January 26th 2018

Katz Capital Advisory LLC

Dear SASB Director of Research,

Thank you for the opportunity to publicly comment on the SASB Commercial Banks (FN 0101) Sustainability Accounting Standard Proposed Changes to Provisional Standards Exposure Draft.

Commercial Banking

**Data Security**

TA02-05-01

.07 Consider disclosing the timeliness of the breach to learning of the breach within context of policy for disclosing data breaches.

TA02-04-01 Discussion of management approach to identifying and addressing data security risks

.08 Consider adding to the discussion any legal requirements to have a policy and the legal requirements associated with operating the policy.

.14 Consider adding the wording “or legal or regulatory framework” and the following respective legal and regulatory framework examples:

A. Financial Services Superintendent Maria T. Vullo reminds all entities covered by the DFS cybersecurity regulation, that today, August 28, 2017, is the first compliance date of New York’s first-in-the-nation [cybersecurity regulation](#). Beginning today, banks, insurance companies, and other financial services institutions regulated by DFS are required to have a cybersecurity program designed to protect consumers’ private data; a written policy or policies that are approved by the board or a senior officer; a Chief Information Security Officer to help protect data and systems; and controls and plans in place to help ensure the
safety and soundness of New York’s financial services industry. Covered entities must also begin reporting
cybersecurity events to DFS through the Department’s online
cybersecurity portal. In addition, DFS recently announced that
covered entities can virtually file notices of exemption, which are
due within 30 days of the determination that the covered entity
is exempt.

B. **OCC Bulletin 2013-29 Summary**

This bulletin provides guidance to national banks and federal
savings associations (collectively, banks) for assessing and managing
risks associated with third-party relationships. A third-party
relationship is any business arrangement between a bank and
another entity, by contract or otherwise.¹

The Office of the Comptroller of the Currency (OCC) expects a bank
to practice effective risk management regardless of whether the
bank performs the activity internally or through a third party. A
bank’s use of third parties does not diminish the responsibility of its
board of directors and senior management to ensure that the
activity is performed in a safe and sound manner and in compliance
with applicable laws.²

A. This bulletin rescinds OCC Bulletin 2001-47, “Third-Party
Relationships: Risk Management Principles,” and OCC
Advisory Letter 2000-9, “Third-Party Risk.” This bulletin
supplements and should be used in conjunction with other
OCC and interagency issuances on third-party relationships
and risk management listed in appendix B. In connection
with the issuance of this bulletin, the OCC is applying to
federal savings associations (FSA) certain guidance
applicable to national banks, as indicated in appendix B.
Financial Inclusion & Capacity Building

Accounting Metrics

TA02-03-01. (1) Number and (2) amount of past due loans and nonaccrual loans qualified to programs designed to promote small business and community development.

Please consider past due and nonaccrual loans as those using original terms and conditions. Voluntary or government mandated restructured loans that are subsequently performing should continue to be included in this category with additional description “restructured to perform” or other existing or subsequent equivalent regulatory or gaap definition.

TA02-01-01. Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers.

.24 Please consider widening the definition of accounts to “no-cost retail accounts”. Doing so enables the inclusion of expected digital currency accounts such as those being considered by APRA https://www.bis.org/review/r180109c.htm

General comment would be to add a note to TA02-01-01. The note would discuss strategy or justification for these no cost products specifically addressing actual or expected potential ancillary revenue.

Note to FN0101-03.

.32 Please consider adding wording that initiatives to programs may be internal or external with third parties to the extent external are contractual. Fintech is leading to the creation of many new companies such as Digit https://www.digit.co and Mint https://www.mint.com that work with commercial banks to actually provide the banking products and services. These new companies are focused on the subject customers of this topic.
Integration of Environmental, Social and Governance Factors in Credit Risk Analysis

FN101-15. Discussion of how environmental, social and governance (ESG) factors are integrated into the lending process

.38 ESG factors that are medium to longer term trends and uncertainties have the potential to become ever more relevant to credit exposure during the life of the exposure versus what is known at the time of origination.

Some sustainability risks and opportunities will therefore actually roll onto credit exposure over time. Therefore, this category has many forward-looking elements that could impact revenues or costs in the intermediate to long term

Specifically suggest referencing FASB Current Expected Credit Loss standard that will take into account the expected loss over the life of the exposure. Registrants should disclose how ESG is used to determine CECL for GAAP reporting in terms of the requirement to use reasonable support forecasts to determine ongoing credit reserves.

Also, note some banks like DBS Bank Ltd. of Singapore have a group Chief Sustainability Officer to embed ESG into the business. Suggest specifically adding a reference to include comments on such dedicated organizational integration functions.

Suggest adding to the ESG guidance the word “opportunities” to the phrases speaking to risk. There is much ESG disruption taking place which presents both risks and opportunities. Disclosure as to how the opportunities are being funded with tools such as “Green Bonds”, Social Bonds, ICMA Green, Social and Sustainability bonds. Also, pricing of the opportunities are forward looking and creative to take account of expected improved credit quality.

Specifically, for banks that determine their own internal credit scoring there should be an ESG positive or negative component to credit scoring. US Banks are prohibited pursuant to DoddFrank from linking internal credit scores to external credit ratings, which incidentally do not currently explicitly take into account ESG factors.
General comment that impacts all ESG integration topics is employee turnover. Very high turnover is indicative of a weak first line of defense. Helpful to add explanation as to why is the turnover happening, technology jobs replacing manual jobs, under-performance, macro trends, such as strong GDP growth that causes employees to leave.

Management of the Legal & Regulatory Environment

Description

Please add the word “Conduct” to the word performance to have consistency with industry nomenclature.

Accounting Metrics

TA02-16-01. Total amount of losses as a result of legal proceedings associated with fraud, anti-trust, ant-competitive, market manipulation, malpractice or other industry regulations

The overall metric is quite comprehensive. Although please consider the addition of lost business, revenue and/or profits from the reputational damage or otherwise such as from a credit downgrade, the consequences of the disclosed amounts if any.

Also, this kind of quantitative disclosure is subject to emergence over time. Therefore, the actual realized amount of actual realized losses will have to be adjusted for prior years. A breakdown of the losses in a given year included a prior year adjustment will reveal prudence in reserving.

Might also add to this metric the amounts of such losses assumed to occur for stress test purposes. The need to hold capital for operational risk is a type of non-gaap reserve for losses.

Page 21 of the BFC appears to need the word “fines” to be replaced with the word “losses”.
Systemic Risk Management

Accounting Metrics

TA02-09-01. Global Systemically Important Bank score by category

Suggest to be more clear this metric is a metric applicable to all banks that adopt the SASB standard and not only G-SIBs. G-SIBs will need to provide this information to respective regulators, as will some banks below the G-SIB cut-off.

Other banks will choose to compile and disclose this information. And still other banks will choose not to disclose this information concluding it is not material.

All banks should provide information relevant to their view and their regulators view of their systemic footprint. This disclosure metric ensures disclosure is not subject to changing arbitrary regulatory definitions of systemic footprints and scores and enables relative comparability.