to FINRA or equivalent (i.e., through a 17d-2 agreement)

### **FN0203-06. Amount of legal and regulatory fines and settlements associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other business ethics violations**

- .21 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice, or other business ethics violations, including SECT, CFTC, or FINRA fines.
- .22 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 FN0203-06

- .23 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, market manipulation, etc.) of fines and settlements.
- .24 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.



# Managing Business Continuity & Technology Risks

## Description

*Security and commodity exchanges face increased risks and opportunities associated with information technology. The industry's central position in the proper functioning of financial markets requires that issues including security breaches and technology errors are managed to prevent market disruptions. Increased disclosure on efforts taken to prevent these risks, in addition to the current performance, will allow shareholders to accurately assess value.*

## Accounting Metrics

### **FN0203-07. Description of efforts to prevent technology errors, security breaches, and market disruptions**

.25 The registrant shall describe its policies and practices to ensure the confidentiality, integrity, and availability of data across its data platforms, including, but not limited to:

- Trading services and technologies, such as software, data feeds, members services (e.g., messaging or information services)
- IT infrastructure, such as co-location facilities and low-latency connectivity equipment
- Information provided to and held by third parties, such as regulators (e.g., FINRA and the SEC)

.26 All disclosure shall be sufficient such that it is specific to the risks that the registrant faces but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.

### **FN0203-08. Number of significant market disruptions and duration of downtime**

.27 The registrant shall disclose the number and duration (in hours) of significant market disruptions, which are defined as events when the exchange ceases to function according to its typical manner and causes or threatens to cause steep market declines.

.28 The scope of disclosure excludes trading halts and pauses disclosed in FN0203-02, suspensions of trading by the SEC (e.g., due to failure of a company to filing periodic reports), or market-wide circuit breakers required by the SEC (e.g., due to market-wide volatility).

#### NOTE TO FN0203-08

.29 The registrant shall characterize the type of disruption, which may include member actions (e.g., "flash crashes" from algorithmic trading), technology (e.g., cyber-attack or computer failure), power losses, or high-risk, low probability incidents (e.g., terrorism, extreme environmental events, or other physical threats etc.).

- Disruptions shall be limited to those specifically targeted toward, or affecting, the registrant and shall exclude general economic, political, or environmental events. For example, a cyber-attack that targets the registrant's exchange would be in the scope of disclosure but a cyber-attack on the White House or Pentagon would not be in the scope of disclosure, despite the potential for the latter to have market effects.
- The extent of the disruption should be described in the context of the aspects, features, or services of the exchange that were affected.

.30 The registrant shall describe the root cause of each disruption and 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.

**FN0203-09. Number of data security breaches and percentage involving customers' personally identifiable information**

.31 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.

.32 The scope of disclosure shall be limited to data security breaches, cyber security risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

- Disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from people, process, or technology deficiencies or failures.
- Disclosure shall exclude disruptions of service due to equipment failures.

.33 "Personally Identifiable Information" refers to any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, social security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.<sup>11</sup>

.34 The registrant shall disclose the percentage of data security breaches in which customers' unencrypted personally identifiable information and the customers were notified of the breach.

- Notification includes that which is voluntary by the registrant or required by state law.
- Disclosure shall include incidents when encrypted data were acquired with an encryption key that was also acquired.
- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise such an investigation.

.35 Disclosure shall follow, but not be limited to, the U.S. Security and Exchange Commission's (SEC)

[CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

- At a minimum, this includes when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

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<sup>11</sup> GAO Report 08-536, *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, May 2008

NOTE TO FN0203-09

- .36 The registrant shall describe the corrective actions taken in response to specific incidents, trends in security breaches, or future security uncertainties, such as changes in operations, management, processes, products, business partners, training, or technology.
- .37 All disclosure shall be sufficient such that it is specific to the risks that the registrant faces but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.

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SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

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# INSURANCE

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0301

Prepared by the  
Sustainability Accounting Standards Board®

February 2014  
Provisional Version

# INSURANCE

## 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 Insurance.

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 Insurance Industry provide both traditional and nontraditional insurance-related products. Traditional policy lines include property, life, casualty, and reinsurance. Nontraditional products include annuities, alternative risk transfers, and financial guarantees. Companies in the insurance industry also engage in proprietary investments for asset-liability management.

Note: Accounting metrics for the material sustainability issues associated with the provision of health insurance are outlined in the SASB Managed Care (HC0303) Industry Standard.

## Guidance for Disclosure of Material Sustainability Topics in SEC filings

### 1. Industry-Level Material Sustainability Topics

For the Insurance Industry, SASB has identified the following material sustainability topics:

- **Environmental Risk Exposure**
- **Policies Designed to Incentivize Responsible Behavior**
- **Plan Performance**
- **Systemic Risk Management**
- **Integration of Environmental, Social, and Governance Risk Factors in Investment Management**



## 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.”<sup>1</sup>

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.”<sup>2</sup>

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.”**<sup>3</sup>

### b. Other Relevant Sections of Form 10-K

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<sup>1</sup> TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

<sup>2</sup> C.F.R. 229.303(Item 3030)(a)(3)(ii).

<sup>3</sup> [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 Insurance 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-20<sup>4</sup>—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:

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<sup>4</sup> 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)<sup>5</sup>, 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);<sup>6</sup>
- 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).

<sup>5</sup> 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.

<sup>6</sup> 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.

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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
<b>Environmental Risk Exposure</b>	Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes, by insurance segment, type of event, and type of risk insured	Quantitative	U.S. dollars (\$)	FN0301-01
	Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes	Quantitative	U.S. dollars (\$)	FN0301-02
	Description of how environmental risks are integrated into: (1) The underwriting process for individual contracts (2) The management of firm-level risks and capital adequacy	Discussion and Analysis	n/a	FN0301-03
	List of markets, regions, and/or events for which the registrant declines to voluntarily write coverage for weather-related natural catastrophe risks	Discussion and Analysis	n/a	FN0301-04
	Percentage of policies in which weather-related natural catastrophe risks have been mitigated through reinsurance and/or alternative risk transfer	Quantitative	Percentage in U.S. dollars (\$)	FN0301-05
<b>Policies Designed to Incentivize Responsible Behavior</b>	Discussion of products or product features that incentivize healthy, safe, and/or environmentally responsible actions or behavior	Discussion and Analysis	n/a	FN0301-06
	Net premiums written related to energy efficiency and low carbon technology	Quantitative	U.S. dollars (\$)	FN0301-07
<b>Plan Performance</b>	Complaints-to-claims ratio	Quantitative	n/a	FN0301-08
	Customer retention rate	Quantitative	Percentage (%)	FN0301-09
	Average number of days from reported claim to settlement of claim	Quantitative	Days	FN0301-10
	Description of efforts to provide information to new and returning customers in a clear and conspicuous manner	Discussion and Analysis	n/a	FN0301-11

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

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
<b>Systemic Risk Management</b>	Non-policyholder liabilities	Quantitative	U.S. dollars (\$)	FN0301-12
	(1) Notional amount of CDS protection sold, (2) notional amount of debt securities insured for financial guarantee, and (3) risk-in-force covered by mortgage guarantee insurance	Quantitative	U.S. dollars (\$)	FN0301-13
	Value of collateral received from securities lending and amount received from repurchase agreements	Quantitative	U.S. dollars (\$)	FN0301-14
	Amount of life and annuity liabilities that can be surrendered upon request: (1) Within three months without penalty (2) With penalties lower than 20%	Quantitative	U.S. dollars (\$)	FN0301-15
<b>Integration of Environmental, Social, and Governance Risk Factors in Investment Management</b>	Discussion of how environmental, social, and governance (ESG) factors are integrated into the investment of policy premiums	Discussion and Analysis	n/a	FN0301-16
	Discussion of the investment portfolio risks presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends	Discussion and Analysis	n/a	FN0301-17



# Environmental Risk Exposure

## Description

*Catastrophe losses associated with extreme weather events will continue to have a material, adverse impact on the insurance industry. The extent of this impact is likely to evolve as climate change increases the frequency and severity of both modeled and non-modeled natural catastrophes, including hurricanes, floods, and droughts. Subsequently, insurance companies that integrate climate change into their analysis, pricing, and overall exposure will be better positioned to protect shareholder value. The enhanced disclosure of this integration, in addition to the probable maximum loss, total losses, and the mitigation of risk, will provide investors with the information necessary to assess current and future performance on this issue.*

## Accounting Metrics

### **FN0301-01. Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes, by insurance segment, type of event, and type of risk insured**

- .01 Probable maximum loss (PML) is defined as the anticipated value of the largest monetary loss affecting the registrant's insurance portfolio that could result from weather-related natural catastrophes and is based on catastrophic modeling and exceedance probability (EP).
- .02 The registrant shall disclose the PML, expressed in a dollar amount, from weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires) and excluding geophysical events (e.g., earthquakes and volcanic eruptions).
- .03 The registrant should provide a breakdown of the PML for two major segments: consumer and commercial.
- .04 The consumer segment includes homeowners, automotive, supplemental health and accident, and other personal insurance.
- .05 The commercial segment includes casualty (e.g., liability, workers' compensation), property, specialty (e.g., crop, marine, political risk), and financial (e.g., errors and omissions, fiduciary liability) insurance.
- .06 The registrant shall provide a breakdown of the PML for the consumer segment by type of event and type of insured risk in the following table format:

Consumer Probable Maximum Loss (in millions \$)						
Risk	Property & Casualty			Life & Retirement		Total
	Homeowners	Automotive	Other	Life	Retirement	
Floods						
Hurricanes						
Tornadoes						
Droughts						
Extreme heat						
Winter weather						
Tsunamis						
<b>Total</b>						

.07 The registrant shall provide a breakdown of the PML for the commercial segment by type of event and type of insured risk in the following table format:

Probable Maximum Loss (in millions \$)				
Risk	Property & Casualty			Total
	Property	Crop	Other	
Floods				
Hurricanes				
Tornadoes				
Droughts				
Extreme heat				
Winter weather				
Tsunamis				
<b>Total</b>				

**FN0301-02. Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes**

.08 The registrant shall disclose losses (in U.S. dollars) from insurance claim payouts for natural catastrophes, broken down by payouts for modeled and non-modeled events.

- .09 Total annual losses are the sum of all payouts from the registrant that are associated with natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (e.g., floods), climatological events (e.g., heat waves, cold waves, droughts, and wildfires), and geophysical events (earthquakes, volcanic eruptions, and dry mass movements).
- .10 Modeled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the registrant has analyzed using a catastrophic risk model.
- .11 Non-modeled events are typically smaller-scale events, such as floods, droughts, snowstorms, and tornados, that the registrant has not analyzed using a catastrophic model (cat model).
- .12 Cat models are probabilistic mathematical models that simulate hazardous events and estimate the associated potential damages and insured losses. They may be conducted by the registrant or by a third party on behalf of the registrant.

**FN0301-03. Description of how environmental risks are integrated into:**

**(1) The underwriting process for individual contracts**

**(2) The management of firm-level risks and capital adequacy**

- .13 The registrant shall describe how it integrates environmental risks into both individual policyholder contracts and enterprise-wide assessments of risk.
- .14 Integration of risks into individual policyholder contracts may include activity by the actuary, underwriter, and/or risk modeler, such as the use of probabilistic mathematical models (i.e., catastrophic models); the use of new and emerging datasets (e.g., for dam burst risk); consideration of company size (i.e., risk to an SME versus a large company); assessments of new, insurable liabilities (e.g., legal liability for not planning for weather-related events); and/or consideration of new regulations (e.g., those associated with climatic changes).
- .15 Integration of risks into enterprise-wide assessments may include how risks are considered by segment (e.g., life versus property & casualty), capital adequacy, contingency planning for market failure (i.e., from numerous disaster-related claims), and use of alternative risk transfer (e.g., catastrophe bonds, weather derivatives).
  - The registrant may discuss how sustainability risks are integrated into its use of an enterprise risk management (ERM) framework, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management–Integrated Framework.
- .16 Environmental risks may include changes in weather patterns, increased frequency of extreme weather, biodiversity loss and ecosystem disruptions, water management, and pollution.

**FN0301-04. List of markets, regions, and/or events for which the registrant declines to voluntarily write coverage for weather-related natural catastrophe risks**

- .17 The registrant shall list any markets, regions, and/or events for which it does not offer coverage at the time of disclosure, including situations in which the registrant maintains existing coverage but does not offer new coverage for the same risks.

- .18 The registrant shall disclose the instances when it cancelled or did not renew coverage for weather-related natural catastrophes after a disaster event.
- Weather-related natural catastrophes include meteorological events (e.g., hurricanes and storms), hydrological events (e.g., floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires) but exclude geophysical events (earthquakes, volcanic eruptions, and dry mass movements).
- .19 Markets may include specific U.S. states, such as California or Florida, or counties within states, such as Galveston County, Texas.
- .20 Regions are specific geologic or physical zones for which the registrant does not write coverage, such as coastal areas and flood-prone areas.
- .21 Events may include “named” storms (i.e., by the U.S. National Weather Service and/or the U.S. National Hurricane Center), earthquakes, and flooding.

**FN0301-05. Percentage of policies in which weather-related natural catastrophe risks have been mitigated through reinsurance and/or alternative risk transfer**

- .22 The registrant shall calculate the percentage as the amount (in U.S. dollars) of risk transferred through reinsurance and/or alternative risk transfer (ART) mechanisms divided by the projected losses from coverage written for weather-related natural catastrophes.
- .23 Alternative risk transfer (ART) includes catastrophe bonds (i.e., those that are paid out on a proof of loss), weather derivatives (which are triggered by a weather event), and other forms of securitization.
- .24 The projected losses from coverage written for weather-related natural catastrophes shall be calculated as the risk-weighted losses anticipated using probabilistic mathematical modeling (e.g., catastrophic models).
- .25 Reinsurance shall include industry loss warrantees (ILWs).

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Additional references

[Climate Risk Disclosure by Insurers: Evaluating Insurer Responses to the NAIC Climate Disclosure Survey](#), September 2011.

[Chapter 4 - Climate change and its implications for catastrophe modelling](#), Climate Change Research Report, The Chartered Insurance Institute (CII), 2009.

# Policies Designed to Incentivize Responsible Behavior

## Description

*Advances in technology and the development of new policy products have allowed insurance companies to limit claim payments while encouraging responsible behavior. The industry is subsequently in a unique position to generate positive social and environmental externalities. In order to demonstrate how shareholder value is being enhanced through the development of such policies, insurance companies should disclose products that incentivize responsible behavior and a low-carbon economy.*

## Accounting Metrics

### **FN0301-06. Discussion of products or product features that incentivize healthy, safe, and/or environmentally responsible actions or behavior**

- .26 Disclosure shall include a description of aspects of traditional products that incentivize healthy, safe, and/or environmentally responsible actions or behavior. Examples include premium discounts for green buildings, incentives for using sustainable building materials after a loss, discounts for properties in communities with building codes requiring climate-risk adaptations, and actuarially adjusted premiums for the use of low-emission vehicles, fuel-efficient non-hybrid vehicles, or alternative-fuel vehicles.
- .27 Disclosure shall also include a discussion of insurance policies that may be different from traditional insurance products by being structured to incentivize healthy, safe, and/or environmentally responsible actions or behaviors (for example, mileage/usage-based automotive insurance).
- .28 The scope of disclosure shall include products designed and intended to reduce moral hazards as well as those through which healthier, safer, or environmentally responsible outcomes are created as a byproduct.
- .29 If applicable, the registrant shall provide a discussion for the consumer insurance segment and the commercial insurance segment.
  - The consumer segment includes homeowners, automotive, supplemental health and accident, and other personal insurance.
  - The commercial segment includes casualty (e.g., liability, workers' compensation), property, specialty (e.g., crop, marine, political risk), and financial (e.g., errors and omissions, fiduciary liability) insurance.

### **FN0301-07. Net premiums written related to energy efficiency and low carbon technology**

- .30 The registrant shall disclose the net premiums written (in U.S. dollars) for policies related to energy efficiency and low carbon technology, including renewable energy insurance, energy savings warranties, and carbon capture and storage insurance).
- .31 Renewable energy insurance may range from specialized protection against natural hazards or mechanical breakdowns to insurance against fluctuations in the availability of wind or solar radiation.
- .32 Energy savings warranties insure the energy savings guaranteed by Energy Services Companies (ESCOs) for building retrofitting and other energy efficiency projects.
- .33 Disclosure should include policies that can be demonstrated to absorb environmental risks, thereby enabling sustainability-related projects, technologies, and activities.

# Plan Performance

## Description

*Insurance companies compete on the basis of price, brand reputation, services offered, and customer relationships. As financial regulators continue to emphasize consumer protection and accountability, firms that are able to ensure strong plan performance will be better positioned to protect shareholder value. Specifically, firms that are able to ensure timely claim payments and transparent information will be better positioned to retain customers and protect shareholder value.*

## Accounting Metrics

### FN0301-08. Complaints-to-claims ratio

- .34 The registrant shall calculate the ratio as the number of complaints the registrant received from its customers across all insurance segments and regions per 1,000 claims that have been filed across all segments and regions.
- .35 What constitutes a complaint may be defined by the registrant but, at a minimum, shall include those complaints that are tracked and reported by each state insurance department.
- Typically, state insurance departments classify a reportable complaint as a communication from or on behalf of a consumer that is confirmed, is justified, requires further investigation, is closed, or is otherwise substantiated, in the view of the department.
- .36 Complaints are communications of dissatisfaction that relate, but are not limited to, excessive rates, misleading advertising or marketing, claim delays, denial of claims, unsatisfactory settlement offers, disputes over settlement value, coverage/policy cancellation or non-renewal, billing issues, and claim adjuster handling.
- Note: there may be more than one reason for a single complaint.
- .37 Where relevant, the registrant may additionally choose to disclose the complaints-to-claims ratio by product segment (e.g., commercial, consumer), insurance type (e.g., property, casualty, life), geographic region, or other breakdown.

### FN0301-09. Customer retention rate

- .38 The registrant shall disclose its customer retention rate using the following the calculation:  $(\text{Total number of customers at close of fiscal year} - \text{new customers added during the fiscal year}) / (\text{customers at the close of the previous fiscal year} - \text{customers involuntarily terminated during the fiscal year} - \text{attrition of customers in employer-sponsored plans})$ .
- Involuntarily terminated customers—those whose coverage was terminated by the registrant due to non-payment, fraud, or intentional misrepresentation of material facts—shall be excluded from the calculation.
  - Attrition of customers in employer-sponsored plans (e.g., life insurance plans) due to turnover (voluntary or involuntary) shall be excluded from the calculation.

.39 Where relevant, the registrant may additionally choose to disclose the retention rate by product segment (e.g., commercial, consumer), insurance type (e.g., property, casualty, life), geographic region, or other breakdown.

**FN0301-10. Average number of days from reported claim to settlement of claim**

.40 The registrant shall disclose the average time to settlement of claims as the mean number of days from first notice of loss until the claim is settled (i.e., when the first payment is made to the customer).

.41 For the purposes of this disclosure, a claim is considered to be settled once the first payment is made to the customer, regardless of when the registrant informs a claimant about the settlement terms (if different from when the first payment was made).

.42 Where relevant, the registrant may additionally choose to disclose the average days until settlement by product segment (e.g., commercial, consumer), insurance type (e.g., property, casualty, liability, life), claim type (e.g., repairable, total-loss), geographic region, or other breakdown.

**FN0301-11. Description of efforts to provide information to new and returning customers in a clear and conspicuous manner**

.43 The registrant shall describe how it communicates clearly and transparently to customers regarding the terms of their insurance coverage (e.g., limits, deductible), the scope of their insurance coverage (e.g., what is covered by the policy), any unique policy exclusions or exceptions (e.g., anti-concurrent causation clauses), processes for payment of claims (e.g., role of adjuster, disputes, settlement), and availability of information throughout the customers' lifecycles (e.g., through online access).

.44 The registrant shall describe its communication processes, including the mechanisms (e.g., direct mailing, online accounts, telephone hotlines) and responsible personnel (e.g., sales and marketing, adjusters) involved.

.45 The registrant shall describe its communication practices for both new and returning customers, as well as any key points of communication, during a customer's lifecycle, such as during initial coverage or when a claim is filed.

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Additional references

National Association of Insurance Commissioners (NAIC) Consumer Information Source [State Complaint Map](#).

California Insurance Code Section 12921.1, [Consumers: Consumer Complaint Study Definitions](#).

# Systemic Risk Management

## Description

*Similar to other financial institutions, insurance companies face risks associated with credit and financial markets. Within the industry, companies that engage in nontraditional or non-insurance activities have been identified by regulators as being more vulnerable to financial market developments and subsequently more likely to amplify or contribute to systemic risk. As a result, insurance companies in the U.S. and abroad face the potential of being designated as systemically significant, nonbank financial institutions. Although the regulatory implications of this designation remain undetermined in the U.S., firms will be subject to stricter prudential regulatory standards and oversight by the Federal Reserve Board. Specifically, insurance companies 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, insurance companies engaged in nontraditional activities should enhance their disclosures of key aspects of systemic risk management.*

## Accounting Metrics

### **FN0301-12. Non-policyholder liabilities**

- .46 The registrant shall disclose the amount (in U.S. dollars) of liabilities that are not policyholder liabilities, where policyholder liabilities are the total amount of technical provisions held by the registrant to fulfill insurance contracts.
- .47 Technical provisions (policy liabilities/technical liabilities) are defined as the amount that the registrant has set aside to fulfill its insurance obligations and settle all commitments to policyholders and other beneficiaries arising over the lifetime of the portfolio, including the expenses of administering the policies, reinsurance, and the capital required to cover the remaining risks.

### **FN0301-13. (1) Notional amount of CDS protection sold, (2) notional amount of debt securities insured for financial guarantee, and (3) risk-in-force covered by mortgage guarantee insurance**

- .48 The registrant shall disclose the gross notional amount of credit default swap protection that it has sold (in U.S. dollars).
- .49 The registrant shall disclose the gross notional amount of structured debt securities for which the registrant provides financial guarantee insurance (i.e., through non-cancellable indemnity bonds)
- This figure shall exclude the CDS protection disclosed in part (1)
  - Debt securities include bonds (government, corporate, and municipal) and structured financial products.
- .50 The registrant shall disclose the risk in-force for its mortgage guarantee insurance, where risk in-force is defined as the amount of expected gross default covered by all mortgage guarantee policies.
- .51 The scope of disclosure excludes surety bonds.



**FN0301-14. Value of collateral received from securities lending and amount received from repurchase agreements**

- .52 The registrant shall disclose the amount of collateral it received from lending securities, including the amount of cash (in U.S. dollars) or the market value (in U.S. dollars) of non-cash collateral instruments (e.g., government securities, mortgage-backed securities, letters of credit).
- .53 Securities lending is defined as the loaning of a stock, derivative, or other security to an investor or firm in exchange for collateral (e.g., cash, security, or a letter of credit). When a security is loaned, the title and the ownership are also transferred to the borrower.
- .54 The registrant shall disclose the amount of cash it receives from the sale of securities in repurchase agreements.
- .55 A repurchase agreement consists of the sale of securities together with an agreement for the seller to buy back the securities at a later date. It is a form of short-term borrowing (typically overnight) involving government securities. For the party selling the securities (and agreeing to repurchase it in them future), it is a repurchase agreement.

**FN0301-15. Amount of life and annuity liabilities that can be surrendered upon request:**

**(1) Within three months without penalty**

**(2) With penalties lower than 20%**

- .56 The registrant shall disclose the amount (in U.S. dollars) of life insurance and annuity liabilities that can be surrendered upon customer request within three months without the customer being subject to a financial penalty (e.g., fees or taxes).
- .57 The registrant shall disclose the amount (in U.S. dollars) of these liabilities that can be surrendered upon customer request when the customer is subject to a financial penalty (e.g., fees or taxes) less than or equal to 20% of the customer's contributed funds.
  - For annuities with variable surrender fees (e.g., those that decrease over the life of the annuity on a fixed schedule), the registrant shall consider the current penalty rate effective at the close of the fiscal year.

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Additional references

International Association of Insurance Supervisors, Global Systemically Important Insurers: Initial Assessment Methodology, July 18, 2013

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

## Description

*Insurance companies are responsible for investing capital to ensure the preservation of premium revenues equivalent to expected policy claim payouts and must be able to maintain long-term asset–liability parity. As environmental, social, and governance factors have increasingly been shown to have a material impact on the performance of corporations and other assets, insurance companies have a responsibility to integrate these factors into the management of their investments, including corporate bonds, mortgage loans, real estate, and corporate equity. Failure to address these issues could lead to diminished returns and limit a company’s ability to issue claim payments.*

## Accounting Metrics

### **FN0301-16. Discussion of how environmental, social, and governance (ESG) factors are integrated into the investment of policy premiums**

- .58 ESG integration is broadly defined as the incorporation of environmental, social, and governance factors alongside traditional financial considerations in the range of activities and decision-making processes that are involved in investment decisions.
- .59 Environmental, social, and governance (ESG) factors are defined—and their basic uses in financial analysis is described—in the SASB [Conceptual Framework](#) in the section, “Key Definitions and Characteristics of Sustainability Accounting and Disclosure.”

### **Investment Fund Construction**

- .60 The registrant should discuss how ESG factors are incorporated into its diversification strategies (within an asset class) for its investment portfolio management, including whether the registrant assesses for concentrations of ESG risks and attempts to mitigate them through diversification of these risks.
  - This may include how ESG factors intersect with or influence the registrant’s view of fundamental factors (economic conditions, Federal Reserve Policy, industry trends, geopolitical risks, etc.).
- .61 The registrant should discuss how ESG factors are integrated into its asset allocation practices, including whether assets are allocated in part based on sustainability risks/exposures and opportunities that are 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).

- .62 The registrant should discuss how it factors the macroeconomic value of investments into its asset selection or recommendations, which, broadly, may include considering one or more of the following alongside the projected financial returns of an investment strategy:
- Whether the investment could create or contribute to systemic risk for the economy
  - The potential for the investment to create negative externalities

### **Equity and Asset Selection**

- .63 The registrant shall discuss how it integrates ESG factors into its selection and/or recommendation process for individual assets during—although not limited to— the following stages or activities:
- Initial screening for opportunities within the investment mandate of its portfolio
  - 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
- .64 The registrant shall discuss how it incorporates ESG metrics into its quantitative financial analysis and modeling, including which metrics, standards, benchmarks, or datasets are used and how they are weighed alongside traditional financial metrics in valuation and pricing.

### **FN0301-17. Discussion of the investment portfolio risks presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends**

- .65 The registrant shall discuss how it assesses and has identified the risks to its investment portfolio(s) presented by climate change, natural resource constraints, human rights, and/or other broad sustainability trends.
- 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, capital expenditure requirements for adaptations, and GHG emissions reductions.
  - Risk of natural resource constraints should be understood to include, but not be limited to, decreased availability, increased competition, or volatility in availability of water, forestry products, fossil fuels, and/or extractives.
  - Human rights concerns should be understood to include, but not be limited to, the 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 of 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, and shifting population demographics.

.66 The registrant shall identify the specific industries (or sectors) in which it has exposure to risks from the trends it has identified, where industries are categorized according to a standard industry classification system (e.g., GICS, ICB, NAICS).

- The registrant should quantify its exposure to sustainability risks as a dollar amount of investment in the 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.

.67 The registrant shall identify specific geographies (e.g., regions, countries, states) and/or demographic segments (e.g., income, education) in which the registrant has activity and recognizes risks from the broad sustainability trends disclosed.

**SUSTAINABILITY ACCOUNTING STANDARDS BOARD®**

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