



Sustainability Accounting Standards

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFTS

REDLINE OF STANDARDS FOR PUBLIC COMMENT

FINANCIALS SECTOR

Commercial Banks
Investment Banking & Brokerage
Asset Management & Custody Activities
Consumer Finance
Mortgage Finance
Security & Commodity Exchanges
Insurance

Prepared by the
Sustainability Accounting Standards Board®

FINANCIALS SECTOR

Table of Contents

COMMERCIAL BANKS..... 1

INVESTMENT BANKING & BROKERAGE..... 38

ASSET MANAGEMENT & CUSTODY ACTIVITIES 85

CONSUMER FINANCE..... 123

MORTGAGE FINANCE156

SECURITY & COMMODITY EXCHANGES.....188

INSURANCE206



FINANCIALS SECTOR

COMMERCIAL BANKS*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0101

COMMERCIAL BANKS

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Commercial Banks industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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.~~

Commercial banks accept deposits and make loans to individuals and corporations as well as engage in lending for infrastructure, real estate, and other projects. By providing these services, the industry serves an essential role in the functioning of the U.S. and global economies and in facilitating the transfer of financial resources to their most productive capacity. The industry is driven by the volume of deposits, quality of loans made, the economic environment, and interest rates. It is further characterized by risk from mismatched assets and liabilities. Following the financial crisis of 2008, the regulatory environment that governs the commercial banking industry continues to evolve. These regulatory trends have the potential to impact shareholder value and sustainability performance. Commercial banks with global operations must manage new regulations in multiple jurisdictions, creating regulatory uncertainty, particularly around consistent application of new rules.

Note: The SASB Commercial Banks (FN0101) Standard addresses “pure play” commercial banking services, which the 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.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Commercial Banks industry, the SASB has identified the following sustainability disclosure topics:

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

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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.”¹⁰

Furthermore, the 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.”¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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.”

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

¹⁵ The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including 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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-12-A</u>
<u>(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate¹⁹</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-12-B</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.²⁰

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ Note to TA02-12-B—Mortgage loans as well as revolving credit loans shall be excluded from the scope of disclosure.

²⁰ The AICPA’s Guide (see supra note 1) provides guidance related to measurement uncertainty.

Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Customer Privacy & Data Security	Number of data security breaches and , percentage involving customers' personally identifiable information (PII), <u>number of customers affected</u> ²¹	Quantitative	Number (#), percentage , Percentage (%)	TA02-05-01 FN0101-06
	Discussion of management approach to identifying and addressing vulnerabilities and threats to data security <u>risks</u>	Discussion and Analysis	n/a	TA02-04-01 FN0101-07
Financial Inclusion & Capacity Building	<u>Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers</u> Percentage of new accounts held by first-time account holders	Quantitative	Number <u>Percentage (%)</u>	TA02-01-01 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 ²²	Quantitative	Number (#)	FN0101-03
	Loan to deposit ratio for: (1) Overall domestic lending (2) Underserved and underbanked business segments (1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development ²³	Quantitative	Number, U.S. dollars (\$) <u>Ratio in U.S. dollars (\$)</u>	TA02-02-01 FN0101-04
	Loan default rates for: (1) Overall domestic lending (2) Underserved and underbanked business segments (1) Number and (2) amount of past due and nonaccrual loans qualified to programs designed to promote small business and community development	Quantitative	Number, U.S. dollars (\$) <u>Rate in U.S. dollars (\$)</u>	TA02-03-01 FN0101-05
Integration of Environmental, Social, and Governance Risk Factors in Credit Risk Analysis	Total loans to companies in the following sectors/ industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities <u>Commercial and industrial credit exposure by industry</u>	Quantitative	U.S. dollars (\$)	TA02-11-01 FN0101-18

²¹ Note to ~~FN0101-06~~—~~TA02-05-01~~—Disclosure shall include a description of corrective actions: implemented in response to data security breaches.

²² Note to ~~FN0101-03~~ – Disclosure shall include a description of financial literacy initiatives.

²³ Note to ~~TA02-02-01~~—Disclosure shall include a description of how the registrant's results of the CRA Examinations are integrated into its financial inclusion and capacity building strategy.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
	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
	<p>Amount and percentage of lending and project finance that employs:</p> <p>(1) Integration of ESG factors</p> <p>(2) Sustainability themed lending or finance</p> <p>(3) Screening (exclusionary, inclusionary, or benchmarked)</p> <p>(4) Impact or community lending or finance</p>	Quantitative	U.S. dollars (\$),- percentage (%)	FN0101-17
Management of the Legal & Regulatory Environment	<p>Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions²⁴</p> <p>Total amount of losses as a result of legal proceedings associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other industry regulations²⁵</p>	Quantitative	U.S. dollars (\$),- percentage- (%)(\$)	TA02-06-01 FN0101-08
	<p>Description of the whistleblower policies and procedures</p> <p>Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated²⁶</p>	Quantitative Discussion and Analysis	Number (#),- percentage- (%)n/a	TA02-06-02 FN0101-09

²⁴ Note to **FN0101-08**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

²⁵ Note to **TA02-06-01**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

²⁶ 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.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Systemic Risk Management	Discussion of how results of mandatory and voluntary stress tests are integrated into capital adequacy planning, long-term corporate strategy, and other business activities Results of stress tests under adverse economic scenarios, ²⁷ 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 Tier 1 leverage ratio	Discussion and Analysis Quantitative	n/a U.S. dollars (\$), ratio in U.S. dollars (\$)	TA02-08-01 FN0101-10
	Global Systemically Important Bank (G-SIB) score by category ²⁸ Basel III Liquidity Coverage Ratio (LCR)	Quantitative Quantitative	Basis points Ratio in U.S. dollars (\$)	TA02-09-01 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

²⁷ Note to **FN0101-10**—Disclosure shall include a description of the most significant drivers of changes in regulatory capital ratios.

²⁸ Note to **TA02-09-01**—The registrant shall describe whether the G-SIB score is calculated by the registrant or obtained from the regulatory authorities and whether the registrant is required to report the underlying data to the regulators.

Customer Privacy & Data Security

Description

Ensuring the privacy and data security of personal financial data is an essential responsibility of the ~~commercial banks~~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~~As growth in mobile banking and cloud storage continues and more of banks' operations become technology- and internet-dependent, data security will be an increasingly important issue to manage. Sophisticated technology and continuous training of personnel are essential in a world of growing cyber security threats. The metrics for this disclosure topic focus on providing more detail on efforts related to safeguarding data against emerging and continuously evolving cyber-security threats and technologies, and actual security breaches compromising customer's personally identifiable information. Enhanced disclosure on management strategies to address these risks will allow shareholders to understand how commercial banks are protecting shareholder value.

Accounting Metrics

~~FN0101-06~~TA02-05-01. **Number of data security breaches and, percentage involving customers' personally identifiable information (PII), number of customers affected**

.01 The registrant shall calculate and disclose the total number of data security breaches, ~~which identified during the fiscal year, where:~~

- Data security breaches are defined as instances of internal and/or external unauthorized acquisition, access, use, or disclosure of ~~protected~~customer information.
- 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, and integrity, ~~and availability.~~

~~.01.02~~ Disclosure shall be additional but ~~not be limited to, the U.S. Security and Exchange Commission's (SEC) complementary to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.~~

- ~~Disclosure shall follow;~~ At a minimum, ~~this includes when~~instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—~~represents~~represent 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.).~~.)~~
- ~~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.~~

~~.02—“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.²⁹~~

~~.03—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.~~

.03 The registrant shall disclose the percentage of data security breaches in which customers’ personally identifiable information (PII) was breached, where:

- PII is defined as any information about an individual that is maintained by an entity, 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.³⁰
- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- 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 the investigation.

.04 The registrant shall disclose the total number of unique customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

- Accounts which the registrant cannot verify as belonging to the same user shall be disclosed separately.

²⁹ GAO Report 08-536, *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, May 2008

³⁰ *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

Note to ~~FN0101-06~~**TA02-05-01**

~~04.05~~ 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.

~~05.06~~ All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself ~~would~~will not compromise the registrant's ability to maintain data privacy and security.

~~07~~ The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

TA02-04-01~~FN0101-07~~. Discussion of management approach to identifying and addressing **vulnerabilities and threats to data security risks**

~~06.08~~ The registrant shall describe its approach to identifying ~~identify which attack vectors it has identified as posing a threat or vulnerability,~~vulnerabilities in its information systems that pose a data security risk where:

- ~~A threat~~A data security risk 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~~nation through an information system via unauthorized access, destruction, disclosure, ~~or~~ modification of information, and/or denial of service.
- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited ~~by a threat source~~.

~~07.09~~ 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.

~~08.10~~ The registrant ~~should~~shall discuss trends it has observed in type, frequency, and origination of ~~attack vectors~~attacks to its data security and information systems.

~~09.11~~ 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~~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~~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.).

~~10.12~~ 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.

.13 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).

.14 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements
- “Framework for Improving Critical Infrastructure Cybersecurity, Version 1.1,” January 10, 2017, National Institute of Standards and Technology (NIST)

Definitions

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), September 2012.

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 Commercial banks need to balance their capacity building with risks and opportunities associated with lending to unbanked, underbanked, or underserved customers. Although the Community Reinvestment Act (CRA) of 1977 continues to be reexamined for its perceived role in the sub-prime crisis, the intent remains relevant, and important for commercial banks. Further, emerging financing models and technologies provide banks with an opportunity to offer products and services in previously underserved markets and obtain additional sources of revenue. Firms that are able to meet the need to extend credit and financial services to low-income populations and small businesses while avoiding predatory and irresponsible lending practices are likely to create long-term value and enhance social capital. These services should also be complemented by efforts to improve financial literacy, which will ensure that customers make informed decisions. 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~~

~~.11 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).~~

~~.12 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.~~

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

.15 The registrant shall disclose the total number of no-cost checking accounts that are held by unbanked or underbanked customers as of the end of the fiscal year.

- No-cost checking accounts are defined as bank accounts providing core services without extra fees, no monthly or annual maintenance fees, and no minimum average balance requirements.
- Core services include at a minimum the following: access to a debit card, access to internet and mobile banking, and access to deposits or withdrawals.
- Unbanked customers are defined by the FDIC's National Survey of Unbanked and Underbanked Households as "individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check cashing account at an insured depository institution".

- A household is categorized as underbanked if it had a checking or savings account and used one of the following products or services from an alternative financial services (AFS) provider in the past 12 months: money orders, check cashing, international remittances, payday loans, refund anticipation loans, rent-to-own services, pawn shop loans, or auto title loans.

.16 The registrant should disclose the number of no-cost checking accounts opened and closed during the fiscal year by unbanked and underbanked customers.

.17 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

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

~~.13 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.~~

~~.14 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.~~

~~.15 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.~~

~~.16, 18 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

~~.17~~ .19 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 conducted by the registrant during the fiscal year.
- Disclosure shall include participants in ongoing programs in the case that active participation can be documented during the fiscal year.

~~.18~~ .20 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).

~~.19~~ .21 Underbanked customers are in households that have a checking and/or a savings account but may still regularly use AFS.

~~20.22~~ 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.

~~21.23~~ 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**

~~22.24~~ 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

~~23~~ 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.~~

~~24~~ 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.~~

~~25~~ 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.

TA02-02-01. (1) Number and (2) amount of loans outstanding qualified to programs designed to promote small business and community development

26 The registrant shall disclose the total number of loans outstanding qualified to programs designed to promote small business and community development, and the total amount outstanding (in U.S. dollars) of these loans, where:

- Loans qualified to programs designed to promote small business and community development are defined in accordance with the Federal Financial Institutions Examination Council's (FFIEC) definition of community development loans, pursuant to the Community Reinvestment Act of 1977 (CRA).

- The scope of disclosure includes (1) Small Farm and Small Business loans and (2) Community Development Loans as defined by the FFIEC’s Guide to CRA Data Collection and Reporting.
- The scope of disclosure excludes (1) Home Mortgage Loans, (2) Consumer Loans, and (3) Other Loan Data as defined by the FFIEC’s Guide to CRA Data Collection and Reporting.

.27 The registrant shall provide the number and amount (in U.S. dollars) of loans outstanding qualified to programs designed to promote small business and community development in accordance with the guidance to Schedule RC-C of the Consolidated Report of Condition and Income (Call Report).

.28 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Note to TA02-02-01

.29 The registrant shall provide a description of its short-term and long-term strategy or plan to expand its portfolio of loans qualified to programs designed to promote small business and community development.

.30 The registrant shall include a discussion of its results of the examinations for compliance with the CRA.

- The examinations include those conducted by the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

.31 The registrant shall include a discussion of how its results of the CRA Examinations are integrated into its short-term and long-term financial inclusion and capacity building strategy.

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

~~(1) Overall domestic lending~~

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

~~.25 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.~~

~~.26 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.~~

~~.27 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.~~

~~.32 The scope of disclosure excludes residential and commercial mortgage activities.~~

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

~~.33 The registrant shall disclose the total number of loans past due and nonaccrual qualified to programs designed to promote small business and community development, and the total amount past due and nonaccrual (in U.S. dollars) of these loans, where:~~

- ~~• Loans qualified to programs designed to promote small business and community development are defined in accordance with the Federal Financial Institutions Examination Council's (FFIEC) definition of community development loans, pursuant to the Community Reinvestment Act of 1977 (CRA).~~
- ~~▪ The scope of disclosure includes (1) Small Farm and Small Business loans and (2) Community Development Loans as defined by the FFIEC's Guide to CRA Data Collection and Reporting.~~
- ~~▪ The scope of disclosure excludes (1) Home Mortgage Loans, (2) Consumer Loans, and (3) Other Loan Data as defined by the FFIEC's Guide to CRA Data Collection and Reporting.~~
- ~~▪ The scope of disclosure includes loans originated and purchased by the registrant, reported in accordance with the FFIEC's Guide to CRA Data Collection and Reporting.~~

~~.34 The registrant shall provide the number and amount (in U.S. dollars) of loans past due and nonaccrual qualified to programs designed to promote small business and community development in accordance with the guidance to Schedule RC-N of the Consolidated Report of Condition and Income (Call Report).~~

~~.35 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.~~

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. As financial intermediaries, commercial banks contribute to significant positive and negative environmental and social externalities through their lending practices. Therefore, environmental, social, and governance (ESG) factors can have material implications for the underlying companies, assets, and projects that commercial banks lend to across a range of industries. It is therefore increasingly necessary for companies to examine ESG factors when determining the quality of collateral. Commercial banks also have the potential to enable positive environmental and social externalities and to generate significant revenue streams through their lending practices. Commercial banks that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. CompaniesCommercial banks 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

TA02-11-01. Commercial and industrial credit exposure by industry

.36 The registrant shall disclose its commercial and industrial credit exposure (in U.S. dollars).

- The registrant shall calculate its exposure in accordance with the guidance to [Schedule RC-C](#) and [Schedule RC-I](#) of the Consolidated Report of Condition and Income (Call Report).
- The reported value shall include the notional amount (in U.S. dollars) of direct outstanding and unfunded legally binding lending commitments net of amounts distributed (e.g., syndicated or participated) to other financial institutions.

.37 The registrant shall break down its commercial and industrial credit exposure by industry.

- The registrant shall use the North American Industry Classification System (NAICS) for classifying counterparties.
- The registrant shall disclose its exposure to at least the 10 largest industries by dollar amount of exposure or for industries representing at least 2% of the overall portfolio exposure.

.38 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

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

~~28.39~~ 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.

~~29.40~~ 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.”

~~30.41~~ 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.

~~31.42~~ 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.

~~32.43~~ 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.)

~~33.44~~ 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

~~34.45~~ 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.

~~35.46~~ 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.

~~36.47~~ 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

~~37.48~~ 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.

~~38.49~~ 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.

~~39.50~~ 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

- ~~.40 Lending and project finance shall be defined generally as receivables activities disclosed per FASB Section 310- Receivables (Loans and Trade Receivables).~~
- ~~.41 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.~~
- ~~.42 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.~~
- ~~.43 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).~~
- ~~.44 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.~~
- ~~.45 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~~
- ~~.46 The registrant shall identify and disclose the amount of any lending that employs more than one ESG integration strategy (e.g., screening and integration).~~
- ~~.47 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

~~48. 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.~~

~~49. 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)	
Indrials (20)	Indrials (2000)	
Utilities (55)	Utilities (7000)	

Additional references

-

, June 2013.

Management of the Legal & Regulatory Environment

Description

The regulatory environment surrounding the commercial banks industry continues to evolve both nationally and internationally. ~~Companies~~Commercial banks 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~~TA02-06-01. Total amount of losses as a result of legal and regulatory fines and settlements proceedings associated with financial industry regulation and percentage that resulted from whistleblowing actions fraud, anti-trust, anti-competitive, market manipulation, malpractice or other industry regulations

.51 The registrant shall disclose the amount (excluding total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other related financial industry laws or regulations.

.52 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.53 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.54 The losses shall exclude legal fees) of all fines or settlements incurred by the registrant.

.55 The scope of disclosure shall include legal proceedings associated with enforcement of financial industry regulations, including promulgated by U.S. and foreign regulatory authorities. Such regulatory authorities may include, but are not limited to:

- The U.S. Securities and Exchange Commission (SEC rules, Federal Reserve Board requirements (e.g., capital adequacy rules);)
- The Commodities Futures Trading Commission rules, rules of the (CFTC)
- The Financial Industry Regulatory Authority (FINRA)
- European Commission
- Financial Conduct Authority (FCA)

- Federal Reserve Board
- The Office of Comptroller Currency, provisions of Dodd Frank (such as those enforced by the (OCC)
- The Financial Crimes Enforcement Network (FinCEN)
- Consumer Financial Protection Bureau), FINRA regulations, and (CFPB)
- Federal Deposit Insurance Corporation ~~policies~~ (FDIC)

~~50.56~~ 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);~~

~~51~~ 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):

~~52~~ 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:

- The Foreign Corrupt Practices Act enforced by the U.S. Department of Justice
- The Specially Designated Nationals List enforced by the U.S. Treasury Department through its Office of Foreign Asset Control (OFAC)
- Foreign Account Tax Compliance Act (FATCA) enforced by the U.S. Internal Revenue Service (IRS)

Note to ~~FN0101-08~~ **TA02-06-01**

~~53.57~~ The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, ~~insider trading, market manipulation, etc.~~) of fines and settlements of all losses as a result of legal proceedings.

~~54.58~~ The registrant shall describe any corrective actions it has implemented as a result of ~~each incident~~ the legal proceedings. 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

- ~~.55 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.~~
- ~~.56 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.~~
- ~~.57 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.~~
- ~~.58 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

- ~~.59 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.~~
- ~~.60 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.~~

TA02-06-02. Description of the whistleblower policies and procedures

- .59 The registrant shall describe the processes and policies that are set forth within its whistleblower program including but not limited to internal compliance programs, whistleblower hotline (e.g., is it managed by an independent third-party), reference to and publication of hotline (e.g., corporate compliance manuals, code of ethics, etc.) whistleblower incentives for reporting violations, and multiple methods for submitting tips.
- .60 Disclosure shall discuss the registrant's compliance with applicable whistleblower regulations including but not limited to Section 806 of the Sarbanes-Oxley Act, 18 U.S.C. 1514A and Consumer Financial Protection Act 12 U.S.C. 5567.
- .61 Disclosure shall discuss any violations of whistleblower regulations and any corrective actions the registrant has implemented as a result of the violations.
- .62 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

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~~ quantitative and qualitative metrics measuring how well they are positioned to absorb shocks arising from financial and economic stress and meet stricter regulatory requirements.

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~~

~~.62 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.~~

~~.63 "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.~~

~~.64 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.~~

~~.65 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⁽¹⁾

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			
Total (aggregate)			

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

66 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 ⁽¹⁾		
Other revenue ⁽²⁾		
Less:		
Provision for loan and lease losses		
Realized gains/losses on securities (AFS/HTM) ⁽³⁾		
Trading and counterparty losses ⁽⁴⁾		
Other losses/gains ⁽⁵⁾		
Total losses		
Net income before taxes		

⁽¹⁾ 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).

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

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

⁽⁴⁾ 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.

⁽⁵⁾ 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.

~~.67 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 (%)			

~~.68 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

~~.69 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)

~~.70 The registrant shall calculate its LCR as: Stock of high quality liquid assets (HQLA) / Total net cash outflows over the next 30 calendar days.~~

~~.71 The registrant shall disclose its average monthly LCR (%) throughout the reporting year.~~

~~.72 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~~

~~.73 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~~

~~.74 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~~

~~.75 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.~~

~~.76 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.”~~

~~.77 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~~

~~.78 The registrant shall calculate the skewness and kurtosis of its trading profits and losses using standard statistical methods, excluding spread profits and losses.~~

~~.79 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).~~

~~.80 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.~~

- ~~.81 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).~~
- ~~.82 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.~~
- ~~.83 The calculation period for skewness and kurtosis shall be 30 days, 60 days, and 90 days.~~

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.

TA02-09-01. Global Systemically Important Bank (G-SIB) score by category

- .63 The registrant shall disclose its Global Systemically Important Bank (G-SIB) score for the following categories: (1) Size; (2) Cross-jurisdictional activity; (3) Interconnectedness; (4) Substitutability; (5) Complexity; (6) Overall score.
- .64 The G-SIB scores are defined and shall be calculated according to the methodology established by the Bank of International Settlements’ (BIS) Basel Committee on Banking Supervision (BCBS) in Global systemically important banks: updated assessment methodology and the higher loss absorbency (HLA) requirement, July 2013.
- The set of indicators used in calculation of the G-SIB score is outlined by the BCBS in the Reporting instructions and the Reporting template.
 - The registrant shall refer to the Reporting instructions and the Reporting template for the relevant fiscal year.
 - The G-SIB score calculation is provided by the BCBS in the technical summary. The BCBS further provides:
 - Denominators used for score calculation for the relevant fiscal year
 - The cut-off score used to identify the G-SIBs and bucket thresholds used to allocate G-SIBs to buckets for the purposes of calculating the specific HLA requirements for each institution
- .65 If the G-SIB score is not available at the time of issuance of the annual report for the respective fiscal year, the registrant shall disclose the latest available G-SIB score.

.66 The registrant shall consider the above references used to determine the G-SIB score normative references, thus any updates made shall be considered updates to this guidance.

Note to **TA02-09-01**

.67 The registrant shall describe whether it obtains the score from the relevant supervisory authority after reporting the indicators used in calculation of the G-SIB or calculates the score internally using the BIS's methodology.

.68 The registrant shall describe whether its relevant regulatory authority requires the registrant to report the data required for the G-SIB calculation or the registrant chooses to report the data voluntarily.

TA02-08-01. Discussion of how results of mandatory and voluntary stress tests are integrated into capital adequacy planning, long-term corporate strategy, and other business activities

.69 The registrant shall discuss how stress tests and capital planning reports inform the firm's decisions and are integrated into capital planning, long-term corporate strategy and other business activities.

- Stress tests include but are not limited to:
 - Comprehensive Capital Analysis and Review (CCAR)
 - Dodd-Frank Act supervisory stress testing
 - The Bank of England stress test
 - The European Union-wide banking stress testing
 - Monetary Authority of Singapore Annual Industry-Wide Stress Testing exercise
 - The China Banking Regulatory Commission's (CBRC) Regulatory Consistency Assessment Programme (RCAP)
 - Australian Prudential Regulation Authority (APRA) industry stress test

.70 The registrant shall discuss how the stress test results inform its approach with respect to its ESG strategy.

.71 The registrant may disclose its stress test results along with the discussion.

.72 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.



FINANCIALS SECTOR

INVESTMENT BANKING & BROKERAGE*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0102

INVESTMENT BANKING & BROKERAGE

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (https://www.sasb.org/public-comment).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Investment Banking & Brokerage industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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.~~

The Investment Banking & Brokerage industry consists of firms performing a wide range of functions in the capital markets, including assisting with the capital-raising and allocation process, and providing market-making and advisory services for corporations, financial institutions, governments, and high net-worth individuals. Specific activities include financial advisory and securities underwriting services conducted on a fee basis; securities and commodities brokerage activities which involves buying and selling securities or commodities contracts and options on a commission or fee basis for investors; and trading and principal investment activities which involves buying and selling of equities, fixed income, currencies, commodities, and other securities for client-driven and proprietary trading. Investment banks also originate and securitize loans for infrastructure and other projects. Companies in the industry generate their revenues from global markets and, therefore, are exposed to various regulatory environments. The industry continues to face regulatory pressure to reform and disclose aspects of operations that present systemic risks. Specifically, firms are facing new capital requirements, stress testing, limits on proprietary trading, and increased scrutiny on compensation practices.

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.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Investment Banking & Brokerage industry, the SASB has identified the following sustainability disclosure topics:

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

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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.”¹⁰

Furthermore, the 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.”¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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.”

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

¹⁵ The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including 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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>(1) Number and (2) value of (a) underwriting, (b) advisory, and (c) securitization transactions¹⁹</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-25-A</u>
<u>(1) Number and (2) value of proprietary investments and loans by sector²⁰</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-25-B</u>
<u>(1) Number and (2) total value of market making transactions in (a) fixed income, (b) equity, (c) currency, (d) derivatives, and (e) commodity products</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-25-C</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ Note to TA02-25-A—For syndicate transactions, the registrant shall include only the value it was accountable for.

²⁰ Note to TA02-25-B—The registrant shall use the North American Industry Classification System (NAICS) for classifying investees and borrowers.

systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.²¹

Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

²¹ The AICPA's Guide (see *supra* note 1) provides guidance related to measurement uncertainty.

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

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

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Employee Inclusion	Percentage of gender and racial/ethnic group representation for: (1) executives <u>decision-makers</u> and (2) all others <u>other employees</u> ²²	Quantitative	Percentage (%)	FN0102-06 <u>TA02-15-01</u>
Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Investment Banking & Brokerage Activities	(1) Number and (2) total value of (a) underwriting, (b) advisory, and (c) securitization transactions incorporating integration of environmental, social, and governance (ESG) factors by industry Amount of sustainability focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting ²³	Quantitative	Number, U.S. dollars (\$)U.S. dollars (\$)	FN0102-16 <u>TA02-23-01</u>
	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
	(1) Number and (2) total value of investments and loans incorporating integration of environmental, social, and governance (ESG) factors by industry	Quantitative	Number, U.S. dollars (\$)	<u>TA02-24-01</u>
	Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services	Discussion and Analysis	n/a	FN0102-15
Management of the Legal & Regulatory Environment	Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions ²⁴	Quantitative	U.S. dollars (\$)U.S. dollars (\$), percentage (%)	TA02-16-01 FN0102-07
	Total amount of losses as a result of legal proceedings associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other industry regulations ²⁵			
	Description of the whistleblower policies and procedures	Discussion and Analysis	n/a	<u>TA02-16-02</u>

²² Note to **TA02-15-01**— The registrant shall describe its policies and programs for fostering equitable employee representation across its global operations.

²³ Note to **FN0102-16**— Disclosure shall include a description of sustainability focused services, activities, and products, broken down by: origination, (2) market making, and (3) advisory and underwriting.

²⁴ Note to **FN0102-07**— Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

²⁵ Note to **TA02-16-01**— The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
	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 ²⁶	Quantitative	Number (#), percentage (%)	FN0102-08
	Number of conflicts of interest disclosed to clients, customers, and/or counterparties	Quantitative	Number (#)	FN0102-09
Professional Integrity	(1) Number and (2) percentage of the registrant's covered employees with record of investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings ²⁷	Quantitative	Number, Percentage (%)	TA02-19-01
	Number of mediation and arbitration cases associated with professional integrity and duty of care	Quantitative	Number	TA02-19-02
	Total amount of losses as a result of legal proceedings associated with professional integrity and duty of care ²⁸	Quantitative	U.S. dollars (\$)	TA02-19-03
	Description of management approach to assuring professional integrity and duty of care	Quantitative	Percentage (%)	TA02-19-04
Systemic Risk Management	Discussion of how results of mandatory and voluntary stress tests are integrated into capital adequacy planning, long-term corporate strategy, and other business activities. Results of stress tests under adverse economic scenarios, ²⁹ 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 Tier 1 leverage ratio	Discussion and Analysis Quantitative	n/a U.S. dollars (\$), ratio in U.S. dollars (\$)	TA02-20-01 FN0102-10
	Global Systemically Important Bank (G-SIB) score by category ³⁰ Basel III Liquidity Coverage Ratio (LCR)	Quantitative	Basis points Ratio in U.S. dollars (\$)	TA02-21-01 FN0102-11
	Net exposure to written credit derivatives	Quantitative	U.S. dollars (\$)	FN0102-12

²⁶ 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.

²⁷ Note to **TA02-19-01**—The registrant shall describe how it ensures that “covered employees” file FINRA and SEC forms in a timely manner.

²⁸ Note to **TA02-19-03**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

²⁹ Note to **FN0102-10**—Disclosure shall include a description of the most significant drivers of changes in regulatory capital ratios.

³⁰ Note to **TA02-21-01**—The registrant shall describe whether the G-SIB score is calculated by the registrant or obtained from the regulatory authorities and whether the registrant is required to report the underlying data to the regulator.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
	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
Employee Incentives & Risk Taking	Discussion of variable compensation policies and practices	Discussion and Analysis	n/a	FN0102-01
	<u>Percentage of total remuneration that is variable for Material Risk Takers (MRT)</u> ³¹ Percentage of total compensation that is variable for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	TA02-13-01 FN0102-02
	Percentage of variable compensation that is equity for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-03
	<u>Percentage of variable remuneration of Material Risk Takers (MRT) to which malus or clawback provisions were applied</u> ³² Percentage of employee compensation which includes ex post adjustments for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	TA02-13-02 FN0102-04
	<u>Discussion of the company's policies around supervision, control and validation of traders' pricing of Level 3 assets and liabilities</u> 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	Discussion and Analysis Quantitative	n/a Number (#), percentage (%)	TA02-14-01 FN0102-05

³¹ Note to **TA02-13-01**—The registrant shall discuss its remuneration policies for Material Risk Takers.

³² Note to **TA02-13-02**— The registrant shall discuss whether its initial ex ante adjustments were sufficient in risk mitigation.

Employee Inclusion

Description

Investment banking and brokerage companies face a high degree of competition for skilled employees. At the same time, the industry has a low level of diversity, especially among senior roles. In recent years, there have been several cases of gender discrimination involving publicly listed companies in the industry. 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 By ensuring gender and racial diversity throughout the organization, companies are likely to expand their candidate pool. Further, evidence suggests that diverse groups of employees at investment banking and brokerage companies may reduce risk. Enhanced employee diversity disclosure, especially in decision-making roles, and applicants will allow shareholders to assess how companies in this industry are managing the risks and opportunities associated with employee ~~development~~ diversity and inclusion.

Accounting Metrics

FN0102-06-TA02-15-01. Percentage of gender and racial/ethnic group representation for: (1) executives/decision-makers and (2) all others/other employees

- .01 The registrant ~~should summarize and~~ shall disclose ~~employee~~ the percentage of gender representation for all global operations and the racial and ethnic group representations for U.S. operations for its employees considered decision-makers and for all other employees.
- .02 The registrant shall classify its employees according to Filing Procedures for the U.S. Equal Employment Opportunity Commission EEO-1 Survey ~~by employee category into the following two categories: Decision-makers and All Other Employees.~~
 - Decision-makers are defined as employees classified in the following table format: EEO-1 categories:

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

*NA =

ΔOther

- Executives/Senior Officers & Managers
- First/Mid Officers & Managers

- Professionals

- All other employees are defined as all the registrant’s employees not available/classified as decision-makers.

~~01.03 The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.~~

~~02.04 The registrant shall classify employees in the U.S. by the racial/ethnic group in the following categories, using the same definitions noted in the Filing Procedures for the EEO-1 Survey: White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and “Two or More Races” classification/classifications), or not disclosed/available.~~

~~03 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission 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).~~

~~04 The registrant shall categorize the gender of its employees as: male, female, not disclosed/available.~~

~~05 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant’s : 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.~~

05 Where relevant, the registrant may provide supplemental breakdown of racial/ethnic group representation by country or region as well as gender and racial/ethnic group representation by country or region.

06 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~~may report data with contextual disclosure to ensure proper interpretation of results.

- Where relevant the The registrant may provide supplemental breakdown of gender and racial/ethnic group choose to summarize and disclose employee representation by country or region: employee category in the following table format:

<u>Employee Category</u>	<u>Gender (%)</u>			<u>Race and Ethnicity for U.S. Operations (%)</u>					
	<u>Male</u>	<u>Female</u>	<u>NA*</u>	<u>White</u>	<u>Black or African American</u>	<u>Hispanic or Latino</u>	<u>Asian</u>	<u>Other**</u>	<u>NA*</u>
<u>Decision-makers</u>									
<u>All other employees</u>									

*NA = not available or not disclosed

** Other includes American Indian or Alaska Native, Native Hawaiian or other Pacific Islander, and "Two or More Races" classifications

Note to TA02-15-01

.07 The registrant shall describe its policies and programs for fostering equitable employee representation across its global operations.

- Relevant policies may include maintaining transparency of hiring, promotion, and wage practices, ensuring equal employment opportunity, developing and disseminating diversity policies, and ensuring management accountability for ensuring equitable representation.
 - Relevant programs may include trainings on diversity, mentorship and sponsorship programs, partnership with employee resource and advisory groups, and provision of flexible work schedules to accommodate employees' varying needs.
 - Relevant aspects of employee representation include, at a minimum, gender and race/ethnicity. Registrant may disclose other aspects of workforce, such as, age, physical abilities/qualities, sexual orientation, and religious beliefs, as relevant to local jurisdiction.
-

Integration of Environmental, Social, and Governance Risk Factors in ~~Advisory, Underwriting, and~~ Investment Banking & Brokerage Activities

Description

~~Environmental, social, and governance (ESG) risk~~As financial intermediaries, investment banks contribute to significant positive and negative environmental and social externalities through their underwriting, advisory, and investing and lending activities. Therefore, environmental, social, and governance (ESG) factors can have material implications for the companies, assets, and projects that commercial banks provide services to or invest in across a range of industries. ESG factors are increasingly contributing to the financial performance of specific projects and companies at large. Proprietary investing and lending is one of the primary activities of investment banks in which integration of ESG factors is currently occurring and where related financial impacts are most prominent. The value implications, both negative and positive, exist for the financing of projects or companies that generate environmental or social externalities and those that are exposed to risks associated with climate change, resource depletion, or other issues. The potential for both value creation and destruction associated with ESG factors suggests that investment banking and brokerage firms have a responsibility to their shareholders and clients to integrate consideration of these factors into analysis and valuation related to all core products, including sell-side research, advisory services, origination, underwriting, and principal transactions. 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~~therefore 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

TA02-23-01. (1) Number and (2) total value of (a) underwriting, (b) advisory, and (c) securitization transactions incorporating integration of environmental, social, and governance (ESG) factors by industry

.08 The registrant shall report the number of transactions in which the registrant incorporates integration of environmental, social, and governance (ESG) factors.

.09 The registrant shall report the value in U.S. dollars of transactions in which the registrant incorporated integration of ESG factors.

- For syndicate underwriting and securitization transactions, the registrant shall only count the amount underwriting and securitization it is accountable for.
- For syndicate advisory transactions, when the registrant provides advisory on ESG factors, it shall count the total value of the corresponding transaction.

.10 Integration of ESG factors is defined as the systematic and explicit inclusion of material ESG factors into underwriting, advisory, and securitization activities and may include but is not limited to review of transactions by the issuer’s Environmental and Social Risk Management (ESRM) group, Screening (exclusionary, inclusionary, or benchmarked), etc.

- The registrant shall state how ESG factors are integrated in the aforementioned activities.

.11 The registrant shall break down the number and value of transactions by key business activities including (a) underwriting, (b) advisory, and (c) securitization.

- Underwriting is defined as activities in which the registrant raises investment capital from investors on behalf of corporations and governments that are issuing either equity or debt securities. It includes public offerings and private placements, including local and cross-border transactions and acquisition financing, of a wide range of securities and other financial instruments, including loans. Underwriting also covers derivative transactions entered into with public and private sector clients in connection with the registrant's underwriting activities.
- Advisory is defined as activities in which the registrant provides financial advice to institutional clients on a fee basis. It excludes wealth management and asset management activities.
- Securitization is defined as the process through which the registrant creates a financial instrument by combining other financial assets and then marketing different tiers of the repackaged instruments to investors. It may include securitization of residential and commercial mortgages, corporate bonds, loans and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities and limited liability companies) or through a re-securitization.

.12 The registrant shall break down the number and value of transactions by industry.

- The registrant shall use the North American Industry Classification System (NAICS) for classifying transactions.

.13 The registrant shall disclose transactions for at least 10 largest industries or for industries representing at least 2% of the overall exposure.

TA02-24-01. (1) Number and (2) total value of investments and loans incorporating integration of environmental, social, and governance (ESG) factors by industry

.14 The registrant shall report the number of proprietary investments and loans incorporating integration of environmental, social, and governance (ESG) factors.

.15 The registrant shall report the value in U.S. dollars of proprietary investments and loans incorporating integration of environmental, social, and governance (ESG) factors.

.16 The scope of disclosure includes the registrant's investing and relationship lending activities across various asset classes, including debt securities and loans, public and private equity securities, infrastructure and real estate. These activities include investing directly in publicly and privately traded securities and in loans, and also through certain investment funds that the registrant manages and through funds managed by external parties.

- The scope of disclosure excludes commercial, consumer, and mortgage lending activities.

.17 Integration of ESG factors is defined as the systematic and explicit inclusion of material ESG factors into traditional fundamental financial analysis through the consideration of qualitative risks and opportunities.

quantitative metrics, and the incorporation of ESG variables into models to inform the registrant's decision making processes involved in proprietary investing and lending.

.18 The registrant shall breakdown the number and value of investments and loans by industry.

- The registrant shall use the North American Industry Classification System (NAICS) for classifying investees and borrowers.
- The registrant shall disclose its exposure to at least the 10 largest industries by dollar amount of exposure or for industries representing at least 2% of the overall portfolio exposure.

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

~~07.19~~ 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~~ transactions.

~~08.20~~ 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.”

~~09.21~~ 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.

~~10.22~~ 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.

~~11.23~~ 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, and opportunities, ~~or liabilities~~ on behalf of clients during transactions such as mergers and acquisitions.
- Origination – incorporating ESG risks and opportunities into the origination, structuring, and execution of structured financial products, derivative hedging strategies, and other financial services.
- Underwriting (private placement) – assessing ESG counterparty risks of counterparties and opportunities 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.

~~12.24~~ 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/considered alongside traditional financial metrics in valuation and pricing.

~~13.25~~ 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.

~~14.26~~ 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.

~~15.27~~ 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~~

~~16~~ 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.

~~.17 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.~~

~~.18 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.~~

~~.19 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

~~.20 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

~~.21 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.

.22 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)	

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 *often* 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~~

- ~~.23 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.~~
- ~~.24 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).~~
- ~~.25 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).~~
- ~~.26 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.~~
- ~~.27 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~~

~~.28 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.~~

~~.29.28 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.~~

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

.29 The registrant shall disclose the total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other related financial industry laws or regulations.

.30 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.31 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.32 The losses shall exclude legal fees incurred by the registrant.

.33 The scope of disclosure shall include legal proceedings associated with enforcement of financial industry regulations promulgated by U.S. and foreign regulatory authorities. Such regulatory authorities may include, but are not limited to:

- The U.S. Securities and Exchange Commission (SEC)
- The Commodities Futures Trading Commission (CFTC)
- The Financial Industry Regulatory Authority (FINRA)
- European Commission
- Financial Conduct Authority (FCA)
- Federal Reserve Board
- The Office of Comptroller Currency (OCC)
- The Financial Crimes Enforcement Network (FinCEN)
- Consumer Financial Protection Bureau (CFPB)
- Federal Deposit Insurance Corporation (FDIC)

.34 Disclosure shall also include enforcements related to activities adjudicated by federal regulators with an enforcement mandate broader than the financial industry, such as:

- The Foreign Corrupt Practices Act enforced by the U.S. Department of Justice
- The Specially Designated Nationals List enforced by the U.S. Treasury Department through its Office of Foreign Asset Control (OFAC)
- Foreign Account Tax Compliance Act (FATCA) enforced by the U.S. Internal Revenue Service (IRS)

Note to TA02-16-01

.35 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, market manipulation, etc.) of all losses as a result of legal proceedings.

.36 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

TA02-16-02. Description of the whistleblower policies and procedures

.37 The registrant shall describe the processes and policies that are set forth within its whistleblower program including but not limited to internal compliance programs, whistleblower hotline (e.g., is it managed by an independent third-party), reference to and publication of hotline (e.g., corporate compliance manuals, code of ethics, etc.) whistleblower incentives for reporting violations, and multiple methods for submitting tips.

.38 Disclosure shall discuss the registrant's compliance with applicable whistleblower regulations including but not limited to Section 806 of the Sarbanes-Oxley Act, 18 U.S.C. 1514A and Consumer Financial Protection Act 12 U.S.C. 5567.

.39 Disclosure shall discuss any violations of whistleblower regulations and any corrective actions the registrant has implemented as a result of the violations.

.40 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

~~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~~

~~.30 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.~~

~~.31 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.~~

~~.32 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.~~

~~.33 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

~~.34 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.~~

~~.35 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

~~.36 The registrant shall disclose the number of instances of conflict of interest in which it provided disclosure, described below in 0.47a.~~

~~.37 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").~~

~~.38 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.

~~39.41 Conflicts of interest that meet the requirements of 0.47 a. or b. are not considered “material” conflicts of interest~~

Professional Integrity

Description

The business model of investment banking and brokerage companies is dependent on the development of client trust and loyalty. To ensure long-term, mutually beneficial relationships, companies need to provide services that satisfy the highest professional standards of the industry which makes professional integrity an important governance issue. Therefore, companies in this industry should take measures to avoid conflicts of interest, misrepresentation, and negligence, including training employees adequately and implementing policies and procedures to ensure employees provide advice and distribute data free from bias and error. At the same time, professional integrity pertains to following a code of ethics with respect to transparency and disclosure. These measures are important both for strengthening a company's license to operate as well as for attracting and retaining clients. Failure to comply with professional standards can harm not only the clients who rely on the advice, data, and key services these companies provide, but may also hurt shareholders. Investment banking and brokerage companies could not only face legal penalties related to such actions, but also incur significant negative impacts on revenue from reputational damage. To maintain professional integrity, investment banking and brokerage companies need to ensure that employees have adequate training as well as know and adhere to applicable financial industry regulations. To comply with Financial Industry Regulatory Authority (FINRA) rules, employers need to ensure that they are aware of any past record of violation of their employees who are involved in communications and providing advice to clients. Companies need to provide clients with transparent and complete information regardless of the products sold or services provided. Therefore, a description of management's approach to assuring professional integrity and duty of care would help investors understand risk exposure as well as any processes in place to avoid misconduct. Additionally, disclosure of the company's amount of legal and regulatory fines and settlements would provide a clearer picture of the extent to which financial institutions are adhering to regulatory norms.

Accounting Metrics

TA02-19-01. (1) Number and (2) percentage of the registrant's covered employees with record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings

.42 The registrant shall provide the total number of "covered employees" with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings.

.43 "Covered employees" are defined as the registrant's employees subject to filing the following forms:

- Form U4 (Uniform Application for Securities Industry Registration or Transfer) with the Central Registration Depository (CRD) of the Financial Industry Regulatory Authority (FINRA)
- Form U5 (Uniform Termination Notice for Securities Industry Registration) with the CRD of the FINRA
- Form U6 (Uniform Disciplinary Action Reporting Form) with the CRD of the FINRA
- Form BD (Uniform Application for Broker-Dealer Registration) with the Investment Adviser Registration Depository (IARD) of the U.S. Securities and Exchange Commission (SEC)
- Form BDW (Uniform Request for Broker-Dealer Withdrawal) with the IARD of the SEC

.44 The registrant shall include all “covered employees” that were employed by the registrant at any time during the fiscal year in the calculation.

.45 Investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings include those disclosed by a covered employee on Form U4 in section 14, Form U5 in section 7, Form U6, Form BD, and Form BDW.

.46 The registrant shall calculate the percentage of “covered employees” with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings represent.

- In the numerator, the registrant shall include all the “covered employees” with record of investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings that were employed by the registrant at any time during the fiscal year.
 - In instances where the first investment-related investigation, consumer-initiated complaint, private civil litigation, and other regulatory proceeding involving the “covered employee” occurs at the time of employment with the registrant, and when the instance requires filings an update to the aforementioned forms, the registrant shall include these ‘covered employees’ in the numerator.
- In the denominator, the registrant shall include all the “covered employees” that were employed by the registrant at any time during the fiscal year.

Note to TA02-19-01

.47 The registrant shall describe its policies and procedures around supervision and compliance with the industry regulations requiring “covered employees” to file aforementioned forms.

.48 The registrant shall describe how it ensures that “covered employees” file these forms in a timely manner.

.49 The registrant shall include a discussion of how it manages its hiring process of “covered employees” to ensure that their services provided to clients satisfy the industry’s highest professional standards.

TA02-19-02. Number of mediation and arbitration cases associated with professional integrity and duty of care

.50 The registrant shall disclose the number of mediation and arbitration cases associated with professional integrity and duty of care that were filed against the registrant during the fiscal year.

- A mediation is defined as a non-judicial non-binding dispute resolution method in which an impartial third party mediator facilitates negotiations between disputing parties.
- An arbitration is defined as a non-judicial binding or non-binding dispute resolution method in which several impartial third-party arbitrators resolve the dispute by majority vote.

.51 Mediation and arbitration cases shall include but are not limited to those filed through the Financial Industry Regulatory Authority (FINRA) or the American Arbitration Association (AAA).

.52 The scope of disclosure shall include mediation and arbitration cases related to controversies that include but are not limited to breach of contract, promissory notes, commissions, clearing disputes, breach of fiduciary duty, misrepresentation, negligence, and omission of facts.

.53 The scope of disclosure shall exclude mediation and arbitration cases related to wrongful termination, compensation, and discrimination or harassment controversies.

.54 The registrant shall break down the number of mediation and arbitration cases by counterparty as following: (1) clients; (2) employees; and (3) other parties.

TA02-19-03. Total amount of losses as a result of legal proceedings associated with professional integrity and duty of care

.55 The registrant shall disclose the total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with professional integrity and duty of care.

- The scope of disclosure includes the Rules of the Financial Industry Regulatory Authority (FINRA).

.56 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.57 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.58 The losses shall exclude legal fees incurred by the registrant.

Note to TA02-19-03

.59 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, market manipulation, etc.) of all losses as a result of legal proceedings.

.60 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

TA02-19-04. Description of management approach to assuring professional integrity and duty of care

.61 The registrant shall discuss its policies to assure professional integrity, where:

- The scope of disclosure includes aspects of professional integrity and duty of care related to negligence, breach of fiduciary duty, misrepresentation, omission of facts, and malpractice.

.62 Assurance of professional integrity and duty of care may include, but is not limited to, policies, training, and implementation of codes of ethics as well as investigations, enforcements, and disciplinary procedures relating to:

- Conflicts of interest, such as mitigation and transparency of potential or perceived conflicts, including, but not limited to, instances related to FINRA's rules 2241, 2242 and 2310(b)(3).
- Oversight of advisory services and recommendations
- Disclosure shall include, but is not limited to, instances related to FINRA's rule 2110
- Maintenance and reporting of accurate data
 - Disclosure shall include, but is not limited to, instances related to FINRA's rule 6893
- Protection of confidential business information, including accuracy, retention, and destruction of business records and documents
- Fair pricing
 - Disclosure shall include, but is not limited to, instances related to FINRA's rule 2121.
- Employee training on relevant regulations
 - Disclosure shall include, but is not limited to, instances related to FINRA's rule 1250(b).
- Processes for internal investigations for malpractice or negligence
 - Disclosure shall include, but is not limited to, instances related to FINRA's rules 3110 and 3120.

.63 The registrant shall discuss compliance with industry best practices, including codes of conduct and codes of ethics, as a measure of its management approach to ensuring quality of work and professional integrity.

- The registrant shall discuss its approach to ensuring compliance with sections 2010 and 2200 of the FINRA manual.

.64 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Systemic Risk Management

Description

The ~~recent~~2008 financial crisis ~~articulated~~demonstrated the importance of managing risks to capital in the investment banking and brokerage industry. Specifically, firms that failed to ensure adequate capital reserves and liquidity 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 and liquidity 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~~quantitative and qualitative metrics measuring how well companies are positioned to absorb shocks arising from financial and economic stress and meet stricter regulatory requirements.

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~~

~~.40 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.~~

~~.41 "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.~~

~~.42 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.~~

~~.43 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⁽¹⁾

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

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

44 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 ⁽¹⁾		
Other revenue ⁽²⁾		
Less:		
Provision for loan and lease losses		
Realized gains/losses on securities (AFS/HTM) ⁽³⁾		
Trading and counterparty losses ⁽⁴⁾		
Other losses/gains ⁽⁵⁾		
Total losses		
Net income before taxes		

⁽¹⁾ 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).

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

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

⁽⁴⁾ 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.

⁽⁵⁾ 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.

.45 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 (%)			

.46 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

.47 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)

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

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

.50 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~~

~~.51 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~~

~~.52 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~~

~~.53 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.~~

~~.54 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.”~~

~~.55 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~~

~~.56 The registrant shall calculate the skewness and kurtosis of its trading profits and losses using standard statistical methods, excluding spread profits and losses.~~

~~.57 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).~~

~~.58 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.~~

~~.59.65 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).~~

~~.60 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.~~

~~.61 The calculation period for skewness and kurtosis shall be 30 days, 60 days, and 90 days.~~

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.

TA02-21-01. Global Systemically Important Bank (G-SIB) score by category

.66 The registrant shall disclose its Global Systemically Important Bank (G-SIB) score for the following categories: (1) Size; (2) Cross-jurisdictional activity; (3) Interconnectedness; (4) Substitutability; (5) Complexity; (6) Overall score.

.67 The G-SIB scores are defined and shall be calculated according to the methodology established by the Bank of International Settlement’s (BIS) Basel Committee on Banking Supervision (BCBS) in Global systemically important banks: updated assessment methodology and the higher loss absorbency (HLA) requirement, July 2013.

- The set of indicators used in calculation of the G-SIB score is outlined by the BCBS in the Reporting instructions and the Reporting template.
 - The registrant shall refer to the Reporting instructions and the Reporting template for the relevant fiscal year.
- The G-SIB score calculation is provided by the BCBS in the technical summary. The BCBS further provides:
 - Denominators used for score calculation for the relevant fiscal year
 - The cut-off score used to identify the G-SIBs and bucket thresholds used to allocate G-SIBs to buckets for the purposes of calculating the specific HLA requirements for each institution

.68 If the G-SIB score is not available at the time of issuance of the annual report for the respective fiscal year, the registrant shall disclose the latest available G-SIB score.

.69 The registrant shall consider the above references used to determine the G-SIB score normative references, thus any updates made shall be considered updates to this guidance.

Note to **TA02-21-01**

.70 The registrant shall describe whether it obtains the score from the relevant supervisory authority after reporting the indicators used in calculation of the G-SIB or calculates the score internally using the BIS's methodology.

.71 The registrant shall describe whether its relevant regulatory authority requires the registrant to report the data required for the G-SIB calculation or the registrant chooses to report the data voluntarily.

TA02-20-01. Discussion of how results of mandatory and voluntary stress tests are integrated into capital adequacy planning, long-term corporate strategy, and other business activities

.72 The registrant shall discuss how Stress Tests and Capital Planning reports inform the firm's decisions and are integrated into capital planning, long-term corporate strategy and other business activities.

- Stress tests include but are not limited to:
 - Comprehensive Capital Analysis and Review (CCAR)
 - Dodd-Frank Act supervisory stress testing
 - The Bank of England stress test
 - The European Union-wide banking stress testing
 - Monetary Authority of Singapore Annual Industry-Wide Stress Testing exercise
 - The China Banking Regulatory Commission's (CBRC) Regulatory Consistency Assessment Programme (RCAP)
 - Australian Prudential Regulation Authority (APRA) industry stress test

.73 The registrant shall discuss how environmental, social and governance (ESG) factors inform the quantitative and qualitative aspects of the stress tests' modelling and analysis.

.74 The registrant shall discuss how the stress test results inform its approach with respect to its ESG strategy.

.75 The registrant may disclose its stress test results along with the discussion.

.76 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

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, [policies around clawback provisions, supervision, control, and validation of traders' pricing of Level 3 assets](#), 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~~

- ~~.62 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.~~
- ~~.63 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.~~
- ~~.64 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.~~
- ~~.65 The registrant should use employee categories defined by the U.S. Equal Employment Opportunity Commission in its [EEO-1 Job Classification Guide](#).~~
- ~~.66 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.~~
- ~~.67 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).~~
- ~~.68 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).~~

~~.69.77 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~~

~~.70 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).~~

~~.71 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.~~

~~.72 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.~~

~~.78 Total compensation is defined as the sum of fixed, base pay (i.e., salary) and any variable, bonus, or performance-based pay.~~

TA02-13-01. Percentage of total remuneration that is variable for Material Risk Takers (MRTs)

~~.79 The registrant shall disclose the percentage of remuneration of its employees classified as Material Risk Takers (MRTs) that is variable.~~

- ~~• The registrant shall classify its employees as MRTs in accordance with the guidelines defined in the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.~~
- ~~• The registrant shall use the definition of fixed remuneration which is described in the Section 7 of the European Banking Authority Guidelines on sound remuneration policies.~~
- ~~• Variable remuneration is defined as all remuneration which is not fixed.~~

~~.80 The registrant shall calculate the percentage by dividing the aggregate amount of the variable remuneration (in U.S. dollars) of the registrant's MRTs by the aggregate amount (in U.S. dollars) of the total remuneration of the registrant's MRTs.~~

~~.81 The registrant should disclose the percentage of total remuneration that is variable for employees not classified as MRTs.~~

~~.82 The registrant should disclose the number of employees classified as MRTs. The disclosure should be provided at the Group level and broken down by geographic segment.~~

- ~~• The disclosure should be provided only if the number of MRTs is above 10.~~

.83 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Note to TA02-13-01

.84 The registrant shall discuss its remuneration policies for MRTs.

.85 The discussion shall include but be not limited to: (1) regulatory environment regarding employee remuneration the registrant operates in and whether it is required to have certain remuneration policies in place, where the registrant shall discuss whether remuneration policies it has are the result of regulatory requirement or are adopted voluntarily as the best industry practice; (2) the performance objectives for the institution, business areas and staff; (3) the methods for the measurement of performance, including the performance criteria; and (4) the structure of variable remuneration, including where applicable the instruments in which parts of the variable remuneration are awarded.

FN0102-03. Percentage of variable compensation that is equity for: (1) executives and (2) all others

~~.73 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).~~

~~.74 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.~~

~~.75 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).~~

~~.76 The registrant shall calculate the value of equity compensation according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718.~~

~~.77 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

~~.78 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).~~

~~.79 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.~~

~~.80 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.~~

~~.81.86 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.~~

~~.82 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.~~

TA02-13-02. Percentage of variable remuneration of Material Risk Takers (MRT) to which malus or clawback provisions were applied

.87 The registrant shall disclose the percentage of the variable remuneration of employees classified as Material Risk Takers (MRTs) to which malus or clawback provisions were applied during the fiscal year.

- The registrant shall classify its employees as MRTs in accordance with the guidelines defined in the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.
- The registrant shall use the definition of fixed remuneration which is described in the Section 7 of the European Banking Authority Guidelines on sound remuneration policies.
- Variable remuneration is defined as all remuneration which is not fixed.
- Malus and clawback provisions are defined as explicit ex post risk adjustment mechanisms where the registrant adjusts remuneration of the MRTs based on mechanism which include but are not limited to lowering awarded cash remuneration or reduction of the number or value of the instruments awarded.

.88 The registrant shall calculate the percentage by dividing the aggregate amount of the variable remuneration (in U.S. dollars) of the registrant's MRTs to which malus or clawback provisions were applied by the aggregate amount (in U.S. dollars) of the variable remuneration of the registrant's MRTs, prior to malus or clawback provisions were applied.

.89 The registrant should disclose the percentage of the variable remuneration of employees not classified as MRTs to which malus or clawback provisions were applied during the fiscal year.

.90 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Note to **TA02-13-02**

.91 The registrant shall discuss whether its initial ex ante adjustments were sufficient in risk mitigation (e.g. whether risks have been omitted or underestimated or new risks were identified or unexpected losses occurred.

.92 The registrant shall discuss whether it is required to have certain malus or clawback policies in place, where the registrant shall discuss whether malus or clawback policies it has are the result of regulatory requirement or are adopted voluntarily as the best industry practice.

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

~~.83 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.~~

~~.84 Relevant risk limits include those for individuals, desks, divisions, and/or aggregate risk limits.~~

~~.85 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.~~

~~.86 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.~~

~~.87.93 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.~~

TA02-14-01. Discussion of the company's policies around supervision, control and validation of traders' pricing of Level 3 assets and liabilities

.94 The registrant shall disclose its policies regarding the supervision, control, and validation processes for the pricing of Level 3 assets and liabilities.

- Level 3 assets and liabilities are those whose values are based on prices or valuation techniques that require use of unobservable, Level 3, inputs which are defined by the Financial Accounting Standards Board's (FASB) Fair Value Measurements and Disclosures (Topic 820), No. 2010-06, January 2010.

.95 The registrant shall disclose its policies on supervision of pricing of Level 3 assets and liabilities by traders to avoid intentional mispricing of assets.

.96 The registrant shall disclose its controls and validation mechanisms for assumptions and inputs used for the pricing of Level 3 assets and liabilities.

.97 The registrant shall disclose the structure of incentive packages for employees responsible for the valuation, controls and supervision of the estimates used for the pricing of Level 3 assets and liabilities.

.98 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.



FINANCIALS SECTOR

ASSET MANAGEMENT & CUSTODY ACTIVITIES*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0103

ASSET MANAGEMENT & CUSTODY ACTIVITIES

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (https://www.sasb.org/public-comment).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

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

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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.~~

The Asset Management & Custody Activities industry is comprised of companies that manage investment portfolios on a commission or fee basis for institutional, retail, and high net worth investors. Investment management activities include equities, fixed income, mixed asset, and hedge fund investments. In addition, firms in this industry provide wealth management, private banking, financial planning, and investment advisory and retail securities brokerage services. Specific companies are engaged in venture capital and private equity investments. The industry provides an essential service in assisting a range of customers to meet specified investment goals. However, the 2008 financial crisis and subsequent regulatory developments highlight the social impact of the industry in terms of providing fair advice to customers and managing risks at the entity and economy-wide levels. In addition, the collective impact of the industry on the allocation of capital creates a responsibility to integrate sustainability factors in investment decisions and management.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Asset Management & Custody Activities industry, the SASB has identified the following sustainability disclosure topics:

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

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB's Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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."¹⁰

Furthermore, the 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."¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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."

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

Such data—termed “activity metrics”—may include high-level business data, including total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include

¹⁵ The AICPA’s Guide (see *supra* note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>Total (1) registered and (2) unregistered assets under management (AUM)¹⁹</u>	<u>Quantitative</u>	<u>U.S. dollars (\$)</u>	<u>TA02-36-A</u>
<u>Total assets under custody and supervision</u>	<u>Quantitative</u>	<u>U.S. dollars (\$)</u>	<u>TA02-36-B</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.²⁰

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ Note to TA02-36-A—Registered AUM include those subject to the regulations of the Investment Company Act of 1940 (1940 Act), such as mutual funds, managed under the Employee Retirement Income Security Act of 1974 (ERISA), subject to the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, or managed under the Commodity Futures Trading Commission’s (CFTC’s) Commodity Pool Operator (CPO) regulations. Unregistered AUM are those that do not fall under the definition of the ‘registered AUM’.

²⁰ The AICPA’s Guide (see supra note 1) provides guidance related to measurement uncertainty.

Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transparent Information & Fair Advice for Customers	<u>(1) Number and (2) percentage of the registrant’s covered employees with record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings²¹</u>	<u>Quantitative</u>	<u>Number, Percentage (%)</u>	<u>TA02-28-01</u>
	Amount of fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services ²²	Quantitative	U.S. dollars (\$)	FN0103-06
	Description of <u>procedure or programs</u> management approach to provide adequate, clear, and assuring transparent information about products and services, including risks, suitability, and conflicts of interest and fair advice for customers	Discussion and Analysis	n/a	TA02-29-01 FN0103-07
Employee Inclusion	Percentage of gender and racial/ethnic group representation for: (1) executives <u>decision-makers</u> and (2) all others <u>other employees</u> ²³	Quantitative	Percentage (%)	FN0103-05 TA02-27-01
Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory	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
	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
	Description of proxy voting and investee engagement policies and procedures 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	Discussion and Analysis <u>Quantitative</u>	n/a <u>Percentage (%), number (#)</u>	TA02-34-01 FN0103-17
	Ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management	Quantitative	Tons CO₂ <u>U.S. dollars (\$)</u>	FN0103-18

²¹ Note to **TA02-28-01**—The registrant shall describe how it ensures that “covered employees” file FINRA and SEC forms in a timely manner.

²² Note to **FN0103-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

²³ Note to **TA02-27-01**—The registrant shall describe its policies and programs for fostering equitable employee representation across its global operations.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Management of the Legal & Regulatory Environment	Amount of legal and regulatory fines and settlements associated with financial fraud and percentage that resulted from whistleblowing actions ²⁴	Quantitative	U.S. dollars (\$), percentage (%)	FN0103-08
	Total amount of losses as a result of legal proceedings associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other industry regulations ²⁵	Quantitative	U.S. dollars (\$)	TA02-30-01
	Description of the whistleblower policies and procedures	Discussion and Analysis	n/a	TA02-30-02
	Number of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated ²⁶	Quantitative	Number (#), percentage (%)	FN0103-09
Systemic Risk Management	(1) Registered and (2) unregistered assets under management Percentage of open-end fund assets under management by category of liquidity classification	Quantitative	U.S. dollars (\$) Percentage (%)	FN0103-10 TA02-32-01
	Discussion of how liquidity risk management programs are integrated into portfolio strategy and redemption risk management	Discussion and Analysis	n/a	TA02-32-02
	Total exposure to securities financing transactions Value of collateral received from securities lending and amount received from repurchase agreements involving clients' assets	Quantitative	U.S. dollars (\$)	TA02-33-01 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
Employee Incentives & Risk Taking	Discussion of variable compensation policies and practices	Discussion and Analysis	n/a	FN0103-01
	Percentage of total compensation that is variable for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-02
	Percentage of variable compensation that is equity for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-03
	Percentage of employee compensation which includes ex-post adjustments for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-04

²⁴ Note to **FN0103-08**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

²⁵ Note to **TA02-30-01**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

²⁶ 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

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 risksEnhanced disclosure on procedures or programs to provide adequate, clear, and transparent information about products and services, the regulatory violation record of employees, and amount of fines and settlements associated with professional integrity and duty of care will provide shareholders with an advanced understanding of long-term value preservation.

Accounting Metrics

TA02-28-01. (1) Number and (2) percentage of the registrant's covered employees with record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings

.01 The registrant shall provide the total number of "covered employees" with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings.

.02 "Covered employees" are defined as the registrant's employees subject to filing the following forms:

- Form U4 (Uniform Application for Securities Industry Registration or Transfer) with the Central Registration Depository (CRD) of the Financial Industry Regulatory Authority (FINRA)
- Form U5 (Uniform Termination Notice for Securities Industry Registration) with the CRD of the FINRA
- Form U6 (Uniform Disciplinary Action Reporting Form) with the CRD of the FINRA
- Form BD (Uniform Application for Broker-Dealer Registration) with the Investment Adviser Registration Depository (IARD) of the U.S. Securities and Exchange Commission (SEC)
- Form BDW (Uniform Request for Broker-Dealer Withdrawal) with the IARD of the SEC

.03 The registrant shall include all "covered employees" that were employed by the registrant at any time during the fiscal year in the calculation.

.04 Investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings include those disclosed by a covered employee on Form U4 in section 14, Form U5 in section 7, Form U6, Form BD, or Form BDW.

.05 The registrant shall calculate the percentage of "covered employees" with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings by dividing the numerator by the denominator, using the following:

- In the numerator, the registrant shall include the number of “covered employees” with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings that were employed by the registrant at any time during the reporting period.
- In instances where the first investment-related investigation, consumer-initiated complaint, private civil litigation, or other regulatory proceeding involving the “covered employee” occurs at the time of employment with the registrant, and when the instance requires filings an update to the aforementioned forms, the registrant shall include these ‘covered employees’ in the numerator.
- In the denominator, the registrant shall include number of “covered employees” that were employed by the registrant at any time during the reporting period.

Note to TA02-28-01

.06 The registrant shall describe its policies and procedures around supervision and compliance with the industry regulations requiring “covered employees” to file aforementioned forms.

.07 The registrant shall describe how it ensures that the “covered employees” file these forms in a timely manner.

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

~~01.08~~ 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.

~~02.09~~ 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

~~03.10~~ 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.

~~04.11~~ 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/TA02-29-01. Description of procedure or program management approach to provide adequate, clear, and assuring transparent information about products and services, including risks, suitability, and conflicts of interest and fair advice for customers~~

~~05.12~~ 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-

~~06.13~~ 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'~~ client risk tolerance.
- Relevant aspects of suitability are those addressed in ~~FINRA's~~ the Financial Industry Regulatory Authority's (FINRA) 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~~customer's investment profile.~~²⁷
- Relevant conflicts of interest include those related to services (e.g., research) paid for by ~~clients'~~ clients' commissions, the allocation of trades amongst clients, and rules for the ~~registrant's~~ employees' ~~registrant's employees'~~ personal accounts (PAs).

~~.14~~ The registrant shall describe compliance with industry best practices, including codes of conduct and codes of ethics, as a measure of its management approach to ensuring high Standards of Commercial Honor and Principles of Trade and Communications and Disclosures according to sections 2010 and 2200 of the FINRA manual.

~~.15~~ The registrant shall describe how its representatives' compensation structures are linked to incentives for sales of specific products.

- The discussion shall include but is not limited to any direct linkages between employees' compensation, including changes in fixed salaries, bonuses and other awards, and targets for volumes or quantities in sales of certain products or services.

~~.16~~ The registrant may disclose the percentage of total compensation that is variable and directly linked to sales targets for the relevant pool of employees.

~~.17~~ The registrant shall describe communication methods it uses to provide information about its products and services to clients and prospective clients.

- Communication methods ~~may~~ include, but are not limited to, client statements, supplemental brochures, product prospectuses, website listing, or verbal communications.

~~07.18~~ The registrant may ~~choose to~~ disclose the style of communication it uses, such as the use of legal disclaimers, plain English, etc.

²⁷ <http://www.finra.org/investors/protectyourself/beforeyouinvest/p197434>

~~08.19~~ Where necessary, the registrant shall describe differences in communication strategies, content, method, etc., between retail customers and institutional clients.

~~09.20~~ The registrant ~~should~~shall describe ~~the internal personnel responsible for developing and executing~~how its ~~communications~~communication strategy, ~~such as the roles of client services, legal and is developed and executed, including, but not limited to, internal controls the registrant has in place to ensure compliance, sales and marketing, etc with its communication strategy.~~

Employee Inclusion

Description

Asset management and custody activities companies face a high degree of competition for skilled employees. At the same time, the industry has a low level of diversity, especially among senior roles. In recent years, there have been several cases of gender discrimination involving publicly listed companies in the industry. 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 By ensuring gender and racial diversity throughout the organization, companies are likely to expand their candidate pool. Further, evidence suggests that diverse groups of employees at asset management companies may increase portfolio return and reduce risk. Enhanced employee diversity disclosure, especially in decision-making roles, 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-TA02-27-01. Percentage of gender and racial/ethnic group representation for: (1) executives/decision-makers and (2) all others/other employees

.21 The registrant should summarize and shall disclose employee the percentage of gender representation for all global operations and the racial and ethnic group representations for U.S. operations for its employees considered decision-makers and for all other employees.

.22 The registrant shall classify its employees according to Filing Procedures for the U.S. Equal Employment Opportunity Commission EEO-1 Survey by employee category into the following two categories: Decision-makers and All Other Employees.

- Decision-makers are defined as employees classified in the following table format: EEO-1 categories:

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

- *NA=
- ΔOther
- Executives/Senior Officers & Managers
- First/Mid Officers & Managers

- Professionals

- All other employees are defined as all the registrant’s employees not available/classified as decision-makers.

~~10.23~~ The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.

~~11.24~~ The registrant shall classify employees in the U.S. by the racial/ethnic group in the following categories, using the same definitions noted in the Filing Procedures for the EEO-1 Survey: White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and “Two or More Races” classifications), or not disclosed/available.

~~12~~ The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission 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).

~~13~~ The registrant shall categorize the gender of its employees as: male, female, not disclosed/available.

~~14~~ The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant’s : 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.

25 Where relevant, the registrant may provide supplemental breakdown of racial/ethnic group representation by country or region as well as gender and racial/ethnic group representation by country or region.

~~15.26~~ 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 may report data with contextual disclosure to ensure proper interpretation of results.

~~16.27~~ Where relevant the The registrant may provide supplemental breakdown of gender and racial/ethnic group choose to summarize and disclose employee representation by country or region employee category in the following table format:

<u>Employee Category</u>	<u>Gender (%)</u>			<u>Race and Ethnicity for U.S. Operations (%)</u>					
	<u>Male</u>	<u>Female</u>	<u>NA*</u>	<u>White</u>	<u>Black or African American</u>	<u>Hispanic or Latino</u>	<u>Asian</u>	<u>Other**</u>	<u>NA*</u>
<u>Decision-makers</u>									
<u>All other employees</u>									

*NA = not available or not disclosed

** Other includes American Indian or Alaska Native, Native Hawaiian or other Pacific Islander, and "Two or More Races" classifications

Note to TA02-27-01

.28 The registrant shall describe its policies and programs for fostering equitable employee representation across its global operations.

- Relevant policies may include maintaining transparency of hiring, promotion, and wage practices, ensuring equal employment opportunity, developing and disseminating diversity policies, and ensuring management accountability for ensuring equitable representation.
 - Relevant programs may include trainings on diversity, mentorship and sponsorship programs, partnership with employee resource and advisory groups, and provision of flexible work schedules to accommodate employees' varying needs.
 - Relevant aspects of employee representation include, at a minimum, gender and race/ethnicity. Registrant may disclose other aspects of workforce, such as, age, physical abilities/qualities, sexual orientation, and religious beliefs, as relevant to local jurisdiction.
-

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~~ (ESG) factors. The process of ESG integration involves consideration of ESG factors in valuation, modeling, proxy voting, and engagement with investees and, as a result, in investment decision-making by asset managers. 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

FN0103-16. 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

~~-17.29~~ The registrant shall consider major asset classes to be equity, fixed income (sovereign and municipal bonds), cash/equivalents, and other.

~~-18.30~~ 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.”

~~-19.31~~ 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.

~~-20.32~~ Sustainability themed investing is focused on trends such as climate change or sustainable agriculture.

~~-21.33~~ 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.).

~~-22.34~~ 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).

23.35 Impact investing (sometimes referred to as community investing) is characterized by investments in social enterprises that seek to generate measurable, 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).

24.36 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

25.37 The registrant shall identify and disclose the amount of any AUM managed using more than one ESG integration strategy (e.g., screening and integration).

26.38 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.

FN0103-15. 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

27.39 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

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

29.41 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.

30.42 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.)

31.43 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.

~~32.44~~ 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

~~33.45~~ 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

34.46 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.

35.47 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).

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

TA02-34-01. Description of proxy voting and investee engagement policies and procedures

49 The registrant shall describe its approach to proxy voting, including but not limited to, its process for making proxy voting decisions, including its approach to defining materiality, and filing and/or co-filing of shareholder resolutions.

- The discussion shall include, but is not limited to, elements highlighted in the UN PRI's Reporting Framework for Direct – Listed Equity Active Ownership:
 - The scope of the registrant's voting activities
 - The objectives of the registrant's voting activities
 - How, if at all, the registrant's voting approach differs among markets
 - Whether the registrant has a default position of voting in favor of management in particular markets or on particular issues
 - Whether and how local regulatory or other requirements influence the registrant's approach to voting
 - Whether the registrant votes by proxy or in person by attending annual general meetings (AGMs) (or a combination of both)
- The registrant shall describe its approach to determining support for proposals including its approach to defining materiality.
 - The scope of disclosure includes Environmental, Social, and Governance (ESG) factors.
- The registrant shall describe how its fiduciary duty to clients is considered in the registrant's voting decisions on the proposals covering ESG factors.
- The registrant shall describe how it communicates its proxy voting policy to clients as well as to the public.
 - The registrant may choose to provide the link to its formal proxy voting policy.

50 The registrant shall describe its process of making proxy voting decisions.

- The discussion shall include but be not limited to the elements highlighted in the UN PRI's Reporting Framework for Direct – Listed Equity Active Ownership which include:

- Use of internal research team and/or third-party service providers
- Review and monitoring process for service provider recommendations

.51 The registrant shall describe its approach to communicating its voting decisions to company management, including the rationale for voting for/against the management's recommendations.

.52 The registrant shall describe its approach to engagement on ESG factors.

- The registrant shall describe how its fiduciary duty to clients is considered in the registrant's engagements with companies on ESG issues.
- The discussion shall include the elements highlighted in the UN PRI's Reporting Framework for Direct – Listed Equity Active Ownership which include:
 - The registrant's objectives for undertaking engagement activities.
 - Whether the registrant's engagements related to ESG issues are primarily proactive to ensure that ESG issues are well managed in a preventive manner, or reactive to address issues that may have already occurred.
 - The outcomes the registrant seeks from engaging with companies on ESG issues (e.g. influencing corporate practice, improve the quality of ESG disclosure, etc.)
 - The registrant's staff that carries the engagement (e.g., specialized in-house engagement teams, the analysts, more senior-level roles, etc.)
 - The roles of individuals at the engagement target companies the registrant seeks to engage with (e.g., board representatives, chairman, CEO, CR/IR managers).
- The registrant shall describe how it communicates its engagement policy to clients as well as to the public.
 - The registrant may choose to provide the link to its formal engagement policy.

.53 The registrant shall describe how the outcomes of its proxy voting and engagement activities inform its investment decision-making process.

- The discussion shall include the elements highlighted in the UN PRI's Reporting Framework for Direct – Listed Equity Active Ownership which include:
 - How the registrant decides what information to pass on to investment decision-makers.
 - How the registrant monitors the use of the information passed-on in investment decision-making.

.54 The registrant shall describe how its proxy voting and engagement activities 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 beneficiaries.

.55 The registrant shall describe its escalation process for engagements when company dialogue is falling.

- The escalation process includes but is not limited to those highlighted in the International Corporate Governance Network (ICGN) Global Stewardship Principles:
 - Expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholders' meeting
 - Expressing the registrant's concern collectively with other investors
 - Making a public statement
 - Submitting shareholder resolutions
 - Speaking at general meetings
 - Submitting one or more nominations for election to the board as appropriate and convening a shareholders' meeting
 - Seeking governance improvements and/or damages through legal remedies or arbitration
 - Exit or threat to exit from the investment as a last resort

.56 The registrant shall describe how its ESG engagement strategy fits into the registrant's overall engagement strategy.

.57 The registrant may choose to disclose additional quantitative measures related to its proxy voting and engagement activities, such as:

- Number of engagements, percentage of those in-person
- Number of staff involved in proxy voting and engagement activities

~~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~~

~~.37 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).~~

~~.38 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

.39 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).

.40 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

.41 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.

.42 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).

.43 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).

.44 Equity share is defined as the share ownership stake at year end / total shares outstanding at year end.

- ~~.45~~ The registrant shall sum the embedded carbon dioxide emissions associated with all assets under management (AUM) and disclose this figure normalized to total AUM.
- ~~.46~~ Estimated potential carbon dioxide emissions from proved hydrocarbon reserves shall be calculated according to the following formula, derived from [Meinshausen et al.](#):
- ~~$E = R \times V \times C$, where~~
 - ~~E are the potential emissions in kilograms of carbon dioxide (kg CO₂);~~
 - ~~R are the proved reserves in gigagrams (Gg);~~
 - ~~V is the net calorific value in terajoules per gigagram (TJ/Gg); and~~
 - ~~C is the effective carbon dioxide emission factor in kilograms CO₂ per terajoule (kg/TJ).~~
- ~~.47~~ 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.
- ~~.48~~ 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.

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 often 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~~

- ~~.49 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.~~
- ~~.50 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).~~
- ~~.51 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).~~
- ~~.52 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.~~
- ~~.53 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

- ~~.54 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.~~
- ~~.55 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.~~

TA02-30-01. Total amount of losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive, market manipulation, malpractice or other industry regulations

.58 The registrant shall disclose the total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive, market manipulation, malpractice or other related financial industry laws or regulations.

.59 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.60 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.61 The losses shall exclude legal fees incurred by the registrant.

.62 The scope of disclosure shall include legal proceedings associated with enforcement of financial industry regulations promulgated by U.S. and foreign regulatory authorities. Such regulatory authorities may include, but are not limited to:

- The U.S. Securities and Exchange Commission (SEC)
- The Commodities Futures Trading Commission (CFTC)
- The Financial Industry Regulatory Authority (FINRA)
- European Commission
- Financial Conduct Authority (FCA)
- Federal Reserve Board
- The Office of Comptroller Currency (OCC)
- The Financial Crimes Enforcement Network (FinCEN)
- Consumer Financial Protection Bureau (CFPB)
- Federal Deposit Insurance Corporation (FDIC)

.63 Disclosure shall also include enforcements related to activities adjudicated by federal regulators with an enforcement mandate broader than the financial industry, such as:

- The Foreign Corrupt Practices Act enforced by the U.S. Department of Justice
- The Specially Designated Nationals List enforced by the U.S. Treasury Department through its Office of Foreign Asset Control (OFAC)

- Foreign Account Tax Compliance Act (FATCA) enforced by the U.S. Internal Revenue Service (IRS)

Note to TA02-30-01

.64 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, insider trading, market manipulation, etc.) of all losses as a result of legal proceedings.

.65 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

TA02-30-02. Description of the whistleblower policies and procedures

.66 The registrant shall describe the processes and policies that are set forth within its whistleblower program including but not limited to internal compliance programs, whistleblower hotline (e.g., is it managed by an independent third-party), reference to and publication of hotline (e.g., corporate compliance manuals, code of ethics, etc.) whistleblower incentives for reporting violations, and multiple methods for submitting tips.

.67 Disclosure shall discuss the registrant's compliance with applicable whistleblower regulations including but not limited to Section 806 of the Sarbanes-Oxley Act, 18 U.S.C. 1514A and Consumer Financial Protection Act 12 U.S.C. 5567.

.68 Disclosure shall discuss any violations of whistleblower regulations and any corrective actions the registrant has implemented as a result of the violations.

.69 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

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

~~.56 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.~~

~~.57 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.~~

~~.58 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.~~

~~.59 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

- ~~.60~~ 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.
- ~~.61~~ 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, management and custody companies~~ 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. 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 and custody industry is likely to continue to evolve. 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, management and custody companies~~ should enhance disclosure on key aspects of systemic risk management and their ability to meet stricter regulatory requirements.

Accounting Metrics

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

- ~~.63 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.~~
- ~~.64 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).~~
- ~~.65 The registrant shall calculate the percentage of registered AUM as the amount of registered AUM divided by its total AUM.~~
- ~~.66 The registrant shall calculate the percentage of unregistered AUM as the amount of unregistered AUM divided by its total AUM.~~

TA02-32-01. Percentage of open-end fund assets under management by category of liquidity classification

- .71 The registrant 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 Securities and Exchange Commission.
 - 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.

- 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.
- 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.
- 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.
- 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.

.67.72 The percent shall be calculated as the value in U.S. dollars of open-end fund AUM in respective liquidity category divided by the registrant's total open-end fund AUM in U.S. dollars.

.68.73 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

TA02-32-02. Discussion of how liquidity risk management programs are integrated into portfolio strategy and redemption risk management

.74 The registrant shall describe how liquidity risk management programs, including requirements set forth by SEC Rule 22e-4, are integrated into portfolio strategy and redemption risk management.

.75 The registrant 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.

.76 The registrant shall describe redemption practices its funds employ.

.77 The registrant shall describe the frequency with which it reviews liquidity risk of its funds.

.78 The registrant shall describe liquidity risk factors it uses in assessing, managing, and reviewing liquidity risk of its funds.

- The registrant shall describe the scenarios, such as normal and reasonably foreseeable stressed conditions.

.79 The registrant shall describe its funds which are not subject to Rule 22e-4.

- The registrant 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.
- 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.

.80 The registrant 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.

- 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.

.81 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

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

~~.69 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).~~

~~.70 The registrant shall disclose the amount of cash it received from the sale of securities in repurchase agreements.~~

~~.71 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.~~

TA02-33-01. Total exposure to securities financing transactions

.82 The registrant shall disclose the amount of exposure (in U.S. dollars) to securities financing transactions (SFTs) including off-balance sheet items.

- 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 Securities Financing Transactions Regulation (SFTR).
- 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 leverage ratio framework and disclosure requirements.

.83 Calculation methodologies shall follow guidance from the Bank for International Settlements' Revised Basel III leverage ratio framework and disclosure requirements, items 32 to 39.

.84 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

FN0103-12. Net exposure to written credit derivatives

- 1 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
- 2 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~~

~~(2) Total risk-based capital ratio~~

~~(2) Tier 1 leverage ratio~~

- ~~3 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 (%)	

- ~~4 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)~~

- ~~5 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.~~

~~72.85 The registrant shall disclose its average monthly LCR (%) throughout the reporting year.~~

~~.73.86~~ 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).

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~~

- ~~.74~~ 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.
- ~~.75~~ 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.
- ~~.76~~ 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.
- ~~.77~~ The registrant should use employee categories defined by the U.S. Equal Employment Opportunity Commission in its [EEO-1 Job Classification Guide](#).
- ~~.78~~ 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.
- ~~.79~~ 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).
- ~~.80,87~~ 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).

~~.81 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~~

~~.82 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).~~

~~.83 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.~~

~~.84 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.~~

~~.85 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~~

~~.86 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).~~

~~.87 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.~~

~~.88 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).~~

~~.89 The registrant shall calculate the value of equity compensation according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718.~~

~~.90 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: executives and (2) all others~~

~~.91 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).

~~.92~~ 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 of observations of risk and performance during that period.

~~.93~~ 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.

~~.94, 88~~ 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.

~~.95~~ 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.



FINANCIALS SECTOR

CONSUMER FINANCE*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0201

CONSUMER FINANCE

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Consumer Finance industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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.~~

~~The Consumer Finance industry provides loans to consumers. The largest segment of the industry is comprised of revolving credit loans through credit card products. Additional loan services include auto, micro lending, and student loans. Some companies in the industry also provide consumer to consumer money transfers, money orders, prepaid debit cards, and bill payment services. Industry performance is determined by consumer spending, rates of unemployment, per capita GDP, income, and population growth. Although emerging markets present a considerable opportunity for growth in the industry, the U.S. remains the largest market for lenders. Recent shifts towards consumer protection and transparency have and will continue to align the interests of society with those of long-term investors. Companies will therefore not be able to maximize financial capital unless social capital is managed effectively. Firms that are able to navigate new regulations will be better positioned to protect shareholder value in the long term.~~

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.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Consumer Finance industry, the SASB has identified the following sustainability disclosure topics:

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

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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.”¹⁰

Furthermore, the 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.”¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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.”

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

¹⁵ The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including 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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>Number of unique consumers with an active (1) credit card account, (2) pre-paid debit card account¹⁹</u>	<u>Quantitative</u>	<u>Number</u>	<u>TA02-41-A</u>
<u>Number of (1) credit card accounts, (2) pre-paid debit card accounts</u>	<u>Quantitative</u>	<u>Number</u>	<u>TA02-41-B</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.²⁰

Estimates

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ Note to TA02-41-A— For joint accounts, the registrant shall include the number of customers whose personally identifiable information (PII) it collects.

²⁰ The AICPA’s Guide (see supra note 1) provides guidance related to measurement uncertainty.

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Financial Inclusion	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
Customer Privacy	Number of account holders whose information is used for secondary purposes, percentage who have opted in ²¹	Quantitative	Number	TA02-38-01
	Total amount of losses as a result of legal proceedings associated with customer privacy ²²	Quantitative	U.S. dollars (\$)	TA02-38-02
Customer Privacy & Data Security	Number of data security breaches and, percentage involving customers' personally identifiable information (PII), number of customers affected ²³	Quantitative	Number (#), percentage, Percentage (%)	FN0201-03 TA02-39-01
	Amount of fraudulent transaction activity, percentage Card-related fraud losses from: (1) card-not-present fraud and (2) card-present and other fraud	Quantitative	U.S. dollars (\$), percentage (%), (\$)	FN0201-04 TA02-38-03
	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 TA02-38-04
Transparent Information & Fair Advice for Customers	Amount of legal and regulatory fines and settlements associated with disclosure, transparency, or marketing ²⁴	Quantitative	U.S. dollars (\$)	FN0201-06
	Payout ratio for add-on products ²⁵	Quantitative	Ratio in U.S. dollars (\$)	FN0201-07
Responsible Lending & Debt Prevention	For customers with FICO scores above and below 640 (subprime): (1) average customer debt (2) average APR (3) mean and median age of accounts 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

²¹ Note to **TA02-38-01**—The registrant shall discuss its policies and practices regarding the manner in which it discloses the use of customer data for third party use to customers, including the nature of its opt-in policy.

²² Note to **TA02-38-02**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

²³ Note to **FN0201-03 — TA02-39-01**—Disclosure shall include a description of corrective actions implemented in response to data security incidents or threats/breaches

²⁴ Note to **FN0201-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events

²⁵ 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.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
<u>Selling Practices</u>	<u>Percentage of remuneration for covered employees that is variable and linked to the amount of products and services sold²⁶</u>	<u>Quantitative</u>	<u>Percentage (%)</u>	<u>TA02-40-01</u>
	<u>Approval rate for (1) credit and (2) pre-paid products for applicants with FICO scores above and below 660²⁷</u>	<u>Quantitative</u>	<u>Percentage (%)</u>	<u>TA02-40-02</u>
	<u>(1) Average fees from add-on products; (2) average APR; (3) average age of accounts; (4) average number of trade lines; (5) average annual fees for pre-paid products for customers with FICO scores above and below 660</u>	<u>Quantitative</u>	<u>U.S. dollars (\$), Percentage (%), Months, Number, U.S. dollars (\$)</u>	<u>TA02-40-03</u>
	<u>(1) Number of complaints filed with the Consumer Financial Protection Bureau (CFPB); (2) percentage with monetary or non-monetary relief; (3) percentage disputed by consumer; (4) percentage resulted in investigation by the CFPB</u>	<u>Quantitative</u>	<u>Number, Percentage (%)</u>	<u>TA02-40-04</u>
	<u>Total amount of losses as a result of legal proceedings associated with selling and servicing of products²⁸</u>	<u>Quantitative</u>	<u>U.S. dollars (\$)</u>	<u>TA02-40-05</u>

²⁶ Note to **TA02-40-01**—The registrant shall describe remuneration practices for covered employees, including the link to characteristics of products sold, the process for setting sale targets, and benefits/penalties associated with meeting/missing the targets.

²⁷ Note to **TA02-40-02**—The registrant shall discuss its strategy for minimizing the number of past due and nonaccrual loans in its portfolio.

²⁸ Note to **TA02-40-05**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

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

Description

The Customer Privacy topic addresses risks and opportunities associated with a company's internal use of data supplied by customers for activities that were not the primary purpose for which they were collected (for example, for use in targeted advertising and/or transfer to third parties). Ensuring the privacy of personal financial data is an essential responsibility of the Consumer Finance industry. To assess performance on this issue, analysts would benefit from disclosure from companies on their policies and procedures around the use of private customer data for ancillary purposes, along with information on legal or regulatory actions taken against the companies that are related to customer protection and privacy. Consumer finance companies that fail to manage performance in this area are susceptible to decreased revenues as a result of lost consumer confidence and churn as well as to financial impacts stemming from legal exposures.

Accounting Metrics

TA02-38-01. Number of account holders whose information is used for secondary purposes, percentage who have opted in

.01 The registrant shall disclose the number of account holders whose customer information is used for secondary purposes.

- Accounts which the registrant cannot verify as belonging to the same individual shall be disclosed separately.
- Customer information includes information that pertains to a user's attributes or actions, including but not limited to, loan payments, checking account statements, electronic banking transactions or credit card purchases, records of communications, content of communications, demographic data, behavioral data, location data, or personally identifiable information.
 - Demographic data is defined as the quantifiable statistics which identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.
 - Behavioral data is defined as the product of tracking, measuring, and recording individual behaviors such as consumers' buying habits, brand preferences, and product usage patterns, among others.
 - Location data is defined as data describing the physical location or movement patterns of an individual, such as Global Positioning System coordinates or other related data which would enable identifying an tracking an individual's physical location.
 - Personally Identifiable Information (PII) is defined as any information about an individual maintained by an entity, 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 in accordance with GAO Report 08-536, Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information."

- Secondary purpose is defined as the intentional use of data by the registrant (i.e., not a breach of security) that is outside of the primary purpose for which the data was collected. Examples of secondary purposes include, but are not limited to, selling targeted ads, improving own product and service offerings, and transferring data or information to a third-party through sale, rental, or sharing.

.02 The scope of disclosure shall include the account holders whose customer information is used by the registrant itself for secondary purposes as well as the account holders whose customer information is provided to affiliates or non-affiliates, where the customer information would be used for secondary purposes.

- Affiliate is defined as entity that directly or indirectly controls, is controlled by, or is under common control with the registrant.
- Non-affiliates are all entities other than the registrant and its affiliates.

.03 Of the account holders whose customer information is collected and used for secondary purposes by the registrant or its affiliates and non-affiliates, the registrant shall indicate the percentage that provided opt-in consent.

- Opt-in is defined as express affirmative consent required to use or share content.

.04 The registrant may choose to discuss what type of customer information is collected, including the extent of data collected from different groups, and/or the types of secondary purposes for which data is collected.

.05 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Note to TA02-38-01

.06 The registrant shall discuss its policies and practices regarding the manner in which it discloses the use of customer data for third-party use to customers, including the nature of its opt-in policy.

- The scope of discussion shall include:
 - The manner in which customer consent was received from the customer with respect to the use of the customer's information for secondary purposes.
 - The extent of the information disclosed to customers regarding the use of the customers' information for secondary purposes, including whether, and how, customers were informed regarding the specific data the registrant intends use for secondary purposes, the parties which would have access to the data, and the manner in which the data may be used.

TA02-38-02. Total amount of losses as a result of legal proceedings associated with customer privacy

.07 The registrant shall disclose the total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with customer privacy.

.08 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.09 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.10 The losses shall exclude legal fees incurred by the registrant.

.11 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of financial industry regulations promulgated by U.S. and foreign regulatory authorities:

- The Federal Trade Commission’s Privacy and Gramm-Leach-Bliley Acts
- The Federal Reserve Board’s Regulation P
- The E.U.’s General Data Protection Regulation
- Japan’s Personal Information Protection Act
- Hong Kong’s Personal Data (Privacy) Ordinance
- Australia’s Privacy Act

Note to TA02-38-02

.12 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., disclosure to clients, etc.) of all losses as a result of legal proceedings.

.13 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

.14 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.

Customer Privacy & Data Security

Description

~~The Data Security topic addresses risks and opportunities associated with how companies in the industry manage the safety of data supplied to them by customers, in the context of external threats. Ensuring the privacy and security of personal financial data is an essential responsibility of the companies in the consumer finance Consumer Finance industry. To assess performance on this issue, analysts would benefit from disclosure on efforts related to safeguarding data against emerging and continuously evolving cyber-security threats and technologies, actual security breaches compromising customer's personally identifiable information, and credit and debit card fraud. Companies that fail to manage performance in this area are susceptible to decreased revenues and as a result of decreased 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 and churn.~~

Accounting Metrics

~~**FN0201-03, TA02-39-01. Number of data security breaches and, percentage involving customers' personally identifiable information (PII), number of customers affected**~~

~~.16 The registrant shall calculate and disclose the total number of data security breaches, which identified during the fiscal year, where:~~

- ~~• Data security breaches are defined as instances of internal and/or external unauthorized acquisition, access, use, or disclosure of protected customer information.~~
- ~~• 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, and 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.~~

~~.11 "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.¹⁹~~

~~.12 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.~~

~~.13.17 Disclosure shall be follow additional but not be limited to, the U.S. Security and Exchange Commission's (SEC) complementary to the SEC's [CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).~~

- At a minimum, ~~this includes when~~instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—~~represents~~represent 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~~

~~.18 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:~~

- ~~PII is defined as any information about an individual that is maintained by an entity, 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.²⁹~~
- ~~The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.~~
- ~~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 the investigation.~~

~~.19 The registrant shall disclose the total number of unique customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.~~

- ~~Accounts which the registrant cannot verify as belonging to the same user shall be disclosed separately.~~

~~Note to **TA02-39-01**~~

²⁹ *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

~~14.20~~ 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.

~~15.21~~ All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself ~~would~~will not compromise the registrant's ability to maintain data privacy and security.

~~22~~ The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

FN0201-04-TA02-38-03. Amount of fraudulent transaction activity, percentage from Card-related fraud losses from: (1) card-not-present fraud and (2) card-present and other fraud

~~16.23~~ The registrant shall ~~calculate fraudulent activity as~~ disclose the total value (in U.S. dollars) of account holder ~~transactions refunded to account holders (amount (in U.S. dollars) of card holders) due to fraud-related fraud~~ losses it incurred during the fiscal year.

~~17.24~~ The ~~scope~~registrant shall ~~include~~ disclose card-related fraud losses from the unauthorized use of revolving consumer credit cards, including instances of card present fraud and instances of as (1) card-not-present and (2) card-present and other fraud, where the registrant is liable for losses (e.g., such as when a merchant is using a chargeback protection service).

~~18~~ 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.

~~19~~ 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.

- 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.
- ~~CNP fraud includes that which is conducted online, through mail, or over the phone.~~
- 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.

~~25~~ The registrant shall calculate card-related fraud losses as the total value (in U.S. dollars) of account holder transactions refunded to account holders (card holders) due to fraud.

~~26~~ The scope shall include losses from the unauthorized use of revolving consumer credit, debit, and pre-paid debit cards including instances of card-present fraud and instances of CNP fraud, where the registrant is liable for losses (e.g., such as when a merchant is using a chargeback protection service).

.27 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 CNP fraudulent activity.

FN0201-05-TA02-38-04. Description of data security and fraud prevention efforts related to new and emerging technologies and/or new and emerging threats

.28 The registrant shall describe its approach to identifying vulnerabilities in its information systems that pose a data security threat, where:

- A data security 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, modification of information, and/or denial of service;
- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

~~.20.29~~ 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 how it addresses the threats and vulnerabilities it has identified, including, but not limited to, operational procedures, management processes, structure of products and services, consumer education, and partnerships (e.g., with peers, law enforcement, or selection of business partners), employee training, or use of technology.

~~.21.30~~ 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.

~~.22.31~~ New and emerging threats to data security include, but are not limited to, hacking, social engineering, malware, and digital eavesdropping.

~~.23.32~~ New and emerging fraud threats include, but are not limited to, skimming and other card-not-present frauds.

.33 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.34 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the [SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity](#).

- At a minimum, this includes disclosing 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 necessarily be indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

~~.24.35~~ All disclosure shall be sufficient such that it ~~describes the registrant's data security and fraud prevention efforts~~ is specific to the risks the registrant faces, but disclosure itself ~~would~~ will not compromise the ~~registrant's~~ registrant's ability to maintain data privacy and security.

.36 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements
- “Framework for Improving Critical Infrastructure Cybersecurity, Version 1.1,” January 10, 2017, National Institute of Standards and Technology (NIST)

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~~

~~.25 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.~~

~~.26 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.~~

~~.27 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~~

~~.28 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.~~

~~.29 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~~

~~.30 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."~~

~~.31 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

~~.32 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~~

~~.33 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~~

~~.34 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.~~

~~.35 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).~~

~~.36 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).~~

~~.37 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.~~

~~.38 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)~~

~~.39 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.~~

~~.40 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.~~

~~.41 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~~

~~.42 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.~~

~~.43 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).~~

~~.44 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.~~

Selling Practices

Description

There are three key elements within the Selling Practices topic, performance on which can materially impact company operations and financial condition. First, incentive compensation structure, where company policies may unintentionally create the risk of selling products and services that are not in the best interest of clients. Second, transparency of information provided to customers with respect to primary and add-on products. And finally, the characteristics of the portfolio of products sold, where poor performance on the first two elements could result in a high concentration of risky products held by customers. 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. The disclosure of key characteristics of a lending portfolio, including average fees from add-on products, average age of accounts, average APR, average number of trade lines, and average annual fees for pre-paid transaction products will allow shareholders to determine which consumer finance companies are better positioned to protect long-term value rather than relying on aggressive short-term revenue generation practices.

Accounting Metrics

TA02-40-01. Percentage of remuneration for covered employees that is variable and linked to the amount of products and services sold

.37 The registrant shall disclose the percentage of remuneration of its covered employees accrued during the fiscal year that is variable.

- Remuneration is fixed where the conditions for its award and its amount:
 - are based on predetermined criteria;
 - are non-discretionary reflecting the level of professional experience and seniority of staff;
 - are transparent with respect to the individual amount awarded to the individual staff member;
 - are permanent, i.e. maintained over a period tied to the specific role and organizational responsibilities;
 - are non-revocable; the permanent amount is only changed via collective bargaining or following renegotiation in line with national criteria on wage setting;
 - cannot be reduced, suspended or cancelled by the institution;
 - do not provide incentives for risk assumption; and

- do not depend on performance.
- Variable remuneration is defined as all remuneration which is not fixed.
- Covered employees are defined as individuals employed by the registrant that are engaged in the activities of directly selling products or services to customers or potential customers. To determine if the employee is covered the registrant shall utilize the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide and include employees that fall into the following categories: (1) Sales Workers; and (2) First/Mid Offs & Mgrs. – Sales Managers.

.38 The registrant shall calculate the percentage by dividing the aggregate amount (in U.S. dollars) of the variable remuneration linked to the amount of products and services sold of the registrant's covered employees by the aggregate amount (in U.S. dollars) of the total remuneration of the registrant's covered employees.

Note to TA02-40-01

.39 The disclosure shall include a discussion on how remuneration of covered employees relates to the terms and conditions of the products and services, such as interest rates, up-front points, or fees.

.40 The registrant shall discuss how performance targets are set and what monetary and non-monetary benefits or penalties are present for meeting or missing these targets.

.41 The discussion shall include but not be limited to:

- The regulatory environment regarding employee remuneration the registrant operates in and whether it is required to have certain remuneration policies in place, where the registrant shall discuss whether remuneration policies it has are the result of regulatory requirements or are adopted voluntarily as the best industry practice
- The performance objectives for the institution, business areas and staff
- The methods for the measurement of performance, including the performance criteria
- The structure of variable remuneration, including (where applicable) the instruments in which parts of the variable remuneration are awarded

TA02-40-02. Approval rate for (1) credit and (2) pre-paid products for applicants with FICO scores above and below 660

.42 The registrant shall disclose the approval rate for its (1) credit and (2) pre-paid products for all applicants, each broken down by FICO scores below or equal to 660, and above 660.

- Pre-paid products include pre-paid accounts and cards, excluding checking accounts, share draft accounts or negotiable order of withdrawal (NOW) accounts.

.43 The registrant shall calculate the approval rate as the total number of applications approved from applicants in the FICO category divided by the total number of applications received from applicants in the FICO category.

.44 The scope of disclosure includes applications the registrant approved or denied during the fiscal year, regardless of when the application was received.

.45 The registrant may choose to summarize the disclosure in the following table:

<u>Approval rate</u>	<u>Customers with FICO \leq 660</u>	<u>Customers with FICO $>$ 660</u>
<u>Credit products</u>		
<u>Pre-paid products</u>		

Note to **TA02-40-02**

.46 The registrant shall discuss its short- and long-term strategy around managing performance of its portfolio of credit and pre-paid products.

- Discussion shall include but be not limited to the registrant's strategy for minimizing the number of past due and nonaccrual loans in its portfolio.

TA02-40-03. (1) Average fees from add-on products; (2) average APR; (3) average age of accounts; (4) average number of trade lines; (5) average annual fees for pre-paid products for customers with FICO scores above and below 660

.47 The registrant shall disclose (1) average fees from add-on products (in U.S. dollars), (2) average Annual Percentage Rate (APR), (3) average age of accounts in months, (4) average number of trade lines, and (5) average annual fees for pre-paid products (in U.S. dollars) for all customers, each broken down by FICO scores below or equal to 660, and above 660.

- Add-on products include but are not limited to debt protection, identity theft protection, credit score tracking, and other products that are supplementary to the credit provided by the card itself and are offered at additional cost to consumers.
- Pre-paid products include pre-paid accounts and cards, excluding checking accounts, share draft accounts or negotiable order of withdrawal (NOW) accounts.

.48 The registrant shall calculate the average fees from add-on products as the total amount of revenue generated from add-on products in the U.S. dollars from customers in each respective FICO category divided by the total number of the registrant's customers in the respective FICO category.

.49 The registrant shall calculate the average APR for all accounts assessed interest during the fiscal year 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).

- Definition of finance charge and detailed calculation of APR should be consistent with Regulation Z of the Truth in Lending Act.

.50 The registrant shall calculate the average age of accounts (in months) from the date that each active account was opened until the close of the fiscal year.

.51 The registrant shall calculate the average number of trade lines per customer as the total number of trade lines held by customers in each FICO category divided by the total number of customers in the respective FICO category.

.52 The registrant shall calculate the average annual fees for pre-paid products as the total amount of revenue generated from pre-paid products in the U.S. dollars from customers in the FICO category divided by the total number of the registrant’s customers in the FICO category.

.53 The registrant may choose to summarize the disclosure in the following table:

<u>Characteristic</u>	<u>Customers with FICO ≤ 660</u>	<u>Customers with FICO > 660</u>
<u>Average fees from add-on products</u>		
<u>Average APR</u>		
<u>Average age of accounts</u>		
<u>Average number of trade lines</u>		
<u>Average annual fees for pre-paid products</u>		

TA02-40-04. (1) Number of complaints filed with the Consumer Financial Protection Bureau (CFPB), (2) percentage with monetary or non-monetary relief; (3) percentage disputed by consumer; (4) percentage resulted in investigation by the CFPB

.54 The registrant shall disclose the total number of complaints filed with the Consumer Financial Protection Bureau (CFPB) during the fiscal year where the registrant was a defendant in the complaint.

- The scope of disclosure includes complaints filed through the CFPB’s Consumer Complaint Database page.

.55 The registrant shall disclose the percentage of complaints filed with the CFPB that resulted in monetary or non-monetary relief.

- Monetary relief and non-monetary relief are as disclosed by the CFPB.
- The scope of disclosure includes complaints filed during the fiscal year.

.56 The registrant shall disclose the percentage of complaints filed with the CFPB that were disputed by consumers.

- Complaints disputed by consumers are as disclosed by the CFPB.

- The scope of disclosure includes complaints filed during the fiscal year.

.57 The registrant shall disclose the percentage of complaints filed with the CFPB that resulted in investigation by the CFPB.

- Complaints resulted in investigation by CFPB are as disclosed by the CFPB.

- The scope of disclosure includes complaints filed during the fiscal year.

.58 The scope of disclosure shall include the complaints filed regarding the following product categories specified by the CFPB:

- Credit Card or Prepaid Card

- Student Loan Private

- Vehicle Loan or Lease

- Payday Loan, Title Loan, or Personal Loan

- Money Transfer, Virtual Currency or Money Service

.59 The scope of disclosure shall include but is not limited to the following issues specified by the CFPB:

- Selling Practices

- Transparent Information

- Adverting and Marketing

- Fees and Interest

- Add-on Products

- Servicing the Account

- Application Process

- Closing the Account

.60 Registrant may choose to provide breakdown by type of product, issue, and company response type referencing the CFPB data.

TA02-40-05. Total amount of losses as a result of legal proceedings associated with selling and servicing of products

.61 The registrant shall disclose the total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with selling and servicing of products.

.62 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.63 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.64 The losses shall exclude legal fees incurred by the registrant.

.65 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of industry regulations promulgated by U.S. and foreign regulatory authorities:

- The Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act)
- Fair Credit Reporting Act (FCRA)
- Equal Credit Opportunity Act (ECOA)
- Regulation Z - Truth in Lending Act (TILA)
- Unfair, Deceptive and Abusive Acts and Practices (UDAAP)
- Service members Civil Relief Act (SCRA)
- Telephone Consumer Protection Act (TCPA)
- The E.U. Payment Services Directive
- The E.U. Directive on Consumer Rights

Note to **TA02-40-05**

.66 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, disclosure to clients, employee compensation, etc.) of all losses as a result of legal proceedings.

.45.67 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.



FINANCIALS SECTOR

MORTGAGE FINANCE*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0202

MORTGAGE FINANCE

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Mortgage Finance industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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.~~

The Mortgage Finance industry provides an essential public good in enabling consumers to purchase homes, and contributes to the overall home ownership rate. Companies in the industry lend capital to individual and commercial customers with property as collateral. The primary products are residential and commercial mortgages, while other services offered include: mortgage servicing, title insurance, closing and settlement services, and valuation. In addition, mortgage finance firms own, manage, and finance real estate related investments such as mortgage pass-through certificates and collateralized mortgage obligations. Recent trends in the regulatory environment indicate a significant shift toward consumer protection, disclosure, and accountability. Legislation passed in response to the 2008 mortgage crisis demonstrates the potential for further alignment between the interests of society and those of long-term investors.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Mortgage Finance industry, the SASB has identified the following sustainability disclosure topics:

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

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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.”¹⁰

Furthermore, the 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.”¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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.”

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

¹⁵ The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including 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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>(1) Number and (2) value of mortgages originated by category: (a) residential and (b) commercial</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-46-A</u>
<u>(1) Number and (2) value of mortgages purchased by category: (a) residential and (b) commercial</u>	<u>Quantitative</u>	<u>Number, U.S. dollars (\$)</u>	<u>TA02-46-B</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.¹⁹

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ The AICPA’s Guide (see supra note 1) provides guidance related to measurement uncertainty.

Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Environmental Risk to Mortgaged Properties	(1) Number and (2) value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas <u>or foreign equivalent</u>	Quantitative	Number (#), U.S. dollars (\$)	FN0202-01 TA02-42-01
	(1) Amount and (2) 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 (\$), <u>percentage</u> Percentage (%)	FN0202-03
	Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting	Discussion and Analysis	n/a	FN0202-02
Transparent Information & Fair Advice for Customers	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 ²⁰	Quantitative	U.S. dollars (\$)	FN0202-07
Responsible Lending & Debt Prevention	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

²⁰ Note to **FN0202-07**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
	<u>Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime-conventional, and nonconventional</u>	Quantitative	Percentage (%)	FN0202-12
Discriminatory Lending	<u>(1) Number, (2) value, and (3) weighted average Loan-to-Value (LTV) ratio of mortgages issued to (a) minority and (b) all other borrowers, by FICO scores above and below 660</u>	Quantitative	Number, U.S. dollars (\$), Percentage (%)	TA02-44-01
	<u>Total amount of losses as a result of legal proceedings associated with discriminatory mortgage lending²¹</u>	Quantitative	U.S. dollars (\$)	TA02-44-02
	<u>Description of policies and procedures for ensuring nondiscriminatory mortgage origination</u>	Discussion and Analysis	n/a	TA02-44-03
Lending Practices	<u>(1) Number and (2) value of residential mortgages of the following types: (a) Hybrid or Option ARM, (b) Prepayment Penalty, (c) Higher Rate, (d) Total; by FICO scores above and below 660</u>	Quantitative	Number, U.S. dollars (\$)	TA02-43-01
	<u>(1) Number and (2) value of residential mortgage (a) modifications, (b) foreclosures, (c) short sales or deeds in lieu of foreclosure, by FICO scores above and below 660</u>	Quantitative	Number, U.S. dollars (\$)	TA02-43-02
	<u>Total amount of losses as a result of legal proceedings associated with communications to customers and remuneration of loan originators²²</u>	Quantitative	U.S. dollars (\$)	TA02-43-03
	<u>Description of remuneration structure of loan originators</u>	Discussion and Analysis	n/a	TA02-43-04
Management of the Legal & Regulatory Environment	<u>Amount of fines and settlements associated with mortgage industry regulations²³</u>	Quantitative	U.S. dollars (\$)	FN0202-13

²¹ Note to **TA02-44-02**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

²² Note to **TA02-43-03**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

²³ 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

FN0202TA02-42-01. (1) Number and (2) value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas or foreign equivalent

~~.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, shall disclose the number and the value shall be the current asset value of all such mortgages. The scope excludes mortgages held for sale, in U.S. dollars, of mortgage-backed securities, and mortgages serviced by the registrant. loans in the registrant's portfolio underwritten on properties that are located in special flood hazard areas (SFHAs, where:~~

- ~~• FEMA Special Flood Hazard Areas (SFHA) are defined as land areas covered by the floodwaters of the base flood on National Flood Insurance Program (NFIP) ~~maps~~ maps. The An SFHA is the an 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 SFHAs include 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. Examples of SFHAs include coastal floodplains, floodplains along major rivers, and areas subject to flooding from ponding in low-lying areas.~~
- ~~• The scope of disclosure includes mortgages for properties located in the U.S. that are designated by FEMA as SFHAs as well as mortgages located outside of the U.S.~~
- ~~• For non-U.S. properties that fall outside of the scope of FEMA, the foreign equivalent of SFHAs are areas that will be inundated by a flood event that has a one-percent chance of being equaled or exceeded in any given year (i.e., the 100-year floodplain). Examples of similar information for foreign equivalents include Canada's Provincial/Territorial Flood Damage Reduction Programs and the European Union's Floods Directive.~~

~~.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 The registrant may disclose its risk perception and potential impacts resulting from reclassification of FEMA SFHAs, including the risk of expansion of such areas into real estate property covered by mortgages owned by the registrant.

FN0202-03. (1) Amount and (2) percentage of credit risk for mortgage loans ~~that is~~ attributable to default risk from weather-related natural catastrophes, by geographic region

~~.02.03~~ The registrant shall disclose the total 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).

~~.03.04~~ The registrant shall use the basic formula that expected loss is equal to the probability of default multiplied by the loss given default multiplied by the exposure at default, or equivalent.

~~.04.05~~ 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.

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

~~.05.06~~ 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).

~~.06.07~~ 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.

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~~

- ~~.07 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.~~
- ~~.08 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.~~
- ~~.09 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~~

- ~~.10 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.~~
- ~~.11 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."~~

~~.12~~ 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~~

~~.13~~ 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.

~~.14~~ 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 $\geq 50\%$ and $<80\%$ of the median family income of the tract in which it is located, then the income level is moderate.

~~.15~~ 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~~

~~.16~~ 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.

~~.17~~ 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

~~.18~~ 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.

~~.19_08~~ 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.

~~.20 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~~

~~.21 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.~~

~~.22 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).~~

~~.23 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
Total QMs			
Minority held			
Low/moderate income held			

~~.24 Race and ethnicity categories shall be based upon Office of Management and Budget “,” 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.”~~

~~.25 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 used in FIEC Home Mortgage Disclosure Act (HMDA) Disclosure.~~

~~.26 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

~~.27 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.~~

~~.28.09 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						

~~.29 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.~~

~~.30 Higher rate mortgages are defined as those that are at least 300 basis points above treasuries of comparable maturity.~~

~~.31 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

~~.32 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.~~

~~.33 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

~~.34 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”).~~

~~.35 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.~~

~~.36 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.~~

~~.37 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.~~

~~.38 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.~~

~~.39 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

- .40 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.
- .41.10 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		

- .42 Subprime mortgages are those held by borrowers with credit ratings of 640 or lower and are typically nonconventional mortgages.
- .43 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).
- .44 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).
- .45 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.

Discriminatory Lending

Description

The Mortgage Finance industry aggregates individual data points to determine the terms and conditions of loans including key provisions such as the size of the loan, interest rate, up-front points, or other fees. However, the complex process may result in intentional or unintentional discriminatory lending practices by the mortgage originator. Discriminatory lending presents significant risks in the form of fines or settlements for violations of regulations such as the Equal Credit Opportunity Act (ECOA) or Fair Housing Act (FHA), reputational risk, or negative financial performance due to loan mispricing. Disclosing processes in place to ensure non-discriminatory lending, disclosing the amount of mortgage lending broken down by minority status along with relevant financial characteristics, and disclosing the amount of fines and settlements associated with violations of applicable laws and regulations will help investors to assess company performance. Mortgage Finance companies can reduce the risk of intentional or unintentional discriminatory lending through the implementation of strong processes, internal controls, and monitoring the loan portfolio, among other techniques. Proactive companies that develop strong techniques for preventing discrimination can effectively mitigate the risks associated with discriminatory lending.

Accounting Metrics

TA02-44-01. (1) Number, (2) value, and (3) weighted average Loan-to-Value (LTV) ratio of mortgages issued to (a) minority and (b) all other borrowers, by FICO scores above and below 660

.11 The registrant shall disclose the (1) number (2) value, and (3) weighted average Loan-to-Value (LTV) ratio of mortgage loans issued to minority and all other borrowers, each broken down by FICO score range: (i) below, or equal to, 660; (ii) above 660 held in the registrant's portfolio.

- Minority is defined according to the Federal Financial Institutions Examination Council (FFIEC) 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 the FFIEC's Guide to Home Mortgage Disclosure Act (HMDA) Reporting.

.12 Loan-to-value shall be consistent with the FDIC definition found in Part 365 "REAL ESTATE LENDING STANDARDS" of Rules and Regulations and is calculated as a percentage that is derived at the time of loan origination by dividing an extension of credit by the total value of the property(ies) securing or being improved by the extension of credit plus the amount of any readily marketable collateral and other acceptable collateral that secures the extension of credit. The total amount of all senior liens on or interests in such property(ies) should be included in determining the loan-to-value ratio. When mortgage insurance or collateral is used in the calculation of the loan-to-value ratio, and such credit enhancement is later released or replaced, the loan-to-value ratio should be recalculated.

.13 The registrant shall calculate the weighted average LTV by weighting each LTV by the respective loan amount, and then dividing the sum of the weighted LTVs by the total loan amount.

.14 Race and ethnicity categories shall be based upon the FFIEC’s Guide to HMDA Reporting 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.”

.15 The scope of disclosure includes first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the registrant held in its portfolio as the end of the fiscal year; including those originated and purchased by the registrant.

.16 The scope of disclosure includes mortgages issued in the U.S.

.17 The registrant may choose to summarize the disclosure in the following table:

	<u>Minority borrowers</u>		<u>All other borrowers</u>	
	<u>FICO ≤ 660</u>	<u>FICO > 660</u>	<u>FICO ≤ 660</u>	<u>FICO > 660</u>
<u>Number</u>				
<u>Value</u>				
<u>Weighted Average LTV</u>				

TA02-44-02. Total amount of losses as a result of legal proceedings associated with discriminatory mortgage lending

.18 The registrant shall disclose the total amount of losses, in U.S. dollars, it incurred as a result of legal proceedings associated with actual or alleged discriminatory mortgage lending.

.19 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.20 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.21 The losses shall exclude legal fees incurred by the registrant.

.22 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of non-discriminatory lending provisions of the Equal Credit Opportunity Act (ECOA), the Fair Housing Act (FHA), or foreign equivalents.

Note to **TA02-44-02**

.23 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, disclosure to clients, employee compensation, etc.) of all losses as a result of legal proceedings.

.24 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

TA02-44-03. Description of policies and procedures for ensuring nondiscriminatory mortgage origination

.25 The registrant shall describe relevant policies and procedures that ensure non-discriminatory mortgage origination resulting in comparable terms and conditions of loans including the size of the mortgage, interest rates, discount points or fees.

- Discriminatory mortgage origination is defined according to the Equal Credit Opportunity Act (ECOA) which makes it unlawful to discriminate (1) on the basis of race, color, religion, national origin, sex, marital status, or age; (2) because all or part of the applicant's income derives from any public assistance program; or (3) because the applicant has in good faith exercised any right under the Consumer Credit Protection Act.
- The scope of discussion includes, but is not limited to, how the registrant ensures compliance with the ECOA, the Fair Housing Act (FHA), or foreign equivalents.
- Discount points are defined as fees paid directly to the lender at closing in exchange for a reduced interest rate.

.26 Relevant policies and procedures include but are not limited to:

- Internal Controls, such as ensuring adequate training of originators, processors, underwriters, and collection personnel, adequate documentation and recordkeeping, etc.
- Monitoring of Loan Portfolio on Race, Gender, Ethnicity, and other factors
- Disclosures to Borrowers

Lending Practices

Description

The approach mortgage finance companies take in incentivizing employees, as well as communicating with customers, is important for multiple reasons. First, the incentive structures and compensation policies of loan originators may unintentionally encourage them to promote lending products and services that are not in the best interest of clients. Second, lack of transparent information provided to customers with respect to primary and add-on products may impact a company's reputation and invite regulatory scrutiny and costly litigation. Finally, poor performance on the first two elements could affect the characteristics of the portfolio of products, resulting in a high concentration of risky products sold. 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. Enhanced disclosure on key elements of lending practices, including the number and value of residential mortgages of various types and originated to borrowers with different FICO scores, foreclosure and modification rates, and Loan-to-Value (LTV) ratios of residential mortgages, will allow shareholders to determine which companies are better positioned to protect value.

Accounting Metrics

TA02-43-01. (1) Number and (2) value of residential mortgages of the following types: (a) Hybrid or Option ARM, (b) Prepayment Penalty, (c) Higher Rate, (d) Total; by FICO scores above and below 660

.27 The registrant shall disclose the (1) number and (2) value in U.S. dollars of residential mortgage loans of the following type: (a) Hybrid or Option ARM, (b) Prepayment Penalty, (c) Higher Rate, (d) Total; each broken down by FICO score range: (i) below, or equal to, 660; (ii) above 660 held in the registrant's portfolio.

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

.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.

.29 The registrant may choose to summarize the disclosure in the following table:

<u>Feature</u>	<u>Number (FICO ≤ 660)</u>	<u>Loan Value (FICO ≤ 660)</u>	<u>Number (FICO > 660)</u>	<u>Loan Value (FICO > 660)</u>
<u>Hybrid or Option ARM</u>				
<u>Higher Rate</u>				
<u>Prepayment Penalty</u>				
<u>Total Residential Mortgages</u>				

TA02-43-02. (1) Number and (2) value of residential mortgage (a) modifications, (b) foreclosures, (c) short sales or deeds in lieu of foreclosure by FICO scores above and below 660

.30 The registrant shall disclose the (1) number and (2) value in U.S. dollars of (a) modifications, (b) foreclosures, (c) short sales or deeds in lieu of foreclosure the registrant had in its portfolio of first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans during the fiscal year broken down by FICO score range: (i) below, or equal to, 660; (ii) above 660.

- 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.
- Foreclosures are defined as those instances 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.
- 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.
- 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.

.31 The registrant may choose to disclose the number and value of principal reduction modifications, as defined by the Federal Housing Finance Agency, included in the number and value of total modifications.

.32 The registrant may choose to summarize the disclosure in the following table:

<u>Settlement type</u>	<u>Number (FICO ≤ 660)</u>	<u>Loan Value (FICO ≤ 660)</u>	<u>Number (FICO > 660)</u>	<u>Loan Value (FICO > 660)</u>
<u>Modification</u>				
<u>Foreclosure</u>				
<u>Short Sale/Deed in Lieu</u>				

TA02-43-03. Total amount of losses as a result of legal proceedings associated with communications to customers or remuneration of loan originators

.33 The registrant shall disclose the total amount of losses in U.S. dollars it incurred as a result of legal proceedings associated with communications to customers or remuneration of loan originators.

.34 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.35 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.36 The losses shall exclude legal fees incurred by the registrant.

.37 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of:

- The Regulation Z (Truth in Lending Act) provisions relating to disclosure communications to customers and remuneration of loan originators, including Subpart D and Subpart E
- The E.U. Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013

Note to TA02-43-03

.38 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, disclosure to clients, employee compensation, etc.) of all losses as a result of legal proceedings.

.39 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

TA02-43-04. Description of remuneration structure of loan originators

.40 The registrant shall disclose how the remuneration of loan officers relates to the terms and conditions of loans, such as the size of the mortgage loan, interest rates, up-front points or fees, or the ability of the loan to be securitized.

.41 The registrant shall describe relevant aspects of the remuneration 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 remuneration provided directly to the loan originator from a consumer to be within the scope of disclosure.

.42 Discussion shall include, but is not limited to:

- The regulatory environment regarding employee remuneration in which registrant operates and whether it is required to have certain remuneration policies in place, where the registrant shall discuss whether remuneration policies it has are the result of regulatory requirement or are adopted voluntarily as the best industry practice;
- The performance objectives for the institution, business areas, and staff;
- The methods for the measurement of performance, including the performance criteria; and
- The structure of variable remuneration, including where applicable the instruments in which parts of the variable remuneration are awarded.

.43 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.

.44 The scope of disclosure includes the registrant's employees involved in origination of residential and commercial mortgage and home equity loans.

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~~

- ~~.46~~ 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).
- ~~.47~~ 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~~

- ~~.48~~ 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.
- ~~.49~~ 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.
- ~~.50~~ 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.



FINANCIALS SECTOR

SECURITY & COMMODITY EXCHANGES*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0203

SECURITY & COMMODITY EXCHANGES

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (<https://www.sasb.org/public-comment>).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Security & Commodity Exchanges industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

Industry Description

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

Security & commodity exchanges operate marketplaces in the form of physical trading floors or electronic platforms for trading financial securities, commodities or other financial instruments. Companies in the industry primarily generate revenue from trading and clearing fees accounts. Competition for fees continues to increase with the advent of alternative trading platforms that offer less expensive trades and provide listing services. Recent trends in the regulatory environment suggest a greater focus on transparency, risk management, and market stability. These trends demonstrate the potential for legislation to further align the interests of society with those of long-term investors. As new policies and market transformations encourage more responsible management of social capital and strong governance, firms that can address all forms of capital—not just financial—will be better positioned to protect shareholder value in the future.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Security & Commodity Exchanges industry, the SASB has identified the following sustainability disclosure topics:

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

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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.”¹⁰

Furthermore, the 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.”¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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.”

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

¹⁵ The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including 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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>Average daily number of trades executed by product or asset class</u>	<u>Quantitative</u>	<u>Number</u>	<u>TA02-48-A</u>
<u>Average daily volume traded by product or asset class</u>	<u>Quantitative</u>	<u>U.S. dollars (\$)</u>	<u>TA02-48-B</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.¹⁹

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ The AICPA’s Guide (see supra note 1) provides guidance related to measurement uncertainty.

Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Promoting Transparent & Efficient Capital Markets	Number and average duration of (1) halts related to public release of information and (2) pauses related to volatility	Quantitative	Number (#), time (hours), Minutes	FN0203-02
	Percentage of trades generated from automated trading systems ²⁰	Quantitative	Percentage (%)	FN0203-03
	Discussion of alert policy regarding timing and nature of public release of information	Discussion and Analysis	n/a	FN0203-01
	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
Managing Conflicts of Interest	Amount of legal and regulatory fines and settlements associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other business ethics violations ²¹	Quantitative	U.S. dollars (\$)	FN0203-06
	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
Managing Business Continuity & Technology Risks	Number of significant market disruptions and duration of downtime ²²	Quantitative	Number (#), time (hours/days), Hours	FN0203-08
	Number of data security breaches and , percentage involving customers' personally identifiable information (PII), <u>number of customers affected</u> ²³	Quantitative	Number (#), percentage <u>Percentage</u> (%)	FN0203-09 <u>TA02-47-01</u>
	Description of efforts to prevent technology errors, security breaches, and market disruptions	Discussion and Analysis	n/a	FN0203-07

²⁰ 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.

²¹ Note to **FN0203-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

²² 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.

²³ Note to **FN0203-09—TA02-47-01**—Disclosure shall include a description of corrective actions implemented in response to data security breaches.

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. Further, with the advent of high frequency trading there is heightened concern that technology can lead to advantages for certain traders at the expense of others. 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~~protect shareholder value.

Accounting Metrics

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

- .01 The registrant shall disclose the number of halts and pauses and a simple average duration (in minutes) of the duration of each.
- .02 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
- .03 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.
- .04 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).

.05 The registrant ~~shall~~may choose to summarize ~~halts and pauses~~the disclosure in the following table ~~format: Table 1. Trading Halts, Pauses, and Circuit Breakers:~~

<u>Type</u>	<u>Number</u>	<u>Duration</u>
<u>Halt</u>		
<u>Pause</u>		

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

.06 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-

.07 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.

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

Note to **FN0203-03**

.09 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).

.10 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.

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

.11 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

- .12 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.)
- .13 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.

FN0203-04. 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 and transparency. Further, they investigate and prosecute member companies that violate the Securities and Exchange Act. Recent controversies relating to market manipulation, tax fraud, investor protection rules, and anti-trust have articulated raised concern about conflicts of interest that arise due to security and commodity exchanges' position as self-regulatory organizations (SROs). Rapid innovation in financial markets provides significant opportunities to enhance profitability. However, exchanges must continue to fulfill their responsibilities as SROs to ensure open and fair access to all investors, to publish rules and fees, and to oversee trading. Companies that manage these issues avoid information asymmetries and fraudulent or unethical activities will maintain market integrity and, limit reputational risks, thereby enhancing damage, and enhance shareholder value.

Accounting Metrics

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

- .19 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.
- .20 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**

- .21 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.
- .22 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.

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

- .23 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.
- .24 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)

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. As security and commodity exchanges face increased volumes of trading associated with the clearing and execution of derivative trades and increased frequency of cyber-attacks, the industry will be exposed to both new risks and opportunities associated with its reliance on information technology. Increased disclosure ~~on~~ efforts taken to prevent these risks, in addition to ~~the~~ current performance, will allow shareholders to accurately assess value.

Accounting Metrics

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

- .25 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.
- .26 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**

- .27 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.
- .28 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, TA02-47-01. Number of data security breaches and, percentage involving customers' personally identifiable information (PII), number of customers affected~~

- .29 The registrant shall calculate and disclose the total number of data security breaches, which identified during the fiscal year, where:

- Data security breaches are defined as instances of internal and/or external unauthorized acquisition, access, use, or disclosure of protected customer information.
- 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, and 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.~~

~~.29 "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.¹⁴~~

~~.30 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.~~

~~.31.30 Disclosure shall be Disclosure shall follow, additional but not be limited to, the U.S. Security and Exchange Commission's (SEC) complementary to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.~~

- At a minimum, ~~this includes when~~ instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—~~represents~~ represent 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.).

~~.31 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:~~

- PII is defined as any information about an individual that is maintained by an entity, 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.²⁴

- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- 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 the investigation.

.32 The registrant shall disclose the total number of unique customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

- Accounts which the registrant cannot verify as belonging to the same user shall be disclosed separately.

Note to FN0203-09TA02-47-01

~~.32.33~~ 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.

~~.33.34~~ All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.35 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

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

~~.34.36~~ 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)

~~.35.37~~ 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.

²⁴ *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.



FINANCIALS SECTOR

INSURANCE*

Sustainability Accounting Standard

PROPOSED CHANGES TO PROVISIONAL STANDARDS

EXPOSURE DRAFT

REDLINE OF STANDARD FOR PUBLIC COMMENT

Prepared by the
Sustainability Accounting Standards Board®

October 2017

* Sustainable Industry Classification System™ (SICS™) #FN0301

INSURANCE

Sustainability Accounting Standard

About the SASB

The Sustainability Accounting Standards Board (SASB) was founded in 2011 as an independent standard-setting organization. The SASB issues and maintains sustainability accounting standards for 79 industries, focusing on the subset of industry-specific sustainability factors that are reasonably likely to have material financial impacts on companies within that industry. Companies can use the standards to disclose material information to investors in SEC filings, including Forms 10-K, 20-F, and 8-K, as well as S-1 and S-3, in a cost-effective and decision-useful manner. The standards are designed to help companies better comply with existing disclosure obligations, working within the framework of existing U.S. securities laws.

The SASB Standards Board is responsible for developing and issuing the standards, maintaining technical agendas, proposing updates to the standards, and executing the standard-setting process. The SASB staff is responsible for performing research and engaging in consultation on the standards, supporting the work of the Standards Board.

The SASB Foundation, an independent 501(c)3 non-profit, is responsible for the funding and oversight of the SASB, including safeguarding the SASB's independence and integrity through due process oversight and inquiry resolution. The SASB Foundation Board of Directors appoints members of the SASB.

About this Standard

This Standard is an exposure draft presented for public review and comment. **This version is not intended for implementation.**

The public comment period lasts for 90 days, beginning on October 2, 2017, and ending on December 31, 2017. The Standard is subject to change thereafter. SASB Standards are scheduled to be ratified by the SASB in early 2018.

For instructions on providing comments to SASB, please click [here](https://www.sasb.org/public-comment) (https://www.sasb.org/public-comment).

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

1045 Sansome Street, Suite 450
San Francisco, CA 94111

www.sasb.org

The information, text, and graphics in this publication (the "Content") is owned by the Sustainability Accounting Standards Board. All rights reserved. You may use the Content only for non-commercial and scholarly use, provided that you keep intact all copyright and other proprietary notices related to the Content, and that you make no modifications to the Content. The Content may not be otherwise disseminated, distributed, republished, reproduced, or modified without the prior written permission of the Sustainability Accounting Standards Board. To request permission, please contact us at info@sasb.org.

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Insurance industry.

SASB Sustainability Accounting Standards comprise **(1) disclosure guidance and (2) accounting standards or metrics** for use by U.S. and foreign public companies in their disclosures to investors, such as in annual reports and filings with the U.S. Securities and Exchange Commission (SEC), including Forms 10-K, 20-F, 40-F, 10-Q, 8-K and S-1 and S-3. The Standards facilitate the meaningful disclosure of sustainability information that is useful to investors in making decisions on investments and corporate suffrage.¹ The Standards reflect the fact that certain sustainability information is important for assessing the future financial performance of an issuer, particularly over the long term.

SASB Standards identify sustainability topics that are reasonably likely to constitute material information for a company within a particular industry. Company management is responsible for determining whether those identified topics reflect information that is material to investors and should be disclosed in filings, based on that company's specific circumstances. For further details regarding the use of the SASB Standards, in particular guidance on determinations of materiality, please see SASB's Implementation Guide.²

SASB Standards provide companies with sustainability metrics designed to communicate performance on industry-level sustainability topics in a concise, comparable format using existing reporting mechanisms. Companies can use the Standards to help ensure that disclosure is reliable, decision-useful for investors, and cost-effective for issuers.

SASB Standards are intended to constitute "suitable criteria" for purposes of an attestation engagement as defined by Paragraph .A42 of AT-C section 105³ and referenced in AT-C section 395.⁴ "Suitable criteria" have the following attributes:

- *Relevance*—Criteria are relevant to the subject matter.
- *Objectivity*—Criteria are free from bias.
- *Measurability*—Criteria permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria are complete when subject matter prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter.

¹ The AICPA defines sustainability information in its Guide, [Attestation Engagements on Sustainability Information \(Including Greenhouse Gas Emissions Information\)](#) (Issued July 2017), as follows: "information about sustainability matters (such as economic, environmental, social and governance performance)." It further explains that "sustainability metrics and sustainability indicators are components of sustainability information. Sustainability information may be nonquantitative (narrative), historical, or forward-looking."

² <https://library.sasb.org/implementation-guide>

³ <https://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-C-00105.pdf>

⁴ <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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. Insurance premiums, underwriting profits, and investment income drive industry growth, while insurance claims payments present the most significant cost and source of uncertainty for profits. Insurance companies provide products and services that enable the transfer, pooling, and sharing of risk necessary for a well-functioning economy. Insurance companies, through their products, can also create a form of moral hazard, lowering incentives to improve underlying behavior and performance and contributing to sustainability impacts. Similar to other financial institutions, insurance companies face risks associated with credit and financial markets. Within the industry, companies that engage in non-traditional or non-insurance activities, including CDS protection and debt securities insurance, 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 Important Financial Institutions.

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.

Users of the SASB Standards

The SASB Standards are intended for use by public companies and by investors to inform investment decisions. The standards facilitate disclosure of financially material sustainability-related information in a concise, comparable, cost-effective, decision-useful format.

The SASB Standards are designed for integration into existing reporting mechanisms, such as SEC filings. This keeps the administrative and cost burden to a minimum. SEC filings include Form 10-K for U.S. companies, Form 20-F for foreign issuers, Form 40-F for Canadian issuers, quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. The SASB Standards are also recognized by the European Commission as a suitable framework for companies to provide information to investors pursuant to EU Directive 2014/95/EU. See “Guidelines on non-financial reporting (methodology for reporting non-financial information).”⁵ Thus, SASB standards are a cost-effective way to satisfy both U.S. and European reporting requirements.

SASB evaluates the materiality of sustainability-related topics by using the high threshold of financial materiality that is established under the U.S. securities laws.⁶ Although designed to meet the rigorous disclosure requirements of the U.S. capital markets (thereby producing a high-quality set of evidence-based standards focused on material investor-focused topics), the standards represent a best practice that can be used by companies of all types (public and private) to describe their material sustainability-related risks and opportunities.

⁵ https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

⁶ https://library.sasb.org/materiality_bulletin/

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Insurance industry, the SASB has identified the following sustainability disclosure topics:

- Environmental Risk Exposure
- ~~Plan Performance~~
 - Transparent Information & Fair Advice for Customers
 - Integration of Environmental, Social, and Governance ~~Risk~~ Factors in Investment Management
 - Policies Designed to Incentivize Responsible Behavior
 - Systemic Risk Management

2. Determination of Materiality

In the U.S., sustainability disclosures are governed by the same laws and regulations that generally govern disclosures by securities issuers. 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.⁷

Through a rigorous process of research, review of evidence, and public input, the SASB has identified sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each Sustainable Industry Classification System™ (SICS™) industry.⁸ **However, the issuer must determine what information is (or is reasonably likely to be) material to the reasonable investor.** For further information regarding a process that corporations can use to assess the financial materiality of the sustainability-related topics in SASB standards, please see SASB’s Implementation Guide.⁹

3. SEC Requirements Relating to Disclosure of Material Sustainability Information

If a public company determines that certain sustainability information is reasonably likely to be material, it must then determine whether disclosure of some or all of the information under applicable SASB Standards is required under the U.S. federal securities laws. Several provisions of those laws are relevant to sustainability disclosures.

Regulation S-K sets forth certain disclosure requirements associated with Form 10-K and other SEC filings. Item 303 of Regulation S-K requires companies to, among other things, 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.”¹⁰

Furthermore, the 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.”¹¹

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC can be applied to the topics included within this Standard:

- 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.

⁷ *TSC Industries v. Northway, Inc.*, 426 U.S. 438 (1976).

⁸ https://library.sasb.org/materiality_bulletin/

⁹ <https://library.sasb.org/implementation-guide>

¹⁰ C.F.R. 229.303(Item 303)(a)(3)(ii).

¹¹ 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.”

- Second, 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."

Companies should also consider the applicability of other Regulation S-K requirements. Specifically, Item 101 ("Description of Business") requires a company to provide a description of its business and its subsidiaries. Item 103 ("Legal Proceedings") requires a company 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 that target discharge of materials into the environment, or that are primarily for the purpose of protecting the environment. Item 503(c) ("Risk Factors") requires a company to provide discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how it affects the company.

Finally, as a general matter, 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."

4. Where Disclosures Should Be Made in SEC Filings

In using the definition of materiality established under the U.S. federal securities laws, the SASB has identified and developed industry-specific sustainability topics and metrics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within a particular industry. As a general matter, the SASB believes that investors are best served when disclosure of such information is made in SEC filings. An issuer might, for example, make the disclosure in a sub-section of MD&A with a caption, "**Sustainability-Related Information**," with a section that includes the material topics, performance metrics, and management's view with respect to corporate positioning. See SASB's "Mock 10-Ks" for examples of preparing an MD&A using the SASB Standards.¹² Issuers are not precluded from using the Standards elsewhere, such as in stand-alone communications to investors or in sustainability reports (sometimes referred to as corporate social responsibility reports or environmental, social, and governance reports), company websites, or elsewhere. Corporate communication on material topics, including sustainability-related material topics, should be consistent across communication channels. As discussed above, SEC regulations may compel inclusion of material sustainability information in an SEC filing where it is deemed financially material.

The SASB recognizes that sustainability topics are relatively new areas of investor interest, and it may be difficult to determine whether particular sustainability information is material in certain situations. Accordingly, issuers might also consider using the SASB Standards in filings using Form 8-K, Item 8.01 ("Other Events"). This provision states that "The registrant may, at its option, disclose under this Item 8.01 any events, with respect to which information is not otherwise called for by this form, that the registrant deems of importance to security holders." Making a disclosure under Item 8.01 would not require the issuer to make a decision regarding materiality, and might also provide the company with more time to make the disclosure than is permitted under filing rules applicable to Form 10-K, thereby facilitating the completeness and accuracy of the disclosed information.

¹² <http://using.sasb.org/mock-10-k-library/>

When using the Standards, issuers should cite or refer to the relevant SASB Standard.

More detailed guidance on preparing disclosures of material information related to sustainability topics and making topic-level materiality determinations can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>, and the **SASB Implementation Guide for Companies**, available for download via <https://library.sasb.org/implementation-guide/>.

Guidance on Accounting for Sustainability Topics

The SASB has identified accounting metrics for each sustainability topic included in this Standard. The SASB recommends that companies within this industry consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein.

When disclosing information related to a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description might in certain circumstances include a discussion of the following:¹³

- The registrant's **governance** around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.
- The registrant's **strategic approach** regarding actual and potential impacts of topic-related risks and opportunities on the organization's **businesses, strategy, and financial planning**, over the **short, medium, and long term**.
- The registrant's process to **identify, assess, and manage** topic-related risks, and how these risks are integrated into the registrant's overall risk management process.
- The registrant's **use of metrics or targets** to assess and manage topic-related risks and opportunities.
- Data for the registrant's **last three completed fiscal years** (when available).

The SASB recommends that registrants use SASB Standards specific to their primary industry as identified in SICSTM. If a registrant generates significant revenue from multiple industries, the SASB recommends that it also consider sustainability topics that the SASB has identified for those industries, and disclose the associated SASB accounting metrics.

Further, the SASB recommends that companies design, implement, and maintain adequate systems of internal control over sustainability performance information to provide reasonable confidence regarding the achievement of related reporting objectives, such as those relating to the reliability of disclosed information.¹⁴

¹³ These areas for possible additional narrative description are generally aligned with the [Recommendations of the Task Force on Climate-related Financial Disclosures](#), which contains a more extensive discussion of such disclosure matters.

¹⁴ In this regard, companies are referred to the report of a group of experts in this area. Robert H. Herz, Brad J. Monterio, Jeffrey C. Thomson, Leveraging the COSO Internal Control – Integrated Framework to Improve confidence in Sustainability Performance Data (August 2017).

The SASB takes no position as to whether third-party attestation is necessary to enhance the credibility of the disclosed sustainability information, but as a matter of good governance, the SASB suggests that such assurance be considered.¹⁵

Scope of Disclosure

Unless otherwise specified, the SASB recommends:

- That a registrant disclose information on sustainability topics and metrics for itself and for entities that are consolidated for financial reporting purposes, as defined by accounting principles generally accepted in the United States (“US GAAP”), for consistency with other accompanying information within SEC filings;¹⁶
- 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. However, the registrant should disclose information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company’s financial condition or operating performance. (Typically, this disclosure would be limited to risks and opportunities associated with these entities.)

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this Standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with US GAAP, and be consistent with the corresponding financial data reported in the registrant’s SEC filings. Should accounting metrics, activity metrics, and technical protocols in this Standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with SEC Regulation G.¹⁷

Activity Metrics and Normalization

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

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

¹⁵ The AICPA’s Guide (see supra note 1) provides guidance to assist accounting practitioners in performing attestation engagements on sustainability information.

¹⁶ See US GAAP consolidation rules (Section 810).

¹⁷ <https://www.sec.gov/rules/final/33-8176.htm>

Such data—termed “activity metrics”—may include high-level business data, including 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 investors relying on SASB accounting metrics to perform their own calculations and create their own ratios.
- Be explained and consistently disclosed from period to period to the extent that 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.¹⁸

Where relevant, the SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

Table 1. Activity Metrics

<u>ACTIVITY METRIC</u>	<u>CATEGORY</u>	<u>UNIT OF MEASURE</u>	<u>CODE</u>
<u>Number of policies held by segment: (1) property & casualty, (2) life, (3) assumed reinsurance</u>	<u>Quantitative</u>	<u>Number</u>	<u>TA02-56-01</u>

Units of Measure

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

Uncertainty

The SASB recognizes that there may be inherent uncertainty when measuring or disclosing certain sustainability data and information. This uncertainty may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, the SASB recommends that the registrant should consider discussing its nature and likelihood.¹⁹

Estimates

The SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, the SASB does not

¹⁸ Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

¹⁹ The AICPA’s Guide (see supra note 1) provides guidance related to measurement uncertainty.

discourage the use of estimates or ranges. When using an estimate for a particular disclosure, the 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; therefore, a company must determine for itself the topics that warrant discussion in its SEC filings.

Use of the SASB Standards is voluntary. The Standards are not intended to replace any legal or regulatory requirements that may be applicable to a company's operations. When such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements.

Use of the SASB Standards is not required or endorsed by the SEC or various entities governing financial reporting, including the Financial Accounting Standards Board, the Government Accounting Standards Board, or the International Accounting Standards Board.

Forward-Looking Statements

Disclosures on sustainability topics can, in some circumstances, 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 these disclosures in SEC filings 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. These include, 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."

Notes on the Sustainability Accounting Standards

The following sections contain the disclosure guidance associated with each accounting metric, including guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 2. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Environmental Risk Exposure	Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes, by insurance segment, type of event, and type of risk insured ²⁰	Quantitative	U.S. dollars (\$)	FN0301-01 TA02-49-01
	Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance) ²¹	Quantitative	U.S. dollars (\$)	FN0301-02 TA02-50-01
	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 TA02-51-01
	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
<u>Transparent Information & Fair Advice for Customers</u> <u>Plan Performance</u>	Complaints-to-claims ratio	Quantitative	n/a	FN0301-08
	Customer retention rate	Quantitative	Percentage (%)	FN0301-09
	Total amount of losses as a result of legal proceedings associated with failure to provide adequate, clear, and transparent information about products and services ²² Average number of days from reported claim to settlement of claim	Quantitative	U.S. dollars (\$) Days	TA02-53-01 FN0301-10
	Description of efforts to provide information to new and returning customers in a clear and conspicuous manner	Discussion and Analysis	n/a	TA02-53-02 FN0301-11
Integration of Environmental, Social, and Governance Risk Factors in	Total invested assets by industry and asset class	Quantitative	U.S. dollars (\$)	TA02-55-01
	Discussion of how environmental, social, and governance (ESG) factors are integrated into the investment of policy premiums	Discussion and Analysis	n/a	FN0301-16

²⁰ Note to **TA02-49-01**—The registrant shall describe climate-related scenarios used, including the critical input parameters, assumptions, and considerations, analytical choices, and time frames, in calculation of the PML.

²¹ Note to **TA02-50-01**—The registrant shall discuss how climate change-related impacts and variability of weather-related losses impact the cost of reinsurance and the registrant’s approach to transferring risk through reinsurance.

²² Note to **TA02-53-01**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Investment Management	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
Policies Designed to Incentivize Responsible Behavior	Net premiums written related to energy efficiency and low carbon technology	Quantitative	U.S. dollars (\$)	FN0301-07
	Discussion of products and/or product features that incentivize healthy health, safe, and/or environmentally responsible actions and/or behavior behaviors	Discussion and Analysis	n/a	FN0301-06 TA02-52-01
Systemic Risk Management	Global Systemically Important Insurer (G-SII) assessment score by category	Quantitative	Basis points	TA02-54-01
	Non-policyholder liabilities	Quantitative	U.S. dollars (\$)	FN0301-12
	Discussion on how results of mandatory and voluntary stress tests and risk-based capital requirements are integrated into capital adequacy planning, long-term corporate strategy, and other business activities	Discussion and Analysis	n/a	TA02-54-02
	(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

Environmental Risk Exposure

Description

Catastrophe losses associated with extreme weather events will continue to have a material, adverse impact on ~~the~~ insurance industry claims. 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

~~FN0304TA02-49-01. 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						
Total						

.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				
Total				

.01 The registrant shall disclose the Probable maximum loss (PML), expressed in U.S. dollars, of insured products from natural peril catastrophe events.

- 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 catastrophe modeling and exceedance probability (EP).
- The scope of disclosure by a natural peril catastrophe event includes: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat, and winter weather.

.02 The registrant shall disclose the PML using, at a minimum, three likelihood of exceedance scenarios: (1) 2% (1-in-50); (2) 1% (1-in-100); (3) 0.4% (1-in-250).

- The registrant may choose to disclose additional likelihood of exceedance scenarios.

.03 The registrant shall provide the PML breakdown by geographic location.

- Geographic location breakdown shall be aligned with that required by the Regulation S-K Item 101(d).

.04 The registrant shall report the PML amount, in U.S. dollars, on a gross and net of catastrophe reinsurance bases.

- The gross PML is the gross probable maximum loss for natural peril catastrophe events (prior to reinsurance) for annual aggregate exposure to all risks, including reinstatement premiums for the year following the relevant year based upon the registrant’s catastrophe model.
- The net PML is the net probable maximum loss for natural peril catastrophe events (after reinsurance) for annual aggregate exposure to all risks, including reinstatement premiums for the year following the relevant year based upon the registrant’s catastrophe model.

.05 Disclosure shall be provided for relevant geographic regions.

.06 The registrant may choose to summarize the breakdown of the PML in the following table:

<u>Natural Peril Catastrophe Event</u>	<u>Gross PML (in millions \$)</u>			<u>Net PML (in millions \$)</u>		
	<u>1-in-50</u>	<u>1-in-100</u>	<u>1-in-250</u>	<u>1-in-50</u>	<u>1-in-100</u>	<u>1-in-250</u>
<u>Hurricanes (Typhoons)</u>						
<u>Tornadoes</u>						
<u>Tsunamis</u>						
<u>Floods</u>						
<u>Droughts</u>						
<u>Extreme Heat</u>						
<u>Winter Weather</u>						

Note to TA02-49-01

.07 The registrant shall describe climate-related scenarios used, including the critical input parameters, assumptions and considerations, analytical choices, and time frames, in calculation of the PML, as aligned with the Task Force on Climate-related Financial Disclosures (TCFD) Supplemental Guidance for Insurance Companies.

TA02-50-01. FN0301-02. Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)

~~.08 The registrant shall describe how it integrates environmental risks into both individual policyholder contracts and enterprise-wide assessments of risk.~~

~~.09 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).~~

~~.10 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.~~

~~.11 Environmental risks may include changes in weather patterns, increased frequency of extreme weather, biodiversity loss and ecosystem disruptions, water management, and pollution.~~

.08 The registrant shall disclose the amount of policyholder benefits paid and claims incurred (in U.S. dollars) during the fiscal year as a result of incurred policy losses and benefits expenses related to modeled and non-modeled natural peril catastrophe events.

- The scope of disclosure by a natural peril catastrophe event includes: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat, and winter weather.

.09 Benefits and claims incurred shall be disclosed in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 944 Financial Services – Insurance.

.10 The registrant shall break down the policy losses and benefits expenses for modeled and non-modeled events.

- Modeled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the registrant has analyzed using a catastrophic risk model.
- 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).
 - 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.

.11 The registrant shall break down the policy losses and benefits expenses by geographic segment.

.12 The registrant shall break down the policy losses and benefits expenses by natural peril catastrophe event.

- Where relevant, natural peril catastrophe events include: hurricanes (typhoons), tornadoes, tsunamis, floods, droughts, extreme heat, and winter weather.

.13 The registrant shall report the policy losses and benefits expenses on a gross and net of catastrophe reinsurance base.

- The net amount shall be calculated as the gross amount of policy losses and benefits expenses from natural peril catastrophe events minus the recoverables from ceded reinsurance.

.14 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Note to TA02-50-01

.15 The registrant shall discuss its strategy around enhancing catastrophe modeling.

.16 The registrant shall discuss how climate change-related impacts and variability of weather-related losses impact the cost of reinsurance and the registrant's approach to transferring risk through reinsurance.

TA02-50-01. 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

~~.12 The registrant shall describe how it integrates environmental risks into both individual policyholder contracts and enterprise-wide assessments of risk.~~

~~.13 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).~~

~~.14 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.~~

~~.15 Environmental risks may include changes in weather patterns, increased frequency of extreme weather, biodiversity loss and ecosystem disruptions, water management, and pollution.~~

.17 The registrant shall describe how it integrates environmental risks into both individual policyholder contracts and enterprise-wide assessments of risk.

.18 The registrant shall describe the processes for identifying and assessing climate-related risks on insurance and reinsurance portfolios by geography, business division, or product segments.

- Climate-related risks are defined by the Task Force on Climate-related Financial Disclosures (TCFD) as:
 - Physical risks from changing frequencies and intensities of weather-related perils
 - Transition risks resulting from a reduction in insurable interest due to a decline in value, changing energy costs, or implementation of carbon regulation
 - Liability risks that could intensify due to a possible increase in litigation

.19 The registrant shall describe the process for integration of climate-related risks in probabilistic mathematical models (i.e., catastrophic models).

- Discussion shall include, but is not limited to:
 - The use of new and emerging datasets (e.g., for dam burst risk)
 - The use of the critical input parameters, assumptions and considerations, and analytical choices

.20 The registrant shall describe how outputs of catastrophe models inform its underwriting decisions.

- Discussion shall include, but is not limited to:
 - Development of insurance and reinsurance products which take into account climate-related risks
 - Pricing of insurance and reinsurance policies
 - Client selection (i.e., type of events the registrant chooses to cover or not, geographic markets in which the registrant chooses not to underwrite policies, etc.)
 - Cedent selection (i.e., decisions on the amount of risk the registrant chooses to transfer through reinsurance)

.21 The registrant shall describe the process for incorporation of clauses in the insurance policies sold to clients that incentivize reduction of exposure to climate-related risks of insured assets through pricing structure of the policies.

- Discussion shall include, but is not limited to, incentives such as:
 - The use of sustainable building materials
 - Enhancement of the weather resiliency of properties
 - Coverage of properties in communities with building codes requiring climate-risk adaptations

.22 The registrant shall discuss the process for integration of environmental risks into enterprise-wide assessments.

- Discussion shall include, but is not limited to:
 - Consideration of risks by segment (e.g., life versus property & casualty)
 - Capital adequacy
 - Contingency planning for market failure (i.e., from numerous disaster-related claims)
 - Use of alternative risk transfer (e.g., catastrophe bonds, weather derivatives)

.23 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.

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

~~.16.24~~ 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.

~~.17.25~~ 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).

~~.18.26~~ Markets may include specific U.S. states, such as California or Florida, or counties within states, such as Galveston County, Texas.

~~.19.27~~ Regions are specific geologic or physical zones for which the registrant does not write coverage, such as coastal areas and flood-prone areas.

~~.20.28~~ 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

~~.21~~ 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.

~~.22~~ 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.

~~23 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).~~

~~24 Reinsurance shall include industry loss warranties (ILWs).~~

Additional references

~~, September 2011.~~

~~, Climate Change Research Report, The Chartered Insurance Institute (CII), 2009.~~

Plan Performance Transparent Information & Fair Advice for Customers

Description

~~Insurance~~ Insurance products play an important societal role in smoothing out the impact of unexpected economic shocks, allowing policyholders to minimize the financial impact of events such as illnesses, accidents, and deaths. However, the risks of unclear insurance policies, ambiguous product terms, and potentially misleading sales tactics can erode brand reputation, lead to legal disputes, and reduce the number of services and products offered. This may be especially true if regulators deem certain policies overly complex and unsuitable for customers. Moreover, insurance companies compete on the basis of financial strength, price, brand reputation, services offered, and customer relationships. Customer dissatisfaction may reduce insurance usage, potentially leading to extremely negative financial outcomes for individuals and families, such as personal bankruptcies. 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~~ companies that maintain transparent policy terms and direct customers toward the products best suited to ensure timely claim payments and transparent information ~~them~~ will be better positioned to ~~retain customers~~ maintain their brand reputation, avoid regulatory scrutiny, and protect shareholder value.

Accounting Metrics

TA02-53-01. Total amount of losses as a result of legal proceedings associated with failure to provide adequate, clear, and transparent information about products and services

.29 The registrant shall disclose the total amount of losses (in U.S. dollars) it incurred as a result of legal proceedings associated with failure to provide adequate, clear, and transparent information about products and services, 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.

.30 The legal proceedings shall include any adjudicative proceeding, whether before a court, a regulator, an arbitrator, or otherwise, in which the registrant was involved.

.31 The losses shall include all fines, settlements, and other monetary liabilities as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (governmental, business, or individual).

.32 The losses shall exclude legal fees incurred by the registrant.

.33 The scope of disclosure shall include, but is not limited to, legal proceedings associated with enforcement of industry regulations promulgated by U.S. state, federal, and foreign regulatory authorities:

- Financial Industry Regulatory Authority's (FINRA) rules [2210](#) and [2211](#)
- New York's Codes, Rules and Regulations Title 11, Chapter IX, Parts [215](#), [219](#) and [224](#)

- [California's Insurance Code, Part 1, Chapter 3, Article 1](#)

.34 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.

Note to TA02-53-01

.35 The registrant shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, non-prosecution agreement) and context (e.g., fraud, disclosure to clients, employee compensation, etc.) of all losses as a result of legal proceedings.

.36 The registrant shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN0301-08. Complaints-to-claims ratio

~~.25.37~~ 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.

~~.26.38~~ ~~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~~.

~~.27.39~~ 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.

~~.28.40~~ 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

~~.29.41~~ The registrant shall disclose its customer retention rate using the following the calculation: (Total number of customers at close of fiscal year ~~—~~ new customers added during the fiscal year) / (customers at the close of the previous fiscal year ~~—~~ customers involuntarily terminated during the fiscal year ~~—~~ attrition of customers in employer-sponsored plans).

- Involuntarily terminated customers—those whose coverage was terminated by the registrant due to ~~non-payment, nonpayment~~ 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.

~~30.42~~ 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~~

~~31~~ 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).

~~32~~ 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).

~~33~~ 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.

~~FN0301-11TA02-53-02. 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 ensures that the information provided to new and transparently to returning customers is communicated in a clear and conspicuous manner

- Discussion shall include, but is not limited to, the information regarding ~~the terms:~~
 - Terms of their insurance coverage (e.g., limits, deductible), ~~the scope~~
 - Scope of their insurance coverage (e.g., what is covered by the policy), ~~any~~
 - Any unique policy exclusions or exceptions (e.g., anti-concurrent causation clauses), ~~processes~~
 - Processes for payment of claims (e.g., role of adjuster, disputes, settlement), ~~and availability~~
 - Availability of information throughout the customers' lifecycles (e.g., through online access), ~~and~~

~~44~~ The registrant shall describe its communication processes, ~~including the mechanisms.~~

- Discussion shall include, but is not limited to:
 - Mechanisms used (e.g., direct mailing, online accounts, telephone hotlines) ~~and responsible~~
 - Responsible personnel involved (e.g., sales and marketing, adjusters) ~~involved.~~

~~34.45~~ 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~~customer's lifecycle, such as during initial coverage or when a claim is filed.

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 (ESG) factors have increasingly been shown to have a material impact on the performance of corporations and other assets, ~~there is an increasing need for insurance companies~~~~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 of their portfolios and limit a company's ability to issue claim payments. Companies should therefore enhance disclosure on how ESG factors, including climate change and natural resource constraints, are integrated into the investment of policy premiums and affect the portfolio risk presented by issues.

Accounting Metrics

TA02-55-01. Total invested assets by industry and asset class

.46 The registrant shall disclose the amount in U.S. dollars of its short-term and long-term investment assets by asset class.

- The scope of disclosure includes:
 - Stock and bond investments reported on Schedule D
 - Derivatives reported on Schedule DB
 - Mortgage loans on real estate reported on Schedule B
 - Real estate reported on schedule A

.47 The registrant shall break down its stock, bond, and derivative investments by industry.

- The registrant shall use the North American Industry Classification System (NAICS) for classifying investees.
- The registrant shall disclose its exposure to at least 10 largest industries by dollar amount of exposure or for industries representing at least 2 percent of the overall portfolio exposure.

.48 The registrant may choose to additionally breakdown the exposure by credit quality (investment-grade vs. noninvestment-grade).

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

-35.49 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.

-36.50 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

-37.51 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.)

-38.52 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).

-39.53 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

-40.54 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

~~41.55~~ 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

~~42.56~~ 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.

~~43.57~~ 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.

~~44.58~~ 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.

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.~~ Insurance companies have the ability to incentivize healthy lifestyles and safe behavior as well as to improve climate resiliency of properties through pricing and clause structure of policies they underwrite. Moreover, as the renewable energy industry continues to grow, insurance companies may seek related growth opportunities by underwriting insurance in this area. Therefore, disclosure on this topic would allow investors to assess how insurance companies are positioned to grow their underwriting revenue.

Accounting Metrics

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

~~.45.59~~ 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).

- 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.
- Energy savings warranties insure the energy savings guaranteed by Energy Services Companies (ESCOs) for building retrofitting and other energy efficiency projects.

~~.46.60~~ Disclosure should include policies that can be demonstrated to absorb environmental risks, thereby enabling sustainability-related projects, technologies, and activities.

~~TA02-52-01. FN0301-06. Discussion of products and/or product features that incentivize healthy, safe, and/or environmentally responsible actions and/or behaviors~~

~~.47~~ Disclosure shall include a description of aspects of traditional products that incentivize healthy, safe, and/

~~.48~~ 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.

~~.49~~ 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).

~~.50 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.~~

~~.51 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.~~

.61 The registrant shall describe how it incentivizes health, safe, and/or environmentally responsible actions or behaviors through incorporation of clauses in the insurance policies sold to clients and through pricing structure of the policies.

- The scope of disclosure includes policies underwritten in the Property & Casualty (P&C) and Life segments and excludes Health Insurance policies.
- The scope of disclosure includes 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.

.62 Disclosure shall include a description of the aspects of traditional products that incentivize health, safe, and/or environmentally responsible actions or behavior. Such aspects include, but are not limited to:

- Premium discounts for green buildings
- Premium discounts for improving resource efficiency of properties
- Actuarially adjusted premiums for the use of low-emission vehicles, fuel-efficient non-hybrid vehicles, or alternative-fuel vehicles
- Premium discounts for safer driving and lower use of personal vehicles
- Premium discounts for healthy behavior (healthy diet, routine exercise, weight loss, giving up smoking/drinking, etc.)

.63 The registrant may choose to disclose quantitative measures related to performance on underwriting of products with clauses incentivizing healthy, safe, and/or environmentally responsible actions or behavior such as:

- Number of policies incorporating such clauses
- Amount of premiums in U.S. dollars generated from the relevant products
- Quantitative measures of the associated social and environmental factors influenced through products (i.e., reduction in the amount of car accidents involving policyholders, amount of exercise hours per week, average amount of weight lost by a policyholder, etc.)

Systemic Risk Management

Description

~~Similar~~ Insurance companies have the potential to ~~either pose, amplify, or transmit a threat to the~~ financial institutions, system. The size, interconnectedness, and complexity of insurance companies ~~face risks associated with credit and financial markets. Within~~ are factors that highlight exposure to systemic risk for companies in the industry, ~~Insurance~~ 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~~ Systemically Important Financial Institutions. Such firms are 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 ~~and their ability to meet stricter regulatory requirements.~~

Accounting Metrics

~~FN0301-12 . Non-policyholder liabilities~~

- ~~.52 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.~~
- ~~.53 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~~

- ~~.54 The registrant shall disclose the gross notional amount of credit default swap protection that it has sold (in U.S. dollars).~~
- ~~.55 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.~~

~~.56 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.~~

~~.57 The scope of disclosure excludes surety bonds.~~

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

~~.58 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).~~

~~.59 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.~~

~~.60 The registrant shall disclose the amount of cash it receives from the sale of securities in repurchase agreements.~~

~~.61 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 the 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%~~

~~.62 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).~~

~~.63 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.~~

Additional references

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

TA02-54-01. Global Systemically Important Insurer (G-SII) assessment score by category

.64 The registrant shall disclose its Global Systemically Important Insurers (G-SII) score for the following categories: (1) Size; (2) Global activity; (3) Interconnectedness; (4) Asset liquidation; (5) Substitutability; (6) Overall score.

.65 The G-SII scores are defined and shall be calculated according to the methodology established by the International Association of Insurance Supervisors' (IAIS) Global Systemically Important Insurers: Updated Assessment Methodology, June 16, 2016.

- The set of indicators used in calculation of the G-SII score is outlined by the IAIS in the Instructions for the 2016 Data Collection Exercise Conducted by Bank for International Settlements (BIS) in collaboration with the International Association of Insurance Supervisors (IAIS) (the "Instructions")
 - The registrant shall refer to the Instructions from the IAIS website for the relevant fiscal year.

.66 If the G-SII score is not available at the time of issuance of the annual report for the respective fiscal year, the registrant shall disclose the latest available G-SII score.

.67 The registrant shall consider the above references used to determine the G-SII score normative references, thus any updates made shall be considered updates to this guidance.

TA02-54-02. Discussion on how results of mandatory and voluntary stress tests and risk-based capital requirements are integrated into capital adequacy planning, long-term corporate strategy, and other business activities

.68 The registrant shall discuss results of mandatory and voluntary stress tests and risk-based capital requirements are integrated into capital adequacy planning, long-term corporate strategy, and other business activities.

- Stress tests include, but are not limited to:
 - Dodd-Frank Act supervisory stress testing
 - The China Insurance Regulatory Commission (CIRC) stress test
 - Monetary Authority of Singapore Annual Industry-Wide Stress Testing exercise
- Risk-based capital requirements include, but are not limited to:
 - The European Insurance and Occupational Pensions Authority (EIOPA) Solvency II Directive
 - The National Association of Insurance Commissioners (NAIC) Own Risk and Solvency Assessment (ORSA)

.69 The registrant shall discuss how the stress test results inform its approach with respect to its ESG strategy.

.70 The registrant may disclose its stress test results along with the discussion.

.71 The registrant shall consult the most recent version of each document referenced in this standard at the time disclosure occurs.