Commercial Banking

SICS™ #FN0101

Prepared by the
Sustainability Accounting Standards Board ®

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Exposure Draft for Public Comment

Commercial Banking
Sustainability Accounting Standard

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

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

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 45 days beginning Friday, November 15, 2013 and ending Monday, December 30, 2013. This Standard is subject to change thereafter.

For instructions on providing comments to SASB please click here.

For an introduction to SASB Standards please click here.

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SASB Sustainability Accounting Standard

Commercial Banks **(FN0101)**

Industry Description

Companies in the commercial banking industry accept deposits and make loans to individuals and corporations. Some firms in this industry are engaged in lending for infrastructure, real estate, and other projects.

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

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Integration of Environmental, Social and Governance Factors in Credit Risk Analysis	FN0101-01	Discussion of how environmental, social, and governance (ESG) factors are integrated into the lending process, including credit risk analysis, valuation of underlying secured assets, macroeconomic assessments, and the ultimate decision to extend a loan.
	FN0101-02	Discussion of credit risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, and the identification of specific industries, geographies, and demographic segments where the registrant has exposure.
	FN0101-03	Amount and percentage, by dollar, 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
Financial Inclusion and Capacity Building	FN0101-04	Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers, including a description of initiatives.
	FN0101-05	Percentage of total domestic loans (in U.S. dollars) for underserved and underbanked business segments.
	FN0101-06	Loan-to-deposit ratio for: (1) Overall domestic lending (2) Underserved and underbanked business segments
	FN0101-07	Loan default rates for: (1) Overall domestic lending (2) Underserved and underbanked business segments
Employee Development and Inclusion	FN0101-08	Measure of employee engagement, including a description of measurement methodology.
	FN0101-09	Percentage of gender and racial/ethnic group representation by employee category.
	FN0101-10	Applicant pool and hired employees by gender and racial/ethnic group.

Topic	Code	Accounting Metric
Customer Privacy and Data Security	FN0101-11	Number of data security breaches, including: (1) Percentage that resulted in the actual outcomes of a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability (2) Percentage involving personal data, in which customers were notified of breach (3) Description of corrective actions
	FN0101-12	Discussion of management approach to identifying and addressing vulnerabilities and threats from the following U.S. Department of Commerce National Institute of Standards and Technology (NIST)-defined attack vectors: external/removable media, attrition, web, email, improper usage, and loss/theft of equipment.
Management of the Legal and Regulatory Environment	FN0101-13	Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.
	FN0101-14	Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.
Systemic Risk Management	FN0101-15	Results of stress tests under adverse economic scenarios and description of the most significant drivers of changes in regulatory capital ratios, including 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
	FN0101-16	Basel III Liquidity Coverage Ratio (LCR).
	FN0101-17	Notional amount of over-the-counter (OTC) derivative positions.
	FN0101-18	Level 3 assets: (1) total value and (2) percentage of total assets.
	FN0101-19	Total number of instances when risk limits were approached or breached and number and percentage by response: (1) position reduced, (2) risk limit temporarily increased, (3) risk limit permanently increased, (4) other.
	FN0101-20	Skewness and kurtosis of portfolio revenue.

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

Description

Environmental, social, and governance (ESG) factors are increasingly contributing to the financial performance of specific projects and companies at large. Commercial banks that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. Companies should subsequently disclose how ESG factors are integrated into lending processes and the current level of portfolio risk associated with specific sustainability trends.

Accounting Metrics

FN0101-01. Discussion of how environmental, social, and governance (ESG) factors are integrated into the lending process, including credit risk analysis, valuation of underlying secured assets, macroeconomic assessments, and the ultimate decision to extend a loan.

.01 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.

.02 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".

.03 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.

.04 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.

.05 The registrant should discuss how ESG factors are incorporated into its diversification strategies at a firm level, including if 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.)

.06 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

.07 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.

.08 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, and staff training to ensure that bank staff are fully informed of the standards.

.09 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.

FN0101-02. Discussion of credit risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, and the identification of specific industries, geographies, and demographic segments where the registrant has exposure.

.10 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 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.

.11 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.

.12 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.

FN0101-03. Amount and percentage, by dollar, 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

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

.14 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.

.15 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., such as 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.

.16 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).

.17 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.

.18 The registrant shall identify and disclose the amount of lending (in U.S. dollars) broken down by the amount which employ:

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

.19 The registrant shall identify and disclose the amount of any lending that employs more than one ESG integration strategy (e.g., screening and integration).

.20 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.

Notes

Additional references

The Carbon Principles.

The Equator Principles (EP) III, June 2013.

Financial Inclusion and Capacity Building

Description

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

Accounting Metrics

FN0101-04. Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers, including a description of initiatives.

.21 The registrant shall disclose the number of individuals that participated in financial literacy initiatives including, but not limited to, educational programs, workshops, seminars, courses, counseling, and community partnerships.

- The registrant shall calculate the total number of unique individuals who are documented to have participated in at least one of its initiatives during the fiscal year.
- Disclosure shall include participants in ongoing programs in the case that active participation can be documented during the fiscal year.

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

.23 Unbanked customers are those in households without a checking or saving 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).

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

.25 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.

.26 The scope of disclosure shall include both individual retail customers and relevant commercial customers (e.g. small and medium enterprises, minority owned business, etc.).

FN0101-05. Percentage of total domestic loans (in U.S. dollars) for underserved and underbanked business segments.

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

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

.29 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), or businesses located in and serving low-income neighborhoods.

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

FN0101-06. Loan-to-deposit ratio for:
(1) Overall domestic lending
(2) Underserved and underbanked business segments

.31 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 Federal Financial Institutions Examination Council (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.
- Average deposits (in U.S. dollars) are calculated in conformance with Federal Financial Institutions Examination Council (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

.32 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.

.33 The LTD ratio shall be calculated and disclosed for the registrant's lending to underserved and/or underbanked business segments includes all loans disclosed in FN0101-05.

FN0101-07. Loan default rates for:
(1) Overall domestic lending
(2) Underserved and underbanked business segments

.34 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 (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

.35 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.

.36 The loan default rate shall be calculated and disclosed for the registrant's lending to underserved and/or underbanked business segments includes all loans disclosed in FN0101-05.

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

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Employee Development and Inclusion

Description

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

Accounting Metrics

FN0101-08. Measure of employee engagement, including a description of measurement methodology.

.38 The registrant shall disclose employee engagement as a percentage (i.e., percentage of employees deemed "engaged") or as an index (e.g., strength of employee agreement with a survey statement).

.39 The disclosure shall be calculated based on the results of an employee engagement survey or a research study conducted by the registrant, by an external entity contracted to perform such a study by the registrant, or by an independent third party.

.40 The registrant shall briefly describe the following, where applicable:

- Source of its survey (e.g., third-party survey or registrant's own).
- Methodology used to calculate the index (e.g., a simple average of individual employee survey responses, with a numerical value assigned to the strength of agreement or disagreement with a survey statement).
- Possible range of the index.
- Summary of questions or statements included in the survey or study (e.g., those related to goal setting, support to achieve goals, training and development, work processes, and commitment to the organization).

.41 Where the survey methodology has changed compared to previous fiscal year, the registrant shall indicate results based on both the old and new methods in the year in which the change is made.

.42 If results are limited to a subsection of employees, the registrant shall include the percentage of employees included in the study or survey and discuss the representativeness of the sample.

FN0101-09. Percentage of gender and racial/ethnic group representation by employee category.

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

Employee Category	**Gender (%)**			**Race and Ethnicity (%)**					
	Male	*Female*	*NA**	*White*	*Black or African American*	*Hispanic or Latino*	*Asian*	*Other^*	*NA**
Executives/Sr. Managers									
Mid-level Managers									
Professionals									
All others (EEO-1 categories technicians, sales, admin support, service workers).									

*NA = not available / not disclosed

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

.44 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, Professionals, and All others (EEO-1 categories technicians, sales, admin support, and service workers).

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

.46 The registrant shall classify the racial/ethnic group of its employees into the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, or Other (includes: American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), or not disclosed/available.

FN0101-10. Applicant pool and hired employees by gender and racial/ethnic group.

.47 The registrant shall summarize and disclose the gender and racial/ethnic group representation of job applicants and newly hired employees in the following table format:

Category	Gender (%)			Race and Ethnicity (%)					
	Male	*Female*	*NA**	*White*	*Black or African American*	*Hispanic or Latino*	*Asian*	*Other^*	*NA**
Applicant pool									
Hired Employees									

*NA = not available/not disclosed

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

.48 Hired employees are defined as the total number of vacant positions that were filled during the fiscal year.

.49 The applicant pool is defined as the individuals who submitted formal applications for positions during the fiscal year.

- The registrant shall exclude applications for positions that were not filled during the fiscal year.
- The registrant shall include the individuals who were ultimately hired in its calculation of total applicants.

.50 The registrant shall categorize the gender of its hired employees and applicant pool as male, female, or not disclosed/available.

.51 The registrant shall classify the racial/ethnic group of its hired employees and applicant pool in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.

Notes

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Customer Privacy and Data Security

Description

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

Accounting Metrics

FN0101-11. Number of data security breaches, including:

(1) Percentage that resulted in the actual outcomes of a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability

(2) Percentage involving personal data, in which customers were notified of breach

(3) Description of corrective actions.

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

.53 The registrant shall disclose the percentage of data security breaches, cybersecurity risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

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

.54 The registrant shall disclose the percentage of data security breaches in which customers' unencrypted personal information (such as a social security number, driver's license number, account number, credit or debit card number, or access code) was compromised and 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 investigation.

.55 Disclosure shall include, but not be limited to, incidents disclosed according to the U.S. Security and Exchange Commission (SEC)'s CF Disclosure Guidance: Topic No. 2, Cybersecurity.

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

.56 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.

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

FN0101-12. Discussion of management approach to identifying and addressing vulnerabilities and threats from the following U.S. Department of Commerce National Institute of Standards and Technology (NIST)-defined attack vectors: external/removable media, attrition, web, email, improper usage, and loss/theft of equipment.

.58 The registrant shall identify which attack vectors it has identified as posing a threat or vulnerability, where:

- A threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the Nation through an information system via unauthorized access, destruction, disclosure, or modification of information, and/or denial of service.
- Vulnerability is defined as weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a threat source.

.59 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.

.60 The registrant should discuss trends it has observed in type, frequency, and origination of attack vectors.

.61 Disclosure shall include, but not be limited to, preparation, detection, containment, and post-incident activity that is disclosed according to the U.S. Security and Exchange Commission's (SEC) CF Disclosure Guidance: Topic No. 2, Cybersecurity.

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

.62 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.

.63 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).

Notes

FN0101-12

Definitions

NIST-defined attack vectors:

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

Additional references

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

Management of the Legal and Regulatory Environment

Description

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

Accounting Metrics

FN0101-13. Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.

.64 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of financial industry regulations, including SEC rules, Federal Reserve Board requirements (e.g., capital adequacy rules), Commodities Futures Trading Commission rules, rules of the Office of Comptroller Currency, provisions of Dodd-Frank (such as those enforced by the Consumer Financial Protection Bureau), FINRA regulations, and Federal Deposit Insurance Corporation policies.

.65 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), Foreign Account Tax Compliance Act violations (enforced by the U.S. Internal Revenue Service).

.66 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).

.67 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.

.68 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.

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

FN0101-14. Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.

.70 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.

.71 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.

.72 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.

.73 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.

.74 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.

.75 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.

Notes

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Systemic Risk Management

Description

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

Accounting Metrics

FN0101-15. Results of stress tests under adverse economic scenarios and description of the most significant drivers of changes in regulatory capital ratios, including 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**

.76 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.

.77 "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.

.78 If the registrant is not a "covered institutions" it shall report the results of it voluntary stress test administered following guidance recommended by the Office of the Comptroller of Currency.

.79 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.

.80 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 includes 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.

.81 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 (%)			

.82 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).

.83 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.)

FN0101-16. Basel III Liquidity Coverage Ratio (LCR).

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

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

.86 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).

FN0101-17. Notional amount of over-the-counter (OTC) derivative positions.

.87 The registrant shall calculate the total notional amount of its OTC derivative positions, where "notional amount" is defined by GAAP Topic 815 as "a number of currency units, shared, bushels, pounds, or other unites specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts."

.88 The total amount shall be disclosed in U.S. dollars, as a sum of all types of risk categories and instruments (i.e., sum of foreign exchange, interest rate, equity, commodities, credit default swaps (CDS), etc.).

.89 Over-the-counter derivatives are defined as instruments that are not cleared through a central counterparty (e.g., instead traded through a dealer network).

FN0101-18. Level 3 assets: (1) total value and (2) percentage of total assets.

.90 Level 3 assets are defined as those whose fair value cannot be determined using observable measures, such as market prices or model; they tend to be illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.

.91 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."

.92 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.

FN0101-19. Total 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.

.93 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.

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

.95 The registrant shall disclose its response when risk limits were 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.

.96 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.

.97 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.

FN0101-20. Skewness and kurtosis of portfolio revenue.

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

.99 Spread profits and losses are defined, as in the Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Volcker Rule), 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).

.100 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.

.101 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).

.102 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.

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

Notes

FN0101-17.

GENERAL

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 proposed jointly by the OCC, Federal Reserve Board, FDIC, and SEC.

Investment Banking & Brokerage

SICS™ #FN0102

Prepared by the
Sustainability Accounting Standards Board ®

November 2013
Exposure Draft for Public Comment

Investment Banking & Brokerage
Sustainability Accounting Standard

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

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

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 45 days beginning Friday, November 15, 2013 and ending Monday, December 30, 2013. This Standard is subject to change thereafter.

For instructions on providing comments to SASB please click here.

For an introduction to SASB Standards please click here.

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SASB Sustainability Accounting Standard

Investment Banking & Brokerage **(FN0102)**

Industry Description

Companies in the investment banking and brokerage industry underwrite, originate, and maintain markets for clients issuing securities. Firms may also offer advisory services, act as principals in buying or selling securities, and help in facilitating corporate mergers and acquisitions.

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

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Integration of Environmental, Social, and Governance Factors in Services and Lending	FN0102-01	Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services, including sell-side research, M&A and other advisory services, origination, underwriting activities, sales and trading, and principal transactions.
	FN0102-02	Amount (in U.S. dollars) and description of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) marketing making, and (3) advisory and underwriting.
Employee Development and Inclusion	FN0102-03	Measure of employee engagement, including a description of measurement methodology.
	FN0102-04	Percentage of gender and racial/ethnic group representation by employee category.
	FN0102-05	Applicant pool and hired employees by gender and racial/ethnic group.
Employee Incentives and Risk-Taking	FN0102-06	Description of the process used to determine and award variable compensation, how it differs by employee category, region, or job function, and discussion of the use of: • Performance measures, including financial or non-financial variables • Risk weightings such as *ex ante* adjustments • Deferral periods and vesting schedules
	FN0102-07	Percentage of total compensation that is variable, by employee category.
	FN0102-08	Percentage of variable compensation that is equity, by employee category.
	FN0102-09	Percentage of employee compensation (in U.S. dollars), by employee category, which includes *ex post* adjustments: (1) "malus" clauses and (2) "clawback" clauses.
	FN0102-10	Training and development expenditure per full-time employee by: (1) Expenditures for industry or professional qualification and advanced industry education; (2) Expenditures specific to governance, risk, compliance; (3) All other.
Transparent Information and Customer Responsibility	FN0102-11	Dollar amount of legal and regulatory fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services. Description of fines and settlements and corrective actions implemented in response to events.
	FN0102-12	Description of procedures or programs to provide customers with adequate, clear, and transparent information about products and services.

Topic	Code	Accounting Metric
Management of the Legal and Regulatory Environment	FN0102-13	Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.
	FN0102-14	Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.
Systemic Risk Management	FN0102-15	Results of stress tests under adverse economic scenarios and description of the most significant drivers of changes in regulatory capital ratios, including 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
	FN0102-16	Basel III Liquidity Coverage Ratio (LCR)
	FN0102-17	Notional amount of over-the-counter (OTC) derivative positions.
	FN0102-18	Level 3 assets: (1) total value and (2) percentage of total assets.
	FN0102-19	Total number of instances when risk limits were approached or breached and the number and percentage by response: (1) position reduced, (2) risk limit temporarily increased, (3) risk limit permanently increased, (4) other.
	FN0102-20	Skewness and kurtosis of portfolio revenue.
Managing Conflicts of Interest	FN0102-21	Number of actual and apparent conflicts of interest that were identified, including response, such as divestiture, recusal, or asset freeze.
	FN0102-22	Percentage of employees in compliance with conflict of interest training and/or certification programs and description of recourse for non-compliance with training requirements.

Integration of Environmental, Social, and Governance Factors in Services and Lending

Description

Environmental, social, and governance (ESG) factors are increasingly contributing to the financial performance of specific projects and companies at large. Investment banking and brokerage companies that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. Companies should subsequently disclose how ESG factors are integrated into core products and services.

Accounting Metrics

FN0102-01. Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services, including sell-side research, M&A and other advisory services, origination, underwriting activities, sales and trading, and principal transactions.

.01 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.

.02 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".

.03 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.

.04 The registrant shall discuss how it integrates ESG factors into its products or services, including – but not limited to – during the following activities or aspects:

- Advisory services – evaluating ESG risks, opportunities, or liabilities on behalf of clients during transactions such as mergers and acquisitions.
- Origination – incorporating ESG risks into the origination, structuring, and execution of structured financial products, derivative hedging strategies, and other financial services.
- Underwriting (private placement) – assessing ESG risks of counterparties and disclosing them while raising debt or equity.
- Underwriting (public offering) – incorporating ESG factors into the valuation, pricing, and potential risks and returns of offerings, including an indication of if this is disclosed.
- Research – incorporating ESG risks and opportunities into sell-side equity research

.05 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.

FN0102-02. Amount (in U.S. dollars) and description of sustainability-focused services, activities, and products: (1) origination, (2) marketing making, and (3) advisory and underwriting.

.06 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.

.07 For each category the registrant shall disclose the value (in U.S. dollars) of securities traded by the registrant during the fiscal year.

.08 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 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.

.09 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.

.10 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

Notes

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Employee Development and Inclusion

Description

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

Accounting Metrics

FN0102-03. Measure of employee engagement, including a description of measurement methodology.

.11 The registrant shall disclose employee engagement as a percentage (i.e., percentage of employees deemed "engaged") or as an index (e.g., strength of employee agreement with a survey statement).

.12 The disclosure shall be calculated based on the results of an employee engagement survey or a research study conducted by the registrant, by an external entity contracted to perform such a study by the registrant, or by an independent third party.

.13 The registrant shall briefly describe the following, where relevant:

- Source of its survey (e.g., third-party survey or registrant's own)
- Methodology used to calculate the index (e.g., a simple average of individual employee survey responses, with a numerical value assigned to the strength of agreement or disagreement with a survey statement)
- Possible range of the index
- Summary of questions or statements included in the survey or study (e.g., those related to goal setting, support to achieve goals, training and development, work processes, and commitment to the organization)

.14 Where the survey methodology has changed compared to previous reporting years, the registrant shall indicate results based on both the old and new methods in the year in which the change is made.

.15 If results are limited to a subsection of employees, the registrant shall include the percentage of employees included in the study or survey and discuss the representativeness of the sample.

FN0102-04. Percentage of gender and racial/ethnic group representation by employee category.

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

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	*Female*	*NA**	*White*	*Black or African American*	*Hispanic or Latino*	*Asian*	*Other^*	*NA**
Executives/Sr. Managers									
Mid-level Managers									
Professionals									
All others (EEO-1 categories technicians, sales, admin support, service workers).									

*NA = not available / not disclosed

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

.17 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

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

.19 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (includes: American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.

FN0102-05. Applicant pool and hired employees by gender and racial/ethnic group.

.20 The registrant should summarize and disclose the gender and racial/ethnic group representation of job applicants and newly hired employees in the following table format:

Category	Gender (%)			Race and Ethnicity (%)					
	Male	*Female*	*NA**	*White*	*Black or African American*	*Hispanic or Latino*	*Asian*	*Other^*	*NA**
Applicant pool									
Hired Employees									

*NA = not available/not disclosed
^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classification

.21 Hired employees are defined as the total number of vacant positions that were filled during the fiscal year.

.22 The applicant pool is defined as the individuals who submitted formal applications for positions during the fiscal year.

- The registrant shall exclude applications for positions that were not filled during the fiscal year.
- The registrant shall include the individuals who were ultimately hired in its calculation of total applicants.

.23 The registrant shall categorize the gender of its hired employees and applicant pool as male, female, or not disclosed/available.

.24 The registrant shall classify the racial/ethnic group of its hired employees and applicant pool in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.

Notes

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Employee Incentives and Risk-Taking

Description

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

Accounting Metrics

FN0102-06. Description of the process used to determine and award variable compensation, how it differs by employee category, region, or job function, and discussion of the use of:

- **Performance measures, including financial or non-financial variables**
- **Risk weightings such as *ex ante* adjustments**
- **Deferral periods and vesting schedules**

.25 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.

.26 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.

.27 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.

.28 The registrant should use employee categories defined by the U.S. Equal Employment Opportunity Commission in its EEO-1 Job Classification Guide.

.29 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.

.30 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).

.31 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).

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

FN0102-07. Percentage of total compensation that is variable, by employee category.

.33 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

.34 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.

.35 For each employee category, 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.

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

FN0102-08. Percentage of variable compensation that is equity, by employee category.

.37 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

.38 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.

.39 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).

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

.41 For each employee category, 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.

FN0102-09. Percentage of employee compensation (in U.S. dollars), by employee category, which includes *ex post* adjustments: (1) "malus" clauses and (2) "clawback" clauses.

.42 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

.43 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.

.44 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.

.45 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.

.46 For each employee category, the registrant shall calculate the percentage as the amount of total compensation that is subject to a malus clause.

.47 For each employee category, the registrant shall calculate the percentage as the amount of total compensation that is subject to a clawback clause.

FN0102-10. Training and development expenditure per full time employee by:

(1) Expenditures for industry or professional qualification and advanced industry education;

(2) Expenditures specific to governance, risk, compliance;

(3) All other.

.48 Industry and professional qualification includes credentialing programs and designations such as Chartered Financial Analyst (CFA), Certified Financial Planner (CFP), or Series 7 and Series 63 licenses; advanced industry education includes employer-sponsored education in degree (e.g., M.Fin. or MBA) or certificate programs directly related to job function.

.49 Governance, risk, or compliance training includes training on topics such as risk tolerance, managing position exposures within limits, managing losses, and unauthorized trading or trade execution (including "rogue trading") in customer, client, or proprietary accounts.

.50 Governance, risk, or compliance training topics may also include those related to avoiding and detecting "back-end risks" such as the mismarking of positions or the creation of false records of non-existent transactions.

.51 The registrant shall calculate expenditures as the sum of compensation cost for the registrant's training and development employees, costs for third-party training and development programs, travel costs for training and development staff, non-salary delivery costs (classroom facilities, online infrastructure, computers, etc.), external purchases (such as software or courseware), and tuition reimbursements.

.52 Expenditures shall exclude participants’ travel expenses, conference costs (i.e., fees and travel), the cost of lost work time while engaged in formal training and development, and the costs of internal subject matter experts' time for content analysis, coaching, and knowledge sharing.

.53 The registrant shall calculate (1) qualification and education expenditures per employee as the total dollar amount for the fiscal year spent on industry and professional qualification plus the total dollar amount for the fiscal year spent on advanced industry education divided by the number of full-time employees (monthly average for the fiscal year).

.54 The registrant shall calculate (2) governance, risk, or compliance training expenditure per employee as the total dollar amount for the fiscal year spent on governance, risk, and compliance training divided by the number of full-time employees (monthly average for the fiscal year).

.55 The registrant shall calculate (3) all other training expenditures per employee as the absolute value of the total dollar amount spent on all employee job-related training less the dollar amount spent on industry and professional qualification and advanced industry education (calculated above) less the amount spent on governance, risk, and compliance training (calculated above) divided by the number of full-time employees (monthly average for fiscal year).

Notes

FN0102-10

Note: This method of calculating investment in training and development is based on a definition created by the ASTD through a consortium of its corporate members.

Transparent Information and Customer Responsibility

Description

Although the investment banking and brokerage industry serves financially sophisticated clients, the recent financial crisis articulated the importance of transparent information and customer responsibility. The complex nature of these relationships and the products offered can lead to actual or perceived instances where legal responsibilities were not adequately disclosed. Enhanced disclosure on how this issue is managed would allow shareholders to understand how value is being protected.

Accounting Metrics

FN0102-11. Dollar amount of legal and regulatory fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services. Description of fines and settlements and corrective actions implemented in response to events.

.56 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, misselling products, overcharging clients, and the legal responsibility of the firm with respect to transparent information and fair advice.

.57 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).

.58 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.

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

FN0102-12. Description of procedures or programs to provide customers with adequate, clear, and transparent information about products and services.

.60 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.

.61 Relevant content includes, where applicable, topics such as product risks, trading risks, contractual obligations, and 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.
- Relevant aspects of contractual obligations include those related to alignment of client expectations and legal responsibility in terms of advice, due diligence, and disclosure of risks.
- Relevant aspects of trading risks include those related to algorithmic or high-frequency trading.
- Relevant conflicts of interest include those related to the separation of sell-side research and the registrant's advisory services, disclosure of multiple services the registrant may be providing for a counterparty, and rules for the registrant's employees' personal accounts (PAs).

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

.63 The registrant should describe the internal personnel responsible for developing and executing its communications strategy, such as the roles of client services, legal and compliance, sales and marketing, etc.

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Management of the Legal and Regulatory Environment

Description

The regulatory environment surrounding the investment banking and brokerage industry continues to evolve both nationally and internationally. Companies are subsequently required to adhere to a complex and inconsistent set of rules relating to both performance and disclosure on issues including insider trading, anti-trust, price fixing, and market manipulation. In addition, investment banking and brokerage companies are subject to rules against tax evasion, fraud, money laundering, and corrupt practices. Finally, enhanced rewards for whistle blowers established under the Dodd-Frank act may lead to an increase in the number of complaints brought to regulators. Firms that are able to manage these regulatory concerns and ensure compliance will be better positioned to protect shareholder value and limit future liabilities.

Accounting Metrics

FN0102-13. Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.

.64 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.

.65 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 US Department of Justice), violations of the Specially Designated Nationals List (enforced by the US Treasury Department through its Office of Foreign Asset Control), and Foreign Account Tax Compliance Act violations (enforced by the US Internal Revenue Service).

.66 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).

.67 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.

.68 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.

.69 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.

.70 Disclosure shall exclude fines and settlements reported above in FN0102-11 that are associated with failure to provide adequate, clear, and transparent information about products and services.

FN0102-14. Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.

.71 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.

.72 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.

.73 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.

.74 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.

.75 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.

.76 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.

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Systemic Risk Management

Description

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

Accounting Metrics

FN0102-15. Results of stress tests under adverse economic scenarios and description of the most significant drivers of changes in regulatory capital ratios, including 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

.77 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.

.78 "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.

.79 If the registrant is not a "covered institutions" it shall report the results of it voluntary stress test administered following guidance recommended by the Office of the Comptroller of Currency.

.80 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.

.81 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 includes 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.

.82 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 (%)			

.83 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).

.84 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.)

FN0102-16. Basel III Liquidity Coverage Ratio (LCR).

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

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

.87 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).

FN0102-17. Notional amount of over-the-counter (OTC) derivative positions.

.88 The registrant shall calculate the total notional amount of its OTC derivative positions, where "notional amount" is defined by GAAP Topic 815 as "a number of currency units, shared, bushels, pounds, or other unites specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts."

.89 The total amount shall be disclosed in dollar amount, as a sum of all types of risk categories and instruments (i.e., sum of foreign exchange, interest rate, equity, commodities, credit default swaps (CDS), etc.).

.90 Over-the-counter derivatives are defined as instruments that are not cleared through a central counterparty (e.g., instead traded through a dealer network).

FN0102-18. Level 3 assets: (1) total value and (2) percentage of total assets.

.91 Level 3 assets are defined as those whose fair value cannot be determined using observable measures, such as market prices or model; they tend to be illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.

.92 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."

.93 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.

FN0102-19. Total 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.

.94 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.

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

.96 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.

.97 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

.98 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.

FN0102-20. Skewness and kurtosis of trading revenue.

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

.100 Spread profits and losses are defined, as in the Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Volcker Rule), 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).

.101 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.

.102 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).

.103 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.

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

Notes

FN0102-17. GENERAL

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 proposed jointly by the OCC, Federal Reserve Board, FDIC, and SEC.

Managing Conflicts of Interest

Description

Investment banking and brokerage companies are exposed to potential conflicts of interest as a result of the increasingly complex nature of products and services, and the number of obligations and interests maintained. The failure to adequately address these conflicts could limit the willingness of clients to engage with a company and could result in litigation, enforcement action, and reputational harm. Investment banking and brokerage companies should therefore enhance disclosure on how conflicts of interest are identified and managed.

Accounting Metrics

FN0102-21. Number of actual and apparent conflicts of interest that were identified, including response, such as divestiture, recusal, or asset freeze.

.105 The registrant shall disclose the number of number of actual and apparent conflicts of interest that it identified.

.106 Actual conflict of interest are defined as when the registrant can show that there is a conflict between the private interests and the official responsibilities of a person or entity in a position of trust and challenges arise to fulfilling the person or entity's duties impartially.

.107 Apparent conflict of interest are defined as when the registrant can show that there is a situation in which a reasonable person, with knowledge of the relevant facts, would question the impartiality of the individual or entity in the matter being considered.

- SASB notes that the appearance of a conflict can cause the same reputational risk as an actual conflict.

.108 Conflicts of interest include, but are not limited to, nepotism, gifts, self-dealing (when an individual who owns or directs an entity directs it to do business with another entity to his/her benefit), outside employment, insider trading, bribery/kickbacks, or prior relationships.

.109 The registrant may exclude a potential conflict of interest, which includes scenarios of conflict of interest that have not yet occurred, but that could occur in certain circumstances in the future.

.110 The registrant shall disclose its response to each conflict of interest, which may include, but is not limited to, divestiture of a position, recusal (at the individual or firm level), or an asset freeze.

- The registrant may summarize conflict of interest in the following table format:

Table 1. Conflicts of interest – Identification and Response

Type	Recusal (firm)	Recusal (individual)	Divesture	Asset Freeze	Total
Actual conflicts of interest					
Apparent conflict of interest					
Total					

FN0102-22. Percentage of employees in compliance with conflict of interest training and/or certification programs and description of recourse for non-compliance with training requirements.

.111 The registrant shall calculate the percentage of employees in compliance with conflict of interest training and/or certification programs as the number of employees who have met requirements for conflict of interest training and/or certification divided by the total number of full-time equivalent (FTE) employees.

- If the program requires annual (or more frequent) training or certification then the disclosure shall relate to completion of those requirements.

.112 Disclosure may be limited to scope of employees covered by conflict of interest training requirements (e.g., those with brokerage licenses, senior management, etc.).

- In this case the registrant shall describe its requirements and disclose the number of employees for which it covers.

.113 The registrant shall describe the recourse for non-compliance with training requirements, which may include disciplinary action.

Asset Management & Custody Activities

SICS™ #FN0103

Prepared by the
Sustainability Accounting Standards Board ®

November 2013
Exposure Draft for Public Comment

Asset Management & Custody Activities

Sustainability Accounting Standard

About SASB

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

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

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 45 days beginning Friday, November 15, 2013 and ending Monday, December 30, 2013. This Standard is subject to change thereafter.

For instructions on providing comments to SASB please click here.

For an introduction to SASB Standards please click here.

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SASB Sustainability Accounting Standard

Asset Management & Custody Activities **(FN0103)**

Industry Description

Companies in the asset management and 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.

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Integration of Environmental, Social, and Governance Factors in Investment Management and Advisory	FN0103-01	Discussion of how environmental, social, and governance (ESG) integration intersects with the registrant's fiduciary duties.
	FN0103-02	Discussion of how environmental, social, and governance (ESG) factors are integrated into investment analysis and decisions (1) at the portfolio or fund level and (2) at the company or asset level.
	FN0103-03	Percentage of assets under management, by major asset class, that employs: (1) Integration of ESG factors (2) Sustainability themed investing (3) Screening (exclusionary, inclusionary, or benchmarked) (4) Impact or community investing
Employee Development and Inclusion	FN0103-04	Measure of employee engagement, including a description of measurement methodology.
	FN0103-05	Percentage of gender and racial/ethnic group representation by employee category.
	FN0103-06	Applicant pool and hired employees by gender and racial/ethnic group.
Employee Incentives and Risk Taking	FN0103-07	Description of the process used to determine and award variable compensation, how it differs by employee category, region, or job function, and discussion of the use of: • Performance measures, including financial or non-financial variables • Risk weightings such as *ex ante* adjustments • Deferral periods and vesting schedules
	FN0103-08	Percentage of total compensation that is variable, by employee category.
	FN0103-09	Percentage of variable compensation that is equity, by employee category.
	FN0103-10	Percentage of total compensation, by employee category, which includes *ex post* adjustments: (1) "malus" clauses and (2) "clawback" clauses.
	FN0103-11	Training and development expenditure per full-time employee by: (1) Expenditures for industry or professional qualification and advanced industry education; (2) Expenditures specific to governance, risk, or compliance; (3) All other.
Transparent Information and Fair Advice for Customers	FN0103-12	Dollar amount of fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services. Description of fines and settlements and corrective actions implemented in response to events.
	FN0103-13	Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, alternatives, and conflicts of interest.

Topic	Code	Accounting Metric
Management of the Legal and Regulatory Environment	FN0103-14	Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.
	FN0103-15	Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.
Active Ownership and Shareholder Engagement	FN0103-16	(1) Percentage of total proxies voted and (2) number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action.
	FN0103-17	Number, type, and outcome of shareholder resolutions filed related to ESG issues.
	FN0103-18	Description of environmental, social, and/or governance related corporate engagement, including significant outcomes and any related financial implications.
Systemic Risk Management	FN0103-19	(1) Registered and (2) unregistered assets under management (in U.S. dollars and percentage of total).
	FN0103-20	Value (in U.S. dollars) of collateral received from securities lending and amount received from repurchase agreements involving clients' assets.
	FN0103-21	Notional amount of over-the-counter (OTC) derivative positions.
	FN0103-22	(1) Tier 1 common capital ratio (2) Tier 1 capital ratio (3) Total risk-based capital ratio (4) Tier 1 leverage ratio
	FN0103-23	Basel III Liquidity Coverage Ratio (LCR).

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

Description

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

Accounting Metrics

FN0103-01. Discussion of how environmental, social, and governance (ESG) integration intersects with the registrant's fiduciary duties.

.01 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.

.02 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".

.03 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).

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

FN0103-02. Discussion of how environmental, social, and governance (ESG) factors are integrated into investment analysis and decisions (1) at the client portfolio or fund level and (2) at the investment or asset level.

.05 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

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

.07 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 diversification of these risks.

.08 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.)

.09 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 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 availability for 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.

.10 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

.11 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.

.12 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.

FN0103-03. Percentage of assets under management, by major asset class, that employs:
(1) Integration of ESG factors
(2) Sustainability-themed investing
(3) Screening (exclusionary, inclusionary, or benchmarked)
(4) Impact or community investing

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

.14 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."

.15 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.

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

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

.17 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).

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

.19 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

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

.21 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.

Notes

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Employee Development and Inclusion

Description

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

Accounting Metrics

FN0103-04. Measure of employee engagement, including a description of measurement methodology.

.22 The registrant shall disclose employee engagement as a percentage (i.e., percentage of employees deemed "engaged") or as an index (e.g., strength of employee agreement with a survey statement).

.23 The disclosure shall be calculated based on the results of an employee engagement survey or research study conducted by the registrant, an external entity contracted to perform such a study by the registrant, or an independent third party.

.24 The registrant shall briefly describe the following:

- Source of its survey (e.g., third-party survey or registrant's own).
- Methodology used to calculate the index (e.g., a simple average of individual employee survey responses, with a numerical value assigned to the strength of agreement or disagreement with a survey statement).
- Possible range of the index.
- Summary of questions or statements included in the survey or study (e.g., those related to goal setting, support to achieve goals, training, and development, work processes, and commitment to the organization).

.25 Where the survey methodology has changed compared to previous fiscal year, the registrant shall indicate results based on both the old and new methods in the year in which the change is made.

.26 If results are limited to a subsection of employees, the registrant shall include the percentage of employees included in the study or survey and discuss the representativeness of the sample.

FN0103-05. Percentage of gender and racial/ethnic group representation by employee category.

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

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	*Female*	*NA**	*White*	*Black or African American*	*Hispanic or Latino*	*Asian*	*Other^*	*NA**
Executives/Sr. Managers									
Mid-level Managers									
Professionals									
All Others (EEO-1 categories technicians, sales, admin support, service workers).									

*NA = not available/not disclosed

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

.28 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, Professionals, All Others (EEO-1 categories technicians, sales, admin support, service workers).

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

.30 The registrant shall classify the racial/ethnic group of its employees in the following categories using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.

FN0103-06. Applicant pool and hired employees by gender and racial/ethnic group.

.31 The registrant shall summarize and disclose the gender and racial/ethnic group representation of job applicants and newly hired employees in the following table format:

Category	Gender (%)			Race and Ethnicity (%)					
	Male	*Female*	*NA**	*White*	*Black or African American*	*Hispanic or Latino*	*Asian*	*Other^*	*NA**
Applicant pool									
Hired Employees									

*NA = not available/not disclosed
^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classification

.32 Hired employees are defined as the total number of vacant positions that were filled during the fiscal year.

.33 The applicant pool is defined as the individuals who submitted formal applications for positions during the fiscal year.

- The registrant shall exclude applications for positions that were not filled during the fiscal year.
- The registrant shall include the individuals who were ultimately hired in its calculation of total applicants.

.34 The registrant shall categorize the gender of its hired employees and applicant pool as male, female, or not disclosed/available.

.35 The registrant shall classify the racial/ethnic group of its hired employees and applicant pool in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.

Notes

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Employee Incentives and 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

FN0103-07. Description of the process used to determine and award variable compensation, how it differs by employee category, region, or job function, and discussion of the use of:

- **Performance measures, including financial or non-financial variables**
- **Risk weightings such as *ex ante* adjustments**
- **Deferral periods and vesting schedules**

.36 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.

.37 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.

.38 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.

.39 The registrant should use employee categories defined by the U.S. Equal Employment Opportunity Commission in its EEO-1 Job Classification Guide.

.40 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.

.41 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).

.42 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).

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

FN0103-08. Percentage of total compensation that is variable, by employee category.

.44 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

.45 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.

.46 For each employee category, 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.

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

FN0103-09. Percentage of variable compensation that is equity, by employee category.

.48 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide] into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

.49 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.

.50 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).

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

.52 For each employee category, 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.

FN0103-10. Percentage of total compensation, by employee category, which includes *ex post* adjustments: (1) "malus" clauses and (2) "clawback" clauses.

.53 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide] into the following categories: Executives/Sr. Managers, Mid-level Managers, and Professionals, All others (EEO-1 categories technicians, sales, admin support, and service workers).

.54 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.

.55 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.

.56 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.

.57 For each employee category, the registrant shall calculate the percentage as the amount of total compensation that is subject to a malus clause.

.58 For each employee category, the registrant shall calculate the percentage as the amount of total compensation that is subject to a clawback clause.

FN0103-11. Training and development expenditure per full-time employee by:

(1) Expenditures for industry or professional qualification and advanced industry education;

(2) Expenditures specific to governance, risk, or compliance;

(3) All other.

.59 Industry and professional qualification includes credentialing programs and designations such as Chartered Financial Analyst (CFA), Certified Financial Planner (CFP), or Series 7 and Series 63 licenses; advanced industry education includes employer-sponsored education in degree (e.g., M.Fin. or MBA) or certificate programs directly related to job function.

.60 Governance, risk, or compliance training includes training on topics such as risk tolerance, managing position exposures within limits, managing losses, and unauthorized trading or trade execution (including "rogue trading") in customer, client, or proprietary accounts.

.61 Governance, risk, or compliance training topics may also include those related to avoiding and detecting "back-end risks" such as the mismarking of positions or the creation of false records of non-existent transactions.

.62 The registrant shall calculate expenditures as the sum of compensation cost for the registrant's training and development employees, costs for third-party training and development programs, travel costs for training and development staff, non-salary delivery costs (classroom facilities, online infrastructure, computers, etc.), external purchases (such as software or courseware), and tuition reimbursements.

.63 Expenditures shall exclude participants' travel expenses, conference costs (i.e., fees and travel), the cost of lost work time while engaged in formal training and development, and the costs of internal subject matter experts' time for content analysis, coaching, and knowledge sharing.

.64 The registrant shall calculate (1) qualification and education expenditures per employee as the total dollar amount for the fiscal year spent on industry and professional qualification plus the total dollar amount for the fiscal year spent on advanced industry education divided by the number of full-time employees (monthly average for the fiscal year).

.65 The registrant shall calculate (2) governance, risk, or compliance training expenditure per employee as the total dollar amount for the fiscal year spent on governance, risk, and compliance training divided by the number of full-time employees (monthly average for the fiscal year).

.66 The registrant shall calculate (3) all other training expenditures per employee as the absolute value of the total dollar amount spent on all employee job-related training less the dollar amount spent on industry and professional qualification and advanced industry education (calculated above) less the amount spent on governance, risk, and compliance training (calculated above) divided by the number of full-time employees (monthly average for fiscal year).

Notes

FN0103-10

This method of calculating investment in training and development is based on a definition created by the ASTD through a consortium of its corporate members.

Transparent Information and Fair Advice for Customers

Description

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

Accounting Metrics

FN0103-12. Dollar amount of fines and settlements associated with the failure to provide adequate, clear, and transparent information about products and services. Description of fines and settlements and corrective actions implemented in response to events.

.67 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.

.68 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).

.69 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.

.70 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.

FN0103-13. Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflict of interest.

.71 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.

.72 Relevant content includes, where applicable, topics such as risk, suitability, investment alternatives, and disclosure of conflicts of interest.

- Relevant risks include those related to complex or high-yield products that may be subject to volatility, credit risk exposure, sensitivity to interest rates, or liquidity concerns, or otherwise may be misaligned with clients' risk tolerance.
- Relevant aspects of suitability are those addressed in FINRA's suitability rules, where registrants "and their associated persons must have a reasonable basis to believe" that a transaction or investment strategy involving securities that they recommend is suitable for the customer. This reasonable belief must be based on the information obtained through the reasonable diligence of the firm or associated person to ascertain the customer's investment profile.[1]
- Relevant conflicts of interest include those related to services (e.g., research) paid for by clients' commissions, allocation of trades amongst clients, and rules for the registrant's employees' personal accounts (PAs).

.73 Communication methods may include client statements, supplemental brochures, product prospectuses, website listing, or verbal communications.

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

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

[1] http://www.finra.org/investors/protectyourself/beforeyouinvest/p197434

.76 The registrant should describe the internal personnel responsible for developing and executing its communications strategy, such as the roles of client services, legal and compliance, sales and marketing, etc.

Notes

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Management of the Legal and Regulatory Environment

Description

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

Accounting Metrics

FN0103-14. Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.

.77 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with the enforcement of financial industry regulations, including SEC rules, Federal Reserve Board requirements (e.g., capital adequacy rules), the 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.

.78 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).

.79 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).

.80 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.

.81 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.

.82 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.

.83 Disclosure shall exclude fines and settlements reported above in FN0103-11 that are associated with the failure to provide adequate, clear, and transparent information about products and services.

FN0103-15. Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.

.84 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.

.85 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.

.86 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.

.87 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.

.88 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.

.89 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.

Notes

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Active Ownership and Shareholder Engagement

Description

Asset Management and custody activities firms have the opportunity to engage actively with companies that they invest in or own. Proxy voting, shareholder proposals, and other engagement strategies allow these companies to leverage their positions to encourage companies to improve long-term value through enhanced sustainability management in areas including energy efficiency and human capital. A strategic approach to active ownership and engagement can increase the value of underlying assets, thereby increasing value for both clients and shareholders.

Accounting Metrics

FN0103-16. Percentage of total proxies voted, number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action.

.90 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).

.91 The registrant shall calculate the number of proxy votes supporting environmental, social, and/or governance (ESG) issues as votes where the registrant cast 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

.92 The registrant shall calculate the percentage of shareholder resolutions resulting in company action as the total of number 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 (0.91 above).

.93 Company action includes specific actions to address fully or substantially the shareholder resolution or a commitment to do so.

FN0103-17. Number, type, and outcome of shareholder resolutions filed related to ESG issues.

.94 The registrant shall disclose the number and type of shareholder resolutions that it filed or sponsored related to environmental, social, and/or governance (ESG), where the type is 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

.95 The registrant shall describe the outcomes of the shareholder resolution as filed, omitted, vote, vote (company will address), withdrawn (company will address), withdrawn (company engaged in dialogue), or other.

FN0103-18. Description of environmental, social, and/or governance related corporate engagement, including significant outcomes and any related financial implications.

.96 The registrant shall describe instances of engagement with companies, outside of formal proxy voting or shareholder resolution filing, such as:

- Engagement with companies in a private equity portfolio.
- Informal company dialogues.

.97 Engagement may include but is not limited to dialogues with management, active management of ESG issues (e.g., identification of corporate best practices and management tools), or recommendations to change policies and practices.

.98 Environmental topics may include but are not limited to energy, water, waste, or emissions management.

.99 Social topics may include but are not limited to labor practices and health and safety standards.

.100 Governance topics may include but are not limited to ESG risk management within supply chains.

.101 Significant results include changes to corporate ESG policies, the implementation of ESG-related strategies, and partnership in operational efficiency plans.

.102 If applicable, the registrant should disclose the results of any successful engagements, such as reductions in energy, water, waste, or emissions and the related financial benefit.

Notes

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Systemic Risk Management

Description

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

Accounting Metrics

FN0103-19. (1) Tier 1 common capital ratio
(2) Tier 1 capital ratio
(3) Total risk-based capital ratio
(4) Tier 1 leverage ratio

.103 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 (%)	

.104 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).

FN0103-20. Registered and (2) unregistered assets under management (in U.S. dollars and as a percentage of total).

.105 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.
.106 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).
.107 The registrant shall calculate the percentage of registered AUM as the amount of registered AUM divided by its total AUM.
.108 The registrant shall calculate the percentage of unregistered AUM as the amount of unregistered AUM divided by its total AUM.

FN0103-21. Value (in U.S. dollars) of collateral received from securities lending and amount received from repurchase agreements involving clients' assets.

.109 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).
.110 The registrant shall disclose the amount of cash it received from the sale of securities in repurchase agreements.
.111 The scope of disclosure shall be limited to the lending or sale of client securities and shall exclude lending or repos associated with the registrant's own assets.

FN0103-22. Notional amount of over-the-counter (OTC) derivative positions.

.112 The registrant shall calculate the total notional amount of its OTC derivative positions, where the "notional amount" is defined by GAAP Topic 815 as "a number of currency units, shared, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts."

.113 The total amount shall be disclosed in the dollar amount as a sum of all types of risk categories and instruments (i.e., the sum of foreign exchange, the interest rate, equity, commodities, credit default swaps (CDS), etc.).

.114 Over-the-counter derivatives are defined as instruments that are not cleared through a central counterparty (e.g., traded instead through a dealer network).

FN0103-23. Basel III Liquidity Coverage Ratio (LCR).

.115 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.

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

.117 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).

Notes

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Consumer Finance

SICS™ #FN0201

Prepared by the
Sustainability Accounting Standards Board ®

November 2013
Exposure Draft for Public Comment

Consumer Finance
Sustainability Accounting Standard

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

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

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SASB Sustainability Accounting Standard

Consumer Finance **(FN0201)**

Industry Description

Companies in the consumer finance industry provide personal finance through credit and debit card products. Certain companies within this industry provide transaction processing and payment technology for debit and credit cards.

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

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Financial Inclusion	FN0201-01	Revenue from credit and debit products targeting unbanked and underbanked segments.
	FN0201-02	Percentage of new accounts held by first-time credit card holders.
Customer Privacy and Security	FN0201-03	Number of data security breaches, including: (1) Percentage that resulted in the actual outcomes of a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability (2) Percentage involving personal data in which customers were notified of breach (3) Description of corrective actions
	FN0201-04	Amount of fraudulent transaction activity (in U.S. dollars), percentage from: (1) card-not-present fraud and (2) card-present and other fraud.
	FN0201-05	Description of data security and fraud prevention efforts related to new and emerging technologies and/or new and emerging threats.
Transparent Information and Fair Advice for Customers	FN0201-06	Dollar amount of legal and regulatory fines and settlements associated with disclosure, transparency, or marketing including, but not limited to, violations of the Credit CARD Act. Description of fines and settlements and corrective actions implemented in response to events.
	FN0201-07	Payout ratio for add-on products, type of add-on products offered, and description of how compensation of sales representatives is related to sales of these products.
Responsible Lending and Debt Prevention	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
	FN0201-09	Percentage of applications accepted for applicants with FICO scores above and below 640 (subprime).
	FN0201-10	Average annual fees per account for pre-paid transaction products.
Management of Legal and Regulatory Environment	FN0201-11	Dollar amount of legal and regulatory fines and settlements associated with consumer finance industry regulation (state and federal). Description of fines and settlements and corrective actions implemented in response to events.

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 towards 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 towards 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 the 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 saving account, which 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 and Security

Description

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

Accounting Metrics

FN0201-03. Number of data security breaches, including:

> **(1) Percentage that resulted in the actual outcomes of a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability**
>
> **(2) Percentage involving personal data, in which customers were notified of breach**
>
> **(3) Description of corrective actions**

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

.11 The registrant shall disclose the percentage of data security breaches, cyber security risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

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

.12 The registrant shall disclose the percentage of data security breaches in which customers' unencrypted personal information (such as a social security number, driver's license number, account number, credit or debit card number, or access code) was compromised and 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 investigation.

.13 Disclosure shall include, but not be limited to, incidents disclosed according to the U.S. Security and Exchange Commission's (SEC) CF Disclosure Guidance: Topic No. 2, Cybersecurity.

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

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

FN0201-04. Amount of fraudulent transaction activity (in U.S. dollars), percentage from: (1) card-not-present fraud and (2) card-present and other fraud.

.16 The registrant shall calculate fraudulent activity as the total value (in U.S. dollars) of account holder transactions refunded to account holders (card holders) due to fraud.

.17 The scope shall include losses from the unauthorized use of revolving consumer credit cards, including instances of card-present fraud and instances of card-not-present fraud, where the registrant is liable for losses (e.g., such as when 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.

.20 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.

.21 Card-present fraud is characterized by the unauthorized use of a physical credit card for a transaction in a face-to-face setting with a merchant.

- "Other types of fraud" includes identify theft and any fraudulent transaction that cannot be classified as CNP fraud.

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

.22 The registrant shall describe its customer data security and fraud prevention efforts, such as physical technologies, data analysis, merchant programs (e.g., training), fraud prevention services, consumer education, and partnerships (e.g., with peers, law enforcement, or business partners).

.23 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.

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

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

.26 All disclosure shall be sufficient such that it describes the registrant's data security and fraud prevention efforts, but disclosure itself would not compromise the registrant's ability to maintain data privacy and security.

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Transparent Information and 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. Dollar amount of legal and regulatory fines and settlements associated with disclosure, transparency, or marketing including, but not limited to, violations of the Credit CARD Act. Description of fines and settlements, and corrective actions implemented in response to events.

.27 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.

.28 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.

.29 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

.30 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.

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

FN0201-07. Payout ratio for add-on products, type of add-on products offered, and description of how compensation of representatives is related to sales of these products.

.32 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".

.33 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).

.34 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

.35 The registrant shall describe how its representatives' compensation is linked to sales of add-on products, such as incentives 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.

Notes

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Responsible Lending and 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. 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

.36 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.

.37 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).

.38 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).

.39 The mean and median age of account (in months) shall be calculated according to standard statistical methods from the date each active account was opened until the close of the fiscal year.

- Accounts closed during the fiscal year shall be excluded from the calculation.

.40 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 customer accounts that were active.

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

.41 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.

.42 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.

.43 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.

.44 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.

.45 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)

.46 Revenue shall be calculated in 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.).

Management of Legal and Regulatory Environment

Description

The Credit CARD Act of 2009 and the creation of the Consumer Financial Protection Bureau (CFPB) demonstrate an effort to eliminate specific practices that consumer finance companies have traditionally relied on to generate revenue and create shareholder value. Subsequently, firms have been required to modify interest rate structures, disclosures, service fees, and marketing practices to comply with new regulations. In addition, recent settlements have also indicated increased scrutiny of anti-competitive practices in the industry. Consumer finance companies that fail to adapt to these and future regulatory constraints will put shareholders at risk.

Accounting Metrics

FN0201-11. Dollar amount of legal and regulatory fines and settlements associated with consumer finance industry regulation (state and federal). Description of fines and settlements and corrective actions implemented in response to events.

.47 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of consumer finance industry regulations, including 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.

.48 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

.49 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.

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

.51 Disclosure shall exclude fines and settlements, reported above in FN0201-06, which are associated with failure to provide adequate, clear, and transparent information about products and services.

.52 Disclosure shall exclude fines and settlements associated with mortgage industry regulations.

Notes

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Mortgage Finance

SICS™ #FN0202

Prepared by the
Sustainability Accounting Standards Board ®

November 2013
Exposure Draft for Public Comment

Mortgage Finance
Sustainability Accounting Standard

About SASB
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SASB Sustainability Accounting Standard

Mortgage Finance **(FN0202)**

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.

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Energy Efficient Mortgages	FN0202-01	Number and value of mortgages that integrate building or home energy efficiency into the underwriting and appraisal processes.
Environmental Risk to Mortgaged Properties	FN0202-02	Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas.
	FN0202-03	Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting, including the valuation of collateral and credit risk analysis.
	FN0202-04	Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region.
Transparent Information and Fair Advice for Customers	FN0202-05	Description of how variable compensation of loan originators is related to terms and conditions of loans.
	FN0202-06	Number and value of mortgages issued to minorities (FFIEC defined).
	FN0202-07	Number and value of mortgages provided to low or moderate income individuals/families.
	FN0202-08	Dollar 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. Description of fines and settlements and corrective actions implemented in response to events.
Responsible Lending and Debt Prevention	FN0202-09	Number and value of Dodd-Frank designated Qualified Mortgages (QMs), by minority status and income classification.
	FN0202-10	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.
	FN0202-11	Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages.
	FN0202-12	Number of: (1) modifications, (2) foreclosures, and (3) short sales or deeds in lieu of foreclosure.
	FN0202-13	Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, and nonconventional.
Management of Legal and Regulatory Environment	FN0202-14	Dollar amount of fines and settlements associated with mortgage industry regulations. Description of fines and settlements and corrective actions implemented in response to events.

Energy Efficient Mortgages

Description

Residential energy use accounts for approximately 22 percent of total consumption in the U.S. Mortgage finance companies are subsequently in a unique position to assist consumers in reducing their energy use and costs. Specifically, energy efficient mortgages allow customers to qualify for larger loans which account for energy performance improvements, and the associated costs savings. A strategic approach to innovative mortgage products can yield opportunities for revenue growth, new partnerships, and a decreased default risk, thereby increasing shareholder value.

Accounting Metrics

FN0201-01. Number and value of mortgages that integrate building or home energy efficiency into the underwriting and appraisal processes.

.01 The registrant shall report the aggregate number and total mortgage loan value of mortgages for which it has integrated the energy efficiency of the building or home into its loan approval process.

.02 Integration of property energy efficiency can occur during calculation of loan-to-value (LTV) ratios and debt-to-income (DTI) ratios, by assuming:

- The valuation of an underlying mortgaged property increases due to its energy efficiency.
- A mortgage loan holder's ability to repay improves due to the energy cost savings realized due to home efficiency.

.03 The registrant shall consider the following types of mortgages to qualify for disclosure:

- U.S. Department of Housing and Urban Development's Federal Housing Administration-insured Energy Efficient Mortgages (EEM)
- ENERGY STAR mortgages offered as a participating lender
- Department of Veterans Affairs (VA) Energy Efficient Mortgages

.04 For uninsured, conventional mortgages for which the registrant integrates energy efficiency into the approval process, it should describe any home energy rating (HER) requirements, loan increase criteria, or other terms or conditions specific to the mortgage.

.05 Where relevant, the registrant shall provide a breakdown between consumer (residential) mortgages and commercial mortgages.

Notes

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Environmental Risk to Mortgaged Properties

Description

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

Accounting Metrics

FN0202-02. Number and value of mortgage loans in Federal Emergency Management Agency (FEMA) special flood hazard areas.

.06 The number 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.

.07 FEMA special flood hazard areas (SFHA) are defined as the land area covered by the floodwaters of the base flood on National Flood Insurance Program (NFIP) maps. The SFHA is the area where the NFIP's floodplain management regulations must be enforced and the area where the mandatory purchase of flood insurance applies. The SFHA includes Zones A, AO, AH, A1-30, AE, A99, AR, AR/A1-30, AR/AE, AR/AO, AR/AH, AR/A, VO, V1-30, VE, and V.

FN0202-03. Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting, including the valuation of collateral and credit risk analysis.

.08 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).

.09 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, etc.).
- How natural disaster risks affect the credit risk analysis, including if the registrant assumes that increases in natural disaster frequency and severity will increase the likelihood of default due to properties being un- or under-insured.

FN0202-04. Amount and percentage of credit risk for mortgage loans that is attributable to default risk from weather-related natural catastrophes, by geographic region.

.10 The registrant shall disclose the expected loss (in U.S. dollars) and percentage of total expected loss given default (in U.S. dollars) attributable to:

- Mortgage loan default and delinquency due to weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires), and excluding geophysical events (e.g., earthquakes and volcanic eruptions).

.11 The registrant shall use the basic formula that expected loss = probability of default * loss given default * exposure at default, or equivalent.

.12 The registrant shall provide this amount and percentage by the geographic region, where regions are determined by the registrant, but which may include: Gulf Coast, California, Northeast, Mountain, Midwest, etc.

Transparent Information and 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 which 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 likely to protect shareholder value.

Accounting Metrics

FN0202-05. Description of how variable compensation of loan originators is related to terms and conditions of loans.

.13 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, upfront points or fees, or the ability of the loan to be securitized.

.14 The registrant shall describe relevant aspects of compensation structure, to include 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

.15 Loan originators are defined per the Federal Reserve's Regulation Z as a person 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.

FN0202-06. Number and value of mortgages issued to minorities (FFIEC defined).

.16 The number 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.

.17 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 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".

.18 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 (HDMA) Disclosure.

FN0202-07. Number and value of mortgages provided to low or moderate income individuals/families.

.19 The number 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.

.20 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.

.21 Where relevant, the scope of disclosure should include Community Reinvestment Act compliant lending.

FN0202-08. Dollar 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. Description of fines and settlements and corrective actions implemented in response to events.

.22 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.

.23 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).

.24 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.

.25 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.

.26 The registrant should disclose any corrective actions specifically related to provide clear, transparent, and timely communications to customers about mortgage risks, terms, and fees.

Notes

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Responsible Lending and 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

FN0202-09. Number and value of Dodd-Frank designated Qualified Mortgages (QMs), by minority status and 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 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).

.29 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			

.30 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 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".

.31 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 (HDMA) Disclosure.

.32 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.

FN0202-10. 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.

.33 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.

.34 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						

.35 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.

.36 Higher rate mortgages are defined as those that are at least 300 basis points above Treasuries of comparable maturity.

.37 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.

FN0202-11. Ratio of amount of first mortgage principal reduction to amount of foreclosed mortgages.

.38 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.

.39 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.

FN0202-12. Number of: (1) modifications, (2) foreclosures, (3) short sales or deeds in lieu of foreclosure, and (4) total mortgages.

.40 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").

.41 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.

.42 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 which entered foreclosure during the fiscal year, regardless of whether they were sold or held for sale.

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

.44 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.

.45 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	Percentage of total
Modification		
Foreclosure		
Short Sale or Deed in Lieu		
Total Mortgages		

FN0202-13. Foreclosure rate by segment: subprime, non-subprime jumbo, non-subprime conventional, non-subprime, and nonconventional

.46 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.

.47 Foreclosure rates shall be summarized according to the following table format:

Table 1. Foreclosure rate by loan segment

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

.48 Subprime mortgages are those that held by borrowers with credit ratings of 640 or lower, and are typically nonconventional mortgages.

.49 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).

.50 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).

.51 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.

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Management of Legal and 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

FN0202-14. Dollar amount of fines and settlements associated with mortgage industry regulations. Description of fines and settlements and corrective actions implemented in response to events.

.52 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).

.53 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).

.54 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.

.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.

.56 Disclosure shall exclude fines and settlements, reported above in FN0202-08, which are associated with violation of Regulation Z (Truth in Lending Act) mortgage industry provisions relating to communications to customers.

Notes

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Security & Commodity Exchanges

SICS™ #FN0203

Prepared by the
Sustainability Accounting Standards Board ®

November 2013
Exposure Draft for Public Comment

Security & Commodity Exchanges

Sustainability Accounting Standard

About SASB

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

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

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 45 days beginning Friday, November 15, 2013 and ending Monday, December 30, 2013. This Standard is subject to change thereafter.

For instructions on providing comments to SASB please click here.

For an introduction to SASB Standards please click here.

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SASB Sustainability Accounting Standard

Security & Commodity Exchanges **(FN0203)**

Industry Description

Companies in the security and commodity exchanges industry operate physical or electronic marketplaces for trading financials securities, commodities, and other financial instruments.

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Promoting Transparent and Efficient Capital Markets	FN0203-01	Discussion of alert policy regarding timing and nature of public release of information, including description of provisions to – when necessary – pause or halt trading to examine completeness of information.
	FN0203-02	Number and average duration of (1) halts related to public release of information and (2) pauses related to volatility.
	FN0203-03	Discussion of risks and opportunities (short and long term) associated with algorithmic or high frequency trading, and percentage of algorithmic or high frequency trades occurring on exchange(s).
	FN0203-04	Description of policy to encourage or require listed companies to publicly disclose governance, social, and/or environmental information.
Managing Conflicts of Interest	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.
	FN0203-06	Number of actual and apparent conflict of interest incidents that were identified and mitigated, percentage of staff in compliance with a conflict of interest training and/or certification program.
	FN0203-07	Dollar amount of legal and regulatory fines and settlements associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other business ethics violations. Description of fines and settlements and corrective actions implemented in response to events.
Managing Business Continuity and Technology Risks	FN0203-08	Description efforts to prevent errors, security breaches, and market disruptions related to use of trading technology, IT infrastructure, services for issuers and members, websites, and information held by third parties.
	FN0203-09	Number of significant market disruptions related to member actions, technology, power losses, or high-risk, low probability incidents, including: (1) Type and extent of disruption (2) Duration of downtime (3) Root cause and corrective actions
	FN0203-10	Number of data security breaches, including: (1) Percentage that resulted in a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability (2) Description of corrective actions

Promoting Transparent and Efficient Capital Markets

Description

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

Accounting Metrics

FN0203-01. Discussion of alert policy regarding timing and nature of public release of information, including description of provisions to – when necessary – pause or halt trading to examine completeness of information.

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

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

.02 Relevant aspects of an alert policy include guidelines around:

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

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

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

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

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

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

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

.06 Trading pauses are defined as when an exchange briefly suspends trading of an equity (e.g., for 5 minutes) due to extreme volatility or erratic trading.

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

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

Table 1. Trading Halts, Pauses, and Circuit Breakers

Type	Number	Duration
Halt		
Pause		

FN0203-03. Discussion of risks and opportunities (short and long term) associated with algorithmic or high frequency trading, and percentage of algorithmic or high frequency trades occurring on exchange(s).

.09 Algorithmic or automated trading is defined as use of electronic platforms for entering trading orders with an automated algorithm which executes pre-programmed trading instructions.

- This includes high frequency trading
- This excludes program trading

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

.11 The registrant shall identity risks associated with algorithmic trading occurring on its exchange(s) such as regulatory, reputational, volatility, or risks to capital expenditures (e.g., risk that data centers become stranded assets if need for latency declines).

.12 The registrant shall identity opportunities associated with algorithmic trading occurring on its exchange(s) such as increased trading volume, revenue from co-location facilities, and sales of trading software.

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

.13 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).

.14 The scope shall be limited to rules, requirements, and disclosures that are additional to size, distribution, and financial criteria for initial public offering (IPO) and/or continued listing.

.15 Governance information includes, but is not limited to, rules and disclosure related to board structure and independence, committees of the board, and codes of conduct or ethics.

.16 Social and environmental information includes, but is not limited to, information typically found in corporate sustainability reports or integrated reports.

.17 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.

Notes

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Managing Conflicts of Interest

Description

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

Accounting Metrics

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

.18 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.

.19 The registrant may describe efforts to minimize conflicts of interest including:

- Education, interpretation, or guidance to broker-dealer members with respect to regulatory compliance
- Technical mechanisms to enforce compliance
- Ceding some self-regulatory powers to FINRA or equivalent (i.e., through a 17d-2 agreement)

FN0203-06. Number of actual and apparent conflict of interest incidents that were identified and mitigated, percentage of staff in compliance with a conflict of interest training and/or certification program.

.20 The registrant shall disclose the number of number of actual and apparent conflicts of interest that it has identified.

.21 Actual conflicts of interest are defined as when the registrant can show that there is a conflict between the private interests and the official responsibilities of a person or entity in a position of trust, and challenges arise in fulfilling the person or entity's duties impartially.

.22 Apparent conflicts of interest are defined as when the registrant can show that there is a situation in which a reasonable person, with knowledge of the relevant facts, would question the impartiality of the individual or entity in the matter being considered.

- SASB notes that the appearance of a conflict can cause the same reputational risk as an actual conflict.

.23 Conflicts of interest include, but are not limited to, nepotism, gifts, self-dealing (when an individual who owns or directs an entity directs it to do business with another entity to his/her benefit), outside employment, insider trading, bribery/kickbacks, or prior relationships.

.24 The registrant may exclude disclosure of potential conflicts of interest, which are scenarios of conflict of interest that have not yet occurred, but that could occur in certain circumstances in the future.

.25 The registrant shall calculate the percentage of employees in compliance with conflict of interest training and/or certification programs as the number of employees who have met requirements for conflict of interest training and/or certification divided by the total number of full time equivalent (FTE) employees.

- If the program requires annual (or more frequent) training or certification then the disclosure shall relate to completion of those requirements.

.26 Disclosure may be limited to scope of employees covered by conflict of interest training requirements (e.g. senior management).

- In this case the registrant shall describe its requirements and disclose the number of employees which it covers.

FN0203-07. Dollar amount of legal and regulatory fines and settlements associated with fraud, anti-trust, anti-competitive, market manipulation, malpractice or other business ethics violations. Description of fines and settlements and corrective actions implemented in response to events.

.27 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.

.28 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).

.29 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.

.30 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.

Notes

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Managing Business Continuity and Technology Risks

Description

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

Accounting Metrics

FN0203-08. Description efforts to prevent errors, security breaches, and market disruptions related to use of trading services and technologies, IT infrastructure, and information held by third parties.

.31 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)

.32 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. .

FN0203-09. Number of significant market disruptions related to member actions, technology, power losses, or high-risk, low probability incidents, including:
(1) Type and extent of disruption
(2) Duration of downtime
(3) Root cause and corrective actions

.33 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.

.34 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 towards 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 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 was affected.

.35 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).

.36 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.

FN0203-10. Number of data security breaches, including:
(1) Percentage that resulted in a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability
(2) Description of corrective actions

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

.38 The registrant shall disclose the percentage of data security breaches, cyber security risks, and incidents that resulted in the actual outcomes of the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

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

.39 Disclosure shall include, but not be limited to, incidents disclosed according to the US Security and Exchange Commission's (SEC) CF Disclosure Guidance: Topic No. 2, Cybersecurity.

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

.40 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.

.41 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.

Notes

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Insurance

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Sustainability Accounting Standards Board ®

November 2013
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Insurance
Sustainability Accounting Standard

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

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

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 45 days beginning Friday, November 15, 2013 and ending Monday, December 30, 2013. This Standard is subject to change thereafter.

For instructions on providing comments to SASB please click here.

For an introduction to SASB Standards please click here.

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SASB Sustainability Accounting Standard

Insurance **(FN0301)**

Industry Description

Companies in the insurance industry provide both traditional and non-traditional insurance-related products. Traditional policy lines include property, life, casualty, and reinsurance. Non-traditional products include annuities, alternative risk transfer, and financial guarantee. Companies in the insurance industry also engage in proprietary investments for asset-liability management.

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

Table 1. Material Sustainability Topics & Accounting Metrics

Topic	Code	Accounting Metric
Integration of Environmental, Social, and Governance Factors in Investment Management	FN0301-01	Discussion of how environmental, social, and governance (ESG) factors are integrated into the investment of policy premiums (1) at the investment portfolio level, including asset allocation and diversification and (2) at the asset-level. Where relevant, discussion of how ESG factors are integrated in the mandate for external asset managers.
	FN0301-02	Discussion of the investment portfolio risks presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, including the identification of specific industries, geographies, and demographic segments in which the registrant has exposure.
Environmental Risk Exposure	FN0301-03	Probable Maximum Loss (PML) of insured products (in U.S. dollars) from weather-related natural catastrophes, by insurance segment, type of event, and type of risk insured.
	FN0301-04	Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes.
	FN0301-05	Description of how environmental risks are integrated into: (1) The underwriting process for individual contracts, including research, actuarial models (including catastrophic risk models), analytics, tools, and metrics. (2) The management of firm-level risk and capital adequacy.
	FN0301-06	List of markets, regions, and/or events for which the registrant declines to voluntarily write coverage for weather-related natural catastrophe risks.
	FN0301-07	Percentage of policies in which weather-related natural catastrophe risks have been mitigated through reinsurance and/or alternative risk transfer (ART).
Policies Designed to Incentivize Responsible Behavior	FN0301-08	Percentage of customers using products or product features that incentivize healthy, safe, and/or environmentally responsible actions or behavior, by insurance segment.
	FN0301-09	Net premiums written (in U.S. dollars) related to energy efficiency and low carbon technology.
Plan Performance	FN0301-10	Complaints-to-claims ratio.
	FN0301-11	Customer retention rate.
	FN0301-12	Average number of days from reported claim (i.e., first notice of loss) to settlement of claim.
	FN0301-13	Description of efforts to provide the following information to new and returning customers in a clear and conspicuous manner: terms and scope of coverage, policy exclusions/exceptions, claims payment process, and access to product information throughout a customer's lifecycle (e.g., initial coverage, filing a claim, and contact with customer service).

Topic	Code	Accounting Metric
Management of Legal and Regulatory Environment	FN0301-14	Dollar amount of fines and settlements associated with state and federal insurance regulations. Description of fines and settlements and corrective actions implemented in response to events.
Systemic Risk Management	FN0301-15	Non-policyholder liabilities (in U.S. dollars).
	FN0301-16	(1) Amount of CDS protection sold, (2) amount of debt securities insured for financial guarantee, and (3) risk-in -force for mortgage guarantee insurance.
	FN0301-17	Value (in U.S. dollars) of collateral received from securities lending and amount received from repurchase agreements.
	FN0301-18	Amount of life and annuity liabilities that can be surrendered upon request: (1) Within three months without penalty (2) With penalties lower than 20%

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

Description

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

Accounting Metrics

FN0301-01. Discussion of how environmental, social, and governance (ESG) factors are integrated into the investment of policy premiums (1) at the investment portfolio level, including asset allocation and diversification and (2) at the asset-level. Where relevant, discussion of how ESG factors are integrated in the mandate for external asset managers.

.01 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.

.02 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".

Investment Fund Construction

.03 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.)

.04 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)

.05 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

.06 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

.07 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.

FN0301-02. Discussion of the investment portfolio risks presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, including the identification of specific industries (dollar exposure), geographies, and demographic segments in which the registrant has exposure.

.08 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 adaptation, 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, 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.

.09 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, etc.).

- 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.

.10 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.

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Environmental Risk Exposure

Description

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

Accounting Metrics

FN0301-03. Probable Maximum Loss (PML) of insured products (in U.S. dollars) from weather-related natural catastrophes, by insurance segment, type of event, and type of risk insured.

.11 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, based on catastrophic modeling and exceedance probability (EP).

.12 The registrant shall disclose the PML, expressed in 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).

.13 The registrant should provide a breakdown of the PML for two major segments: consumer and commercial.

.14 The consumer segment includes homeowners, automotive, supplemental health &accident, and other personal insurance.

.15 The commercial segment includes casualty (e.g., liability, workers' compensation), property, specialty (e.g., crop, marine, political risk, etc.), and financial (e.g., errors and omissions, fiduciary liability) insurance.

.16 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 and Retirement**		
	Homeowners	Automotive	Other	Life	Retirement	**Total**
Floods						
Hurricanes						
Tornadoes						
Droughts						
Extreme heat						
Winter weather						
Tsunamis						
Total						

.17 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**			
	Property	Crop	Other	**Total**
Floods				
Hurricanes				
Tornadoes				
Droughts				
Extreme heat				
Winter weather				
Tsunamis				
Total				

FN0301-04. Total annual losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes.

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

.19 Total annual losses are the sum of all payouts from the registrant that are associated with natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (e.g., floods), climatological events (e.g., heat waves, cold waves, droughts, and wildfires), and geophysical events (earthquakes, volcanic eruptions, and dry mass movements).

.20 Modeled natural catastrophes are typically large-scale events, such as hurricanes and earthquakes, that the registrant has analyzed using a catastrophic risk model.

.21 Non-modeled events are typically smaller-scale events, such as floods, droughts, snowstorms, tornados, that the registrant has not analyzed using a cat model.

.22 Catastrophic models (cat models) are probabilistic mathematical models that simulate hazardous events and estimate the associated potential damages and insured losses. They may be conducted by the registrant or by a third-party on behalf of the registrant.

FN0301-05. Description of how environmental risks are integrated into:
(1) The underwriting process for individual contracts, including research, actuarial models (including catastrophic risk models), analytics, tools, and metrics.
(2) The management of firm-level risk and capital adequacy.

.23 The registrant shall describe how it integrates environmental risks into both individual policyholder contracts and enterprise-wide assessments of risk.

.24 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 a 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., associated with climatic changes).

.25 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, etc.).

.26 Environmental risks may include changes in weather patterns, increased frequency of extreme weather, biodiversity loss and ecosystem disruptions, water management, and pollution.

FN0301-06. List of markets, regions, and/or events for which the registrant declines to voluntarily write coverage for weather-related natural catastrophe risks.

.27 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.

.28 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), climatological events (e.g., heat waves, cold waves, droughts, and wildfires), but exclude geophysical events (earthquakes, volcanic eruptions, and dry mass movements).

.29 Markets may include specific U.S. states, such as California or Florida, or counties within states, such as Galveston County, Texas.

.30 Regions are specific geologic or physical zones for which the registrant does not write coverage, such as coast areas, flood prone areas, etc.

.31 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.

FN301-07. Percentage of policies in which weather-related natural catastrophes risks have been mitigated through reinsurance and/or alternative risk transfer (ART).

.32 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.

.33 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.

.34 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).

.35 Reinsurance shall include industry loss warrantees (ILWs).

Notes

Additional references

Climate Risk Disclosure by Insurers: Evaluating Insurer Responses to the NAIC Climate Disclosure Survey, September 2011.

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

Policies Designed to Incentivize Responsible Behavior

Description

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

Accounting Metrics

FN0301-08. Percentage of customers using products or product features that incentivize healthy, safe, and/or environmentally responsible actions or behavior, by insurance segment.

.36 The registrant shall calculate the percentage as the total number of customers with policies or policy features that incentivize healthy, safe, and/or environmentally responsible actions or behavior divided by the total number of customers.

.37 Disclosure shall include policies that may be different from traditional insurance products and are structured to incentivize healthy, safe, and/or environmentally responsible actions or behavior. For example, mileage/usage-based automotive insurance.

.38 Disclosure shall also include features or aspects of traditional products that incentivize healthy, safe, and/or environmentally responsible actions or behavior. Examples include premium discounts for green buildings, incentives for using sustainable building materials after a loss, discounts for properties in communities with building codes requiring climate risk adaptations, and actuarially-adjusted premiums for the use of low-emission vehicles, fuel-efficient non-hybrid vehicles, or alternative-fuel vehicles.

.39 The scope of disclosure shall include products designed and intended to reduce moral hazards, as well as those through which healthy, safer, or environmentally responsible outcomes are created as a byproduct.

.40 The registrant should provide a breakdown of the PML for two major segments: consumer and commercial.

.41 The consumer segment includes homeowners, automotive, supplemental health &accident, and other personal insurance.

.42 The commercial segment includes casualty (e.g., liability, workers' compensation), property, specialty (e.g., crop, marine, political risk, etc.), and financial (e.g., errors and omissions, fiduciary liability) insurance.

FN0301-09. Net premiums written (in U.S. dollars) related to energy efficiency and low carbon technology.

.43 The registrant shall disclose the net premiums written (in U.S. dollars) for policies related to energy efficiency and low carbon technology, including insurance for renewable energy insurance, energy savings warranties, carbon capture and storage insurance).

.44 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.

.45 Energy savings warranties insure the energy savings guaranteed by Energy Services Companies (ESCOs) for building retrofitting and other energy efficiency projects.

.46 Disclosure should include policies that can be demonstrated to absorb environmental risks, thereby enabling sustainability-related projects, technologies, and activities.

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Plan Performance

Description

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

Accounting Metrics

FN0301-10. Complaints-to-claims ratio.

.47 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.

.48 What constitutes a complaint may be defined by the registrant but, at a minimum, shall include those 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.

.49 Complaints are communications of dissatisfaction which 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.

.50 Where relevant, the registrant may additionally choose to disclose the complaints-to-claims ratio by product segment (e.g., commercial, consumer, etc.), insurance type (e.g., property, casualty, life, etc.), geographic region, or other breakdown.

FN0301-11. Customer retention rate.

.51 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, 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.

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

FN0301-12. Average number of days from reported claim (i.e., first notice of loss) to settlement of claim.

.53 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).

.54 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).

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

FN0301-13. Description of efforts to provide the following information to new and returning customers in a clear and conspicuous manner: terms and scope of coverage, policy exclusions/exceptions, claims payment process, and

access to product information throughout a customer's lifecycle (e.g., initial coverage, filing a claim, and contact with customer service).

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

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

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

Notes

Additional references

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

California Insurance Code Section 12921.1, Consumers: Consumer Complaint Study Definitions.

Management of Legal and Regulatory Environment

Description

The insurance industry is regulated by state-based authorities and rules. However, increasing communication between the newly established Federal Insurance Office and foreign regulators could contribute to the development of new standards. In addition, the increasingly global nature of the firms in this industry has increased the likelihood of corruption and bribery, which reinforces the need for strong governance. The ability of companies to ensure regulatory compliance, both in the U.S. and abroad, is likely to have material implications.

Accounting Metrics

FN0301-14. Dollar amount of fines and settlements associated with state and federal insurance regulations. Description of fines and settlements and corrective actions implemented in response to events.

.59 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with the enforcement of state and federal insurance regulations, where federal and state that apply to all jurisdictions in which the registrant is based.

.60 Disclosure shall include, but not limited to, fines and settlements associated with state laws (e.g., those aligned with the National Association of Insurance Commissioners' Model Laws) and enforced by state insurance commissioners.

.61 Disclosure shall include civil actions (e.g., civil judgments, settlements, and regulatory penalties) and criminal actions (e.g., criminal judgments, penalties, and restitutions) taken by any entity (government, businesses, and individuals).

.62 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., rates and pricing, capital provisioning (risk-based capital and total adjusted capital rules), marketing, underwriting, claims adjustment, bribery and corruption, etc.) of all fines and settlements.

.63 Disclosure shall also include enforcements related to activities adjudicated by regulators with an enforcement mandate broader than the insurance industry, such as Foreign Corrupt Practices Act violations (enforced by the U.S. Department of Justice), Securities and Exchange Commission (SEC) fines, Financial Stability Oversight Council rules (supervised by the Federal Reserve), and violations of the Specially Designated Nationals List (enforced by the U.S. Treasury Department through its Office of Foreign Asset Control).

.64 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, and technology.

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Systemic Risk Management

Description

Similar to other financial institutions, insurance companies face risks associated with credit and financial markets. Within the industry, companies that engage in non-traditional or non-insurance activities have been identified by regulators as being more vulnerable to financial market developments, and subsequently, more likely to amplify or contribute to systemic risk. As a result, insurance companies in the U.S. and abroad face the potential of being designated as systemically significant, nonbank financial institutions. Although the regulatory implications of this designation remain undetermined in the U.S., firms will be subject to stricter prudential regulatory standards and oversight by the Federal Reserve Board. Specifically, insurance companies will likely face limitations relating to risk-based capital, leverage, liquidity, and credit exposure. In addition, firms will be required to maintain a plan for rapid and orderly dissolution, in the event of financial distress. To demonstrate how these risks are being managed, insurance companies engaged in non-traditional activities should enhance their disclosure on key aspects of systemic risk management.

Accounting Metrics

FN0301-15. Non-policyholder liabilities (in U.S. dollars)

.65 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.

.66 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.

FN0301-16. (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.

.67 The registrant shall disclose the gross notional amount of credit default swap protection that it has sold (in U.S. dollars).

.68 The registrant shall disclose the gross notional amount of structured debt securities for which the registrants provides financial guarantee insurance (i.e., through a non-cancellable indemnity bond)

- This figure shall exclude the CDS protection disclosed in part (1)
- Debt securities include bonds (government, corporate, and municipal) and structured financial products.

.69 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.

.70 The scope of disclosure excludes surety bonds.

FN0301-17. Value (in U.S. dollars) of collateral received from securities lending and amount received from repurchase agreements.

.71 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).

.72 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 is also transferred to the borrower.

.73 The registrant shall disclose the amount cash it receives from the sale of securities in repurchase agreements.

.74 A repurchase agreement consists in 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 security (and agreeing to repurchase it in the future) it is a repurchase agreement.

FN0301-18. Amount of life and annuity liabilities that can be surrendered upon request:

(1) Within three months without penalty

(2) With penalties lower than 20%

.75 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).

.76 The registrant shall disclose the amount (in U.S. dollars) of these liabilities that can be surrendered upon customer request where the customer being 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.

Notes

Additional references

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