STANDARD-SETTING PROJECT

Systemic Risk in Asset Management

UPDATE TO THE SASB ASSET MANAGEMENT & CUSTODY ACTIVITIES STANDARD

Issued: December 6, 2021
Effective Date: January 1, 2022

Prepared by the SASB Standards Board
Notice of Update to the SASB Asset Management & Custody Activities Standard

In December 2021, the SASB Standards Board voted to issue an update to the SASB Asset Management & Custody Activities Standard. The updated version (Version 2021-12) of the SASB Asset Management & Custody Activities Standard supersedes the previous version of the Standard (Version 2018-10).

Effective Date

All entities shall apply Version 2021-12 of the SASB Asset Management & Custody Activities for reports covering annual periods beginning on or after January 1, 2022.

Early adoption is permitted for all entities. If an entity applies the updates for an annual period beginning before the effective date, it shall disclose that fact.

If an entity chooses to not use the effective version of the Standard, it shall disclose the omission(s), as well as the rationale for the omission(s), consistent with guidance provided in the SASB Standards Application Guidance, Version 2018-10.
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Overview

This document was produced as part of the Systemic Risk in Asset Management standard-setting project, overseen by the SASB Standards Board (the Board). It contains the following sections:

- Basis for Conclusions on Update to the Asset Management & Custody Activities Standard
- Redline Version of Update to the Asset Management & Custody Activities Standard

The Basis for Conclusions summarizes the considerations of the Board to arrive at the update to the Standard, including how the update was guided by the SASB Conceptual Framework.

The Systemic Risk in Asset Management project page on the SASB website contains further information on the standard-setting project.
Basis for Conclusions on Update to the SASB Asset Management & Custody Activities Standard
Introduction

The Basis for Conclusions describes the update to the SASB Asset Management & Custody Activities Standard, including the considerations and rationale of the SASB Standards Board in developing and approving the update.

The Basis for Conclusions is organized as follows:
- Summary of update to the Standard
- How was the update to the Standard developed?
- Why was the project undertaken?
- What is the basis for the Board’s update to the Standard?
- Update to the Standard
- Effective date of the update

Summary of update to the Standard

The Asset Management & Custody Activities Standard has been updated to remove the Systemic Risk Management disclosure topic, including the four associated accounting metrics:

- **FN-AC-550a.1.** Percentage of open-end fund assets under management by category of liquidity classification
- **FN-AC-550a.2.** Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management
- **FN-AC-550a.3.** Total exposure to securities financing transactions
- **FN-AC-550a.4.** Net exposure to written credit derivatives

The update is exclusively related to the Asset Management & Custody Activities Standard. The Board notes that the changes described above and as reflected in the updated Standard do not affect the Systemic Risk Management disclosure topic or the associated metrics in the SASB Standards for the following industries: Commercial Banks, Insurance, and Investment Banking & Brokerage.

See the sections below for the Board’s deliberations concerning the update.

A redline version of the removed disclosure topic and associated metrics follows the Basis for Conclusions.

How was the update to the Standard developed?

The Board and technical staff have actively monitored the evolving regulatory environment around systemic risk in the asset management industry since the previous Standard was approved by the Board in October 2018. This has included assessing corporate disclosures and the effectiveness of the relevant standards at capturing performance on the issue in a decision-useful manner, monitoring developments in the industry, soliciting input from stakeholders, and deliberating the need for standard setting.
Since the project was added to the agenda in December 2019, the technical staff has conducted extensive research and has engaged in consultations with companies, investors, and subject-matter experts, including the SASB Standards Advisory Group, in support of the development of the exposure draft. The technical staff reached out to more than 50 stakeholders and had in-depth discussions about the issue with more than a dozen companies that conduct asset management and wealth management activities or provide custodian services. Both pure-play asset managers and integrated banks with asset management segments have provided input on a list of questions, which are available in the Consultation Agenda found on the project page.

Representatives from both the corporate and investor sides of these organizations participated in consultations. On the corporate side, most participants were enterprise risk officers or risk managers; while on the investor side, most participants were credit risk analysts who cover asset managers and custodian banks. Subject-matter experts, including academics and other specialists in this field, also participated in consultations.

Evidence and feedback gathered through extensive research and consultation conducted by the technical staff in 2020 suggested that the removal of the Systemic Risk Management disclosure topic and its four associated accounting metrics was the most optimal and feasible path forward. On March 16, 2021, the Board approved the release of an exposure draft for a 90-day public comment period, which closed on June 15, 2021. The exposure draft proposed the removal of the Systemic Risk Management disclosure topic and all associated accounting metrics. Eight public comment letters were received for the project, from three industry associations, two entities, and three other interested parties. All comment letters are published on the project page.

The Board and technical staff reviewed feedback provided during the public comment period and considered it in the total mix of information received as part of the project to update the Standard.

Additional information related to the standard-setting process that the Board follows to maintain and update the SASB standards can be found on the SASB website and in the Rules of Procedure and the Conceptual Framework. Additional project-specific information can be found on the project page on the SASB website.

Why was the project undertaken?

The project objective was to evaluate the Systemic Risk Management topic in the Asset Management & Custody Activities Standard, including potential improvements to the scope of the topic and the associated accounting metrics.

Since the release of the codified Standard in 2018, corporate issuers have provided feedback that the current Systemic Risk Management disclosure topic does not reflect the relevant sustainability impacts of companies in the Asset Management & Custody Activities industry and
that it is not aligned with the current regulations around systemic risk in the industry. Further, changes in regulatory reporting requirements in the United States suggest that the types of metrics specified in the standard may not provide decision-useful information and could be potentially misleading or confusing to investors.

In addition, analysis conducted by the technical staff indicated that metric FN-AC-550a.1 is not applicable to asset managers with non-U.S. operations, making it difficult for them to report on the disclosure topic.

Considering this information, the Standards Board approved the Systemic Risk in Asset Management standard-setting project in December 2019.

**Background information on the Systemic Risk Management disclosure topic**

The Systemic Risk Management disclosure topic in the Asset Management & Custody Activities Standard was originally designed to measure the potential for firms engaged in asset management and custodian activities to pose, amplify, or transmit a threat to the entire financial system by using liquidity, leverage, and the interconnectedness of assets under their management.

In the SASB Standards taxonomy, the disclosure topic is mapped to the Systemic Risk Management general issue category (G.I.C.) under Leadership & Governance. While most GICs in the SASB taxonomy address direct impacts of individual entities on the environment, society, or their workforce, the Systemic Risk Management G.I.C. focuses on social impacts that might not be directly attributed to the actions of any one entity. Systemic risk is considered a sustainability issue because of the widespread social impacts that may occur when certain industries go through periods of operating disruption or experience widespread shocks with the risk of collapse.

The disclosure topic in the previous Asset Management & Custody Activities Standard includes four accounting metrics related to Systemic Risk Management. Two (FN-AC-550a.1 and FN-AC-550a.2) were designed to measure liquidity risk to assets under management, and two (FN-AC-550a.3 and FN-AC-550a.4) were designed to address the interconnectedness of companies through securities financing and lending transactions as well as underwriting and derivatives.

**Concerns with the previous Standard**

When the previous Standard was approved by the Board in October 2018, the inclusion of the disclosure topic was based on expert views at the time that companies in the industry might

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1. **FN-AC-550a.1** Percentage of open-end fund assets under management by category of liquidity classification.
2. **FN-AC-550a.2** Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management.
3. **FN-AC-550a.3** Total exposure to securities financing transactions.
4. **FN-AC-550a.4** Net exposure to written credit derivatives.
compromise the stability of the financial system, which could then lead to significant and widespread negative social impacts. Further, the evidence and stakeholder feedback that were then available to the Board suggested that the topic was likely to be financially material for the typical company in the industry. Specifically, evidence and stakeholder input from 2013 to 2018 were indicative of the possibility that non-bank financial institutions (e.g., asset managers) could be designated as systemically important financial institutions (SIFI). Institutions with SIFI designation face tighter oversight and stricter regulatory requirements. Thus, at that time, the regulatory stance in some countries supported the potential materiality of the Systemic Risk Management disclosure topic.

In September 2018, the U.S. Securities and Exchange Commission (SEC) rescinded a requirement under Rule 22e-4 stating that registered investment companies must report the percentage of open-end fund assets by liquidity classification. The SEC’s decision was driven by feedback that suggested such disclosure may confuse and mislead investors.

Feedback provided to the SEC during the public comment period and the SEC’s action in response to it raised questions about usefulness of FN-AC-550a.1, a quantitative measure of liquidity risk, and FN-AC-550a.2, a discussion of liquidity risk management, because both were closely aligned with Rule 22e-4.

In addition, because both metrics FN-AC-550a.1 and FN-AC-550a.2 reference Rule 22e-4, which applies only to companies subject to the SEC reporting requirements, they were also limited in their international applicability. Among the key attributes of disclosure topics, as articulated in the proposed revision to the Conceptual Framework, are that disclosure topics are prevalent within an industry and across geographies and that, where possible, they are aligned with common guidance and practice. Thus, this project was also seen as an opportunity to improve not only the decision-usefulness of the accounting metrics under the disclosure topic but also the global applicability of the standard.

Since the SEC’s action in September 2018, the role of the asset management industry in the system (e.g., whether asset managers pose a systemic threat) continues to be debated, and regulatory environments continue to evolve. In early 2019, the Financial Stability Oversight Council (FSOC), which is responsible for assigning SIFI designations in the United States, voted unanimously to issue interpretive guidance revising its entity-based approach to an activities-based one. A similar approach was later adopted by the International Association of Insurance

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6 The Board recognizes that each reporting entity is responsible for identifying the information that is material to its operations and activities and is ultimately responsible for determining what should be disclosed.


Supervisors (IAIS) to assess and mitigate systemic risk in the insurance industry. Under an activities-based approach, the particular financial activities or practices are regulated to prevent them from causing financial instability.

As noted above, corporate issuers have provided feedback that the current Systemic Risk Management disclosure topic does not reflect the relevant sustainability impacts of companies in the industry and that it is not aligned with the current regulations around systemic risk in the asset management industry. Further, changes in U.S. regulatory reporting requirements suggest that the types of metrics specified in the standard may not provide decision-useful information and could be potentially misleading or confusing to investors.

Given that fundamental changes in the regulatory approach to systemic risk for non-bank financial institutions were, among other factors, driven by continued debate about the potential impacts of asset managers on financial stability, the Board decided to include a holistic re-evaluation of the Systemic Risk Management disclosure topic and associated metrics, as opposed to focusing on revising only metrics FN-AC-550a.1 and FN-AC-550a.2.

What is the basis for the Board’s update to the Standard?

As discussed above, the objective of the project at its origination was to evaluate the global relevance, alignment, and applicability of the accounting metrics under the Systemic Risk Management disclosure topic and the scope of the topic itself to ensure that it captures sustainability risks and opportunities relevant to companies in the Asset Management & Custody Activities industry. Therefore, in consultations with subject matter experts, the technical staff sought perspectives not only on the appropriateness of the current set of metrics and recommendations for new potential metrics, but also on the relevance of the current Systemic Risk Management disclosure topic.

Removal of metric FN-AC-550a.1

As noted previously, at the time of the previous Standard’s codification in 2018, metric FN-AC-550a.1, which calls for a breakdown of open-end fund assets by liquidity category, was aligned with the SEC’s Rule 22e-4, which required registered investment companies to report the percentage of open-end fund assets by liquidity classification on Form N-PORT. Such disclosures were “designed to promote effective liquidity risk management throughout the fund industry and to enhance disclosure regarding fund liquidity and redemption practices.”

In September 2018, the SEC rescinded this requirement based on feedback that such disclosure may confuse and mislead investors. Further, the SEC replaced the quantitative liquidity

categories required in public disclosures on Form N-PORT with “disclosure in the fund’s annual shareholder report that provides a narrative discussion of the operation and effectiveness of the fund’s liquidity risk management program over the most recently completed fiscal year.”

30 These regulatory changes suggest concerns about the usefulness of the original approach taken regarding systemic risk management. In addition, the changes meant that metric FN-AC-550a.1, which already was not aligned with most regulatory regimes, was also no longer aligned with current SEC disclosure requirements, creating additional concerns around incremental reporting costs.

31 Notably, technical staff reviewed several SASB disclosures produced by large asset management companies, which all omitted this metric. In explaining the rationale for the omissions, some companies cited the SEC’s decision regarding Rule 22e-4 as well as stated that aggregate liquidity classification disclosure would not be useful or informative to investors.12

32 Considering the above concerns, feedback received during the consultation period was generally supportive of the removal of metric FN-AC-550a.1. In June 2020, the Standards Board made a preliminary decision to remove accounting metric FN-AC-550a.1 from the Asset Management & Custody Activities Standard.

33 The Board put forward a question to accompany the exposure draft during the public comment period to gauge the market’s views on the preliminary decision to remove the metric. All three industry associations and both company respondents (one of which commented from both reporting entity and investor viewpoints) strongly supported the removal of metric FN-AC-550a.1 and agreed with the Board’s rationale presented in the Basis for Conclusions that accompanied the exposure draft. Specifically, in supporting the removal of the accounting metric, one industry association referenced the comment letter it submitted to the SEC in 2018 asserting that it “has long held that this information would not be useful and could only serve to confuse and mislead investors.”

34 The two respondents who provided reporting entity perspectives voiced their support for the removal of the metric and echoed the concerns the Board has heard from the market regarding the metric in the past. Specifically, citing the 2018 regulatory action by the SEC, one company noted that the metric “has not kept pace with changes to regulation of mutual fund liquidity reporting.” While the other respondent noted its “concerns over the misuse of this information, the misunderstanding of it,” if the metric were to be retained in the Standard.

35 After considering all the feedback, including that received during the public comment period, the Board affirmed the preliminary decision in June 2020 to remove metric FN-AC-550a.1 from the Asset Management & Custody Activities Standard.

12 A few other large and mid-size asset management companies omitted the metric but provided no stated rationale.
Removal of the Systemic Risk Management disclosure topic

One challenge in developing Systemic Risk Management disclosure topics in any industry is that the information needed by prudential regulators might not be the same as that needed by investors. The SASB Standards aim to facilitate disclosure of useful information to investors, while the prudential regulators’ objective is to ensure the financial safety and stability of institutions and the broader financial system. Another challenge is aligning disclosure topics with regulatory frameworks that are continually evolving, as is the case in the Asset Management & Custody Activities industry. SASB Standards aim to align accounting metrics under Systemic Risk Management disclosure topics with information that is used by prudential regulators and that provides decision-useful information to investors in a manner that is cost effective for companies.

During consultations in early and mid-2020, the technical staff received feedback that the Board should consider revisions to the Systemic Risk Management disclosure topic beyond the accounting metrics. Feedback indicated that substantial revisions to the scope and narrative of the topic should be considered. Specifically, several asset managers and integrated banks suggested that the current disclosure topic summary includes characterizations of the industry’s impacts that are not supported by conclusive evidence.

The current disclosure topic focuses on the potential for individual asset management companies to pose, amplify, or transmit a threat to the financial system. From a sustainability standpoint, the disclosure topic aims to capture the potential social impacts from system-wide economic and financial shocks. For example, failure by entities to appropriately manage liquidity, leverage, and the interconnectedness of assets under management may result in widespread negative social externalities for the overall financial system under scenarios of economic and financial stress (e.g., loss of employment and wealth, devaluation of real and investment assets including retirement savings, foreclosures, and loss of housing). The disclosure topic focuses not on the direct impacts of individual entities to stakeholders (i.e., clients) or society but rather on the broad societal impacts of the asset management industry as a whole.

Research conducted by the technical staff and feedback provided by risk management professionals representing asset managers from both the corporate and investor sides of the organizations raise questions about the extent to which asset managers can pose, amplify, or transmit a threat to the financial system; and the most recent regulatory actions by the FSOC reinforce their viewpoint. Specifically, stakeholders believe that the shift from an entity-based approach, in which an individual non-banking entity (e.g., an asset management institution) can be designated as one that poses a system-wide risk, to an activities-based approach, in which the system stability is assessed by measuring the concentration of exposure to certain activities and the proliferation of those activities in the industry, makes the existing Systemic Risk Management disclosure topic no longer applicable to the asset management industry.

The Board considered that there is a lack of evidence to suggest that asset management as an industry plays the same or a similar role as that of the banking industry when it comes to
systemic risk. In fact, both the SASB Commercial Banks Standard and SASB Investment Banking & Brokerage Industry Standard include Systemic Risk Management disclosure topics that are supported by evidence and stakeholder feedback as likely to be financially material for the respective industries.\(^{13}\)

Research and evidence indicate that the role of banks in financial stability—and the regulatory approach to assessing their systemic risk—is much more established than that of the asset management industry. Further, at the time the codified Standards were developed, research conducted by the technical staff and feedback provided by companies and investors identified a few accounting metrics for the banking industries that would likely produce relevant and decision-useful information to assess the performance of individual entities.\(^{14}\)

The Board put forward a question to accompany the exposure draft during the public comment period to gauge market views on the proposal to remove the Systemic Risk Management disclosure topic. While not all respondents agreed with removing the disclosure topic, the weight of evidence was overall supportive of the proposed removal.

All three public comment letters from industry associations and letter from a respondent who commented from both reporting entity and investor viewpoints supported the proposed removal of the disclosure topic and agreed with the rationale on regulatory developments and issuer feedback provided in the Basis for Conclusions accompanying the exposure draft. The industry associations highlighted two key points in their responses:

- The current disclosure topic does not appropriately categorize risks posed by asset managers to the financial system, and the narrative provided in the current topic summary “has been disproven and abandoned and is no longer in line with existing regulatory guidance and frameworks.”

- The scope and narrative of the Systemic Risk Management disclosure topic capture information that is not relevant to “sustainability,” especially when compared with other disclosure topics covered in the Asset Management & Custody Activities Standard.

Other respondents disagreed with removing the disclosure topic. The comment letters stated the importance of the fiduciary duty of asset managers to their clients and that “the governance of [systemic risk management] is an important issue for asset managers.” One respondent explained that “when corporations choose to ignore or undertake excessive risk, it often reflects governance problems that could undermine sustainable value creation, or ultimately the corporation’s own survival.”

\(^{13}\) The Board recognizes that each reporting entity is responsible for identifying the information that is material to its operations and activities and is ultimately responsible for determining what should be disclosed.

\(^{14}\) Systemic Risk Management disclosure topics in the Commercial Banks and Investment Banking & Brokerage Industry Standards include the following two metrics: “Global Systemically Important Bank (G-SIB) score, by category” and “Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities.”
The Board considered and deliberated on all feedback received during the public comment period, and ultimately concluded at the October 2021 Standards Board meeting to affirm the decision in the exposure draft to remove the Systemic Risk Management disclosure topic and its four associated metrics. The Board found that the comments opposing the removal of the disclosure topic largely did not articulate how asset managers could pose systemic risk nor indicate how keeping the current disclosure topic would provide decision-useful information to investors. Equally, the respondents presented no option for an alternative metric or disclosure topic approach.

Additional market feedback considered by the Board

Although feedback received from companies and investors overwhelmingly suggested that the Systemic Risk Management disclosure topic is not relevant to the industry, several respondents indicated that a focus on enterprise risk may be appropriate in terms of the asset management industry’s sustainability impacts. Stakeholders thought that it could be appropriate to frame the issue through the lens of the business risk to an entity and the direct social impacts on the entity’s clients, as opposed to the concentration of risk in the system. Specifically, liquidity risk management and fair treatment of clients in times of increased redemption requests were highlighted as areas of interest. A consulting company indicated in a public comment letter that “liquidity is a key risk be it a risk itself, or risk mitigator”, and an individual respondent spoke to the liquidity characteristics of mutual funds and possible impact of macroeconomic factors. A potential disclosure topic focused on entity-level liquidity risk management and the resulting direct impacts on clients would be outside the scope of the Systemic Risk Management G.I.C. and would likely be more appropriate under the Social Capital dimension and the Customer Welfare G.I.C. of the SASB taxonomy.

However, while most stakeholders agreed that failure to manage certain risks embedded in the asset management activities may create direct negative impacts on asset managers’ clients and potentially result in a financially material impact on the entities, they indicated that it would be challenging to develop accounting metrics that are value-additive to the existing regulatory and statutory disclosure as well as widely applicable for all companies in the industry regardless of location. Therefore, before the Board makes any deliberations with respect to potential standard setting, it welcomes market feedback on the relative priority of the issue for the asset management industry and on the feasibility of improving standardized disclosure on the issue to investors.

Update to the Standard

After considering the research and analysis by the technical staff, the market feedback received through consultations conducted in 2020, and the subsequent analysis of public comments received on the exposure draft during the public comment period from March 16, 2021, to June 15, 2021, the Board approved the removal of the Systemic Risk Management disclosure topic and its associated metrics (FN-AC-550a.1, FN-AC-550a.2, FN-AC-550a.3, and FN-AC-550a.4) from the
Asset Management & Custody Activities industry. The Board conducted its final deliberations on this matter at the public Standards Board meeting held on October 1, 2021, and proceeded to ballot the vote, which concluded on November 30, 2021, with the unanimous approval by all 11 Board members.

49 The Board arrived at its decision based on the primary considerations described below. Individual Board members gave greater weight to some factors than to others.

• Feedback from most companies and investors suggested that the Systemic Risk Management disclosure topic, as currently framed, may not reflect the sustainability impacts created by the operations and business activities of asset management companies.
• Stakeholder consultations and public comments did not identify actionable recommendations for accounting metrics that would measure performance on the Systemic Risk Management disclosure topic in either its current or alternative forms.

50 The technical staff and the Board will continue to monitor the issue of enterprise risk management and impacts on asset managers’ clients through a failure to manage liquidity and other risks. The Board encourages stakeholders to provide input that could inform the Board of the importance and pervasiveness of the issue, and the feasibility of improving the Asset Management & Custody Activities Standard to produce decision-useful information for measuring such risk. The Board may consider additional standard-setting actions in the future.

Effective date of the update


52 All entities shall apply Version 2021-12 of the Standard for reports covering annual periods beginning on or after January 1, 2022. Early adoption is permitted for all entities. If an entity applies the updates for an annual period beginning before the effective date, it shall disclose that fact. If an entity chooses to not use the effective version of the Standard, it shall disclose the omission(s), as well as the rationale for the omission(s) consistent with guidance provided in the SASB Standards Application Guidance, Version 2018-10.

53 The Board concluded that significant costs of implementation are unlikely because the update removes disclosure requirements from the Asset Management & Custody Activities Standard, and as a result, the update shall take effect immediately. The Board acknowledges that companies that have implemented processes to disclose in accordance with the Standard, or are in the process of implementing the Standard, may incur some additional costs to address the removal of the relevant disclosures in the implementation of the Standard in the future, but it does not believe such costs to be significant for this update.
Redline Version of Update to the Asset Management & Custody Activities Standard

The following is a redline version of the update to the Asset Management & Custody Activities Standard. The redline includes only the disclosure topic and associated metrics that are removed.

The updated Version 2021-12 of the Asset Management & Custody Activities Standard is available for download at https://www.sasb.org/standards/download/.
# SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

## Table 1. Sustainability Disclosure Topics & Accounting Metrics

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Transparent Information &amp; Fair Advice for Customers</strong></td>
<td>(1) Number and (2) percentage of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings(^\text{15})</td>
<td>Quantitative</td>
<td>Number, Percentage (%)</td>
<td>FN-AC-270a.1</td>
</tr>
<tr>
<td></td>
<td>Total amount of monetary losses as a result of legal proceedings associated with marketing and communication of financial-product-related information to new and returning customers(^\text{16})</td>
<td>Quantitative</td>
<td>Reporting currency</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Description of approach to informing customers about products and services</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN-AC-270a.3</td>
</tr>
<tr>
<td><strong>Employee Diversity &amp; Inclusion</strong></td>
<td>Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees(^\text{17})</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>FN-AC-330a.1</td>
</tr>
<tr>
<td><strong>Incorporation of Environmental, Social, and Governance Factors in Investment Management &amp; Advisory</strong></td>
<td>Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability-themed investing, and (3) screening</td>
<td>Quantitative</td>
<td>Reporting currency</td>
<td>FN-AC-410a.1</td>
</tr>
<tr>
<td></td>
<td>Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN-AC-410a.2</td>
</tr>
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<td></td>
<td>Description of proxy voting and investee engagement policies and procedures</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN-AC-410a.3</td>
</tr>
<tr>
<td><strong>Business Ethics</strong></td>
<td>Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations(^\text{18})</td>
<td>Quantitative</td>
<td>Reporting currency</td>
<td>FN-AC-510a.1</td>
</tr>
<tr>
<td></td>
<td>Description of whistleblower policies and procedures</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>FN-AC-510a.2</td>
</tr>
<tr>
<td><strong>Systemic Risk Management</strong></td>
<td>Percentage of open-end fund assets under management by category of liquidity classification</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>FN-AC-550a.1</td>
</tr>
</tbody>
</table>

\(^\text{15}\) Note to FN-AC-270a.1. The entity shall describe how it ensures that covered employees file and update FINRA and SEC forms in a timely manner.

\(^\text{16}\) Note to FN-AC-270a.2. The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

\(^\text{17}\) Note to FN-AC-330a.1. The entity shall describe its policies and programs for fostering equitable employee representation across its global operations.

\(^\text{18}\) Note to FN-AC-510a.1. The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.
<table>
<thead>
<tr>
<th>TOPIC</th>
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<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management</td>
<td></td>
<td>Discussion and Analysis</td>
<td>N/A</td>
<td>FN-AC-550a.2</td>
</tr>
<tr>
<td>Total exposure to securities financing transactions</td>
<td></td>
<td>Quantitative</td>
<td>Reporting currency</td>
<td>FN-AC-550a.3</td>
</tr>
<tr>
<td>Net exposure to written credit derivatives</td>
<td></td>
<td>Quantitative</td>
<td>Reporting currency</td>
<td>FN-AC-550a.4</td>
</tr>
</tbody>
</table>
Systemic Risk Management

Topic Summary
Asset managers and custodian banks have the potential to pose, amplify, or transmit a threat to the financial system. Liquidity, leverage, and interconnectedness of assets under management are the factors that highlight exposure to systemic risk for companies in the industry. Understanding the level of exposure to each of these factors and the narrative around management of such exposure can help investors assess companies’ performance levels on this issue. Total exposure to securities financing transactions (SFT) provides a measure of a company’s interconnectedness and the extent to which it can absorb shocks arising from economic stress, whether internal or stemming from other market participants. Moreover, secured lending and borrowing in the form of SFTs is an important source of leverage for asset managers. Meanwhile, disclosing the distribution of assets classified under broad buckets of expected liquidity allows for a more granular understanding of the underlying risk of sudden outflows, i.e., redemption risk. The regulatory environment around the issue of systemic risk in the Asset Management & Custody Activities industry is likely to continue to evolve. Companies in this industry designated by regulators as systemically important financial institutions are subject to stricter prudential regulatory standards and oversight by the central banking systems in various jurisdictions. 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. Regulatory compliance can be very costly, while the failure to meet qualitative and quantitative regulatory performance thresholds could lead to substantial penalties. To demonstrate how these risks are being managed, asset management and custody companies should enhance disclosure on key aspects of systemic risk management and their ability to meet stricter regulatory requirements.

Accounting Metrics

**FN-AC-550a.1 - Percentage of open-end fund assets under management by category of liquidity classification**

The entity shall disclose the percentage of open-end fund assets under management (AUM) in (1) highly liquid investments, (2) moderately liquid investments, (3) less liquid investments, and (4) illiquid investments, as defined by the U.S. Securities and Exchange Commission (SEC).

1.1 Open end funds are defined as a management company which is offering for sale or has outstanding any redeemable security of which it is the issuer, in accordance to Section 5(a)(1) of the Investment Company Act of 1940.

1.2 Highly liquid investments are defined as cash and any investment reasonably expected to be convertible to cash in current market conditions in three business days or less without the conversion to cash significantly changing the market value of the investment, in accordance to SEC Rule 22e-4, section III-C.

1.3 Moderately liquid investments are defined as any investment reasonably expected to be convertible to cash in current market conditions in more than three calendar days but in seven calendar days or less without the conversion to cash significantly changing the market value of the investment, in accordance to SEC Rule 22e-4, section III-C.
1.4—Less liquid investments are defined as any investment reasonably expected to be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment, but where the sale or disposition is reasonably expected to settle in more than seven calendar days, in accordance to SEC Rule 22e-4, section III. C.

1.5—Illiquid investments are defined as any investment that may not reasonably be expected to be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment, in accordance to SEC Rule 22e-4, section III. C.

2—The percent shall be calculated as the value of open end fund AUM in each respective liquidity category divided by the entity’s total open end fund AUM.

**FN-AC-550a.2—Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management**

1—The entity shall describe its approach to incorporation of liquidity risk management programs, including requirements set forth by SEC Rule 22e-4, into portfolio strategy and redemption risk management.

2—The entity shall describe its liquidity management process around reducing the risk of funds not meeting their redemption obligations and mitigating dilution of the interest of fund shareholders.

3—The entity shall describe the redemption practices that its funds employ.

4—The entity shall describe the frequency with which it reviews the liquidity risk of its funds.

5—The entity shall describe the liquidity risk factors it uses in assessing, managing, and reviewing the liquidity risk of its funds.

5.1—The entity shall describe the scenarios, such as normal and reasonably foreseeable stressed conditions.

6—The entity shall describe its funds which are not subject to Rule 22e-4.

6.1—The entity shall describe the number of its funds that have redeem in kind policies and under what conditions they will be executed, in accordance with form N-1A.

6.1.1—Redemption in kind is defined as the right to satisfy redemption requests by investors through distribution of the underlying portfolio assets rather than by selling those assets and handing over cash.

7—The entity shall describe its approach to swing pricing, in accordance with form N-CEN, including the number of funds with policies allowing swing pricing and the number of funds for each given level of maximum swing.

7.1—Swing pricing is defined as a process of adjusting the net asset value (NAV) of a fund’s shares to pass on to purchasing or redeeming shareholders more of the costs associated with their trading activity.
**FN-AC-550a.3. Total exposure to securities financing transactions**

1. The entity shall disclose the amount of exposure to securities financing transactions (SFTs), including off balance sheet items.

   1.1 SFTs are defined as any transaction where securities are used to borrow cash, or vice versa, including repurchase agreements (repos), securities lending activities, and sell/buy-back transactions, where ownership of the securities temporarily changes in return for cash temporarily changing ownership, in accordance to the U.S. Securities Financing Transactions Regulation (SFTR).

   1.2 Off balance sheet items include commitments (including liquidity facilities), whether or not unconditionally cancellable, direct credit substitutes, acceptances, standby letters of credit and trade letters of credit, in accordance to the “Basel III: Finalising post-crisis reforms.”


3. The entity shall consider the above references used to calculate the exposure to securities financing transactions normative references; thus, any future updates made to them shall be considered updates to this guidance.

**FN-AC-550a.4. Net exposure to written credit derivatives**

1. The entity shall disclose its net exposure to written credit derivatives.

2. The entity 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:

   2.1 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; and

   2.2 The remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative.

3. For additional guidance the entity shall refer to items 32 to 49 and their accompanying notes in the Bank for International Settlements’ “Basel III: Finalising post-crisis reforms.”