



STANDARD-SETTING PROJECT

Systemic Risk in Asset Management

PROPOSED CHANGES TO THE SASB ASSET MANAGEMENT & CUSTODY ACTIVITIES STANDARD

INVITATION TO COMMENT
ON EXPOSURE DRAFT AND BASIS FOR CONCLUSIONS

Issued: March 16, 2021

Comments due: June 15, 2021

Prepared by the Sustainability Accounting Standards Board®

Notice of public comment period on proposed changes to the SASB Asset Management & Custody Activities Standard

The SASB Standards Board invites comments on the enclosed exposure draft, particularly on questions included in the section Questions for Respondents, through June 15, 2021. Interested parties may submit comments in one of two ways:

- using the public comments form on the [Systemic Risk in Asset Management project page](#) on the SASB website; or
- emailing comments to comments@sasb.org with the subject “Systemic Risk in Asset Management Exposure Draft.”

The Standards Board and the technical staff track and consider all comments received. All comments submitted will be on the public record and posted on the SASB website. Although the Standards Board may not provide specific responses to each public comment, the Standards Board will acknowledge receipt of, review, and summarize the public comments received.

Upon conclusion of the 90-day public comment period, the Standards Board will consider all comments submitted and conduct deliberations based on the comments received. At that time, the Standards Board may pursue further revisions of the Asset Management & Custody Activities Standard or may approve the revisions as presented in the enclosed exposure draft. Upon approval by the Standards Board, the updated version will supersede the current version (Version 2018-10) of the standard.



The Sustainability Accounting Standards Board (SASB) is an independent nonprofit organization that sets standards to guide disclosure of financially material sustainability information by companies to their investors.

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Overview

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

- Questions for Respondents
- Basis for Conclusions on Proposed Changes to the Asset Management & Custody Activities Standard
- Exposure Draft of Proposed Changes to the Asset Management & Custody Activities Standard
- Appendix: Redline Version of Proposed Changes

The Questions for Respondents section indicates specific points on which the Board seeks input during the comment period and guides the reader to the corresponding sections of the Basis for Conclusions and exposure draft. The Basis for Conclusions primarily summarizes the considerations of the Board when developing the exposure draft, including how the proposed changes were guided by the SASB [Conceptual Framework](#). The exposure draft sets out the Board's proposed changes to the Asset Management & Custody Activities Standard on the issue of systemic risk management.

The [Systemic Risk in Asset Management project page](#) on the SASB website contains further information on the standard-setting project.

On March 10, 2021, the Board voted to release the enclosed exposure draft for a 90-day public comment period. The Board encourages companies, investors, and subject-matter experts, as well as other interested parties and the general public, to review the exposure draft and the corresponding questions for respondents and to provide comments through June 15, 2021.



Questions for Respondents

The Standards Board invites comments on the enclosed Asset Management & Custody Activities Exposure Draft, particularly on the questions below. Comments are most helpful if they

- (a) address the questions as stated;
- (b) indicate the question, industry, disclosure topic, and/or metric to which they relate;
- (c) contain a clear rationale; and
- (d) include any alternatives the Board should consider, if applicable.

Respondents do not need to comment on all the questions posed.

Question 1: Do you support the proposed removal of the accounting metric *FN-AC-550a.1. Percentage of open-end fund assets under management by category of liquidity classification*? Please explain why or why not.

Market feedback and staff research in the early phases of the project led the Board to discuss the removal of the accounting metric FN-AC-550a.1 due to its lack of alignment with the current regulatory environment and decision-usefulness to investors. The Board made a preliminary decision in June 2020 to remove the metric from the standard. While further feedback from companies and investors and additional research conducted by the technical staff eventually led the Board to propose the removal of the Systemic Risk Management disclosure topic and all corresponding metrics (as discussed below), the Board is first seeking input on its decision in regard to this specific metric removal. The rationale for the proposed metric removal is discussed in the Basis for Conclusions section “Proposal to remove metric FN-AC-550a.1” (page 13).

Question 2: Do you support the proposed removal of the Systemic Risk Management disclosure topic as currently covered in the standard? Please explain your rationale.

Additional research conducted by the technical staff and feedback received from both companies and investors indicated that the scope of the current Systemic Risk Management disclosure topic does not reflect sustainability issues relevant to asset management companies. Therefore, the current proposal is also to remove Systemic Risk Management as a disclosure topic in the Asset Management & Custody Activities Standard. The rationale for the proposed removal of the topic is discussed in the Basis for Conclusions section “Proposal to remove the Systemic Risk Management disclosure topic” (page 14).

Question 3: Do you believe that the social impacts associated with enterprise risk management are reasonably likely to be financially material to a typical financial institution in the Asset Management & Custody Activities industry? Please explain your rationale.

Companies, investors, and subject-matter experts consulted suggested that the current scope of the Systemic Risk Management disclosure topic does not provide decision-useful information to investors. However, market consultations revealed that there may be an opportunity for the Board to improve the Asset Management & Custody Activities Standard through addressing enterprise risk management and the potential resulting social externalities in the industry. The current proposed revision does not include a proposal to address this topic, and the Board is not currently proposing to expand the scope of the project to do so. This is primarily based on input from market participants and staff research that suggests significant feasibility challenges associated with developing a disclosure topic and accounting metrics that address enterprise risk management and produce decision-useful information for investors in a cost-effective manner. Nevertheless, the Board is seeking input on the issue of enterprise risk management in the Asset Management & Custody Activities industry. Such feedback will be helpful, as the technical staff continues to monitor this issue. For additional discussion on this topic, see page 15 of the Basis for Conclusions.



Basis for Conclusions on Proposed Changes to the Asset Management & Custody Activities Standard

Introduction

- 1 The Basis for Conclusions accompanies, but is not part of, the Exposure Draft of Proposed Changes to the Asset Management & Custody Activities Standard (exposure draft) as part of the Systemic Risk in Asset Management standard-setting project. The Basis for Conclusions summarizes the considerations and rationale of the SASB Standards Board in developing the exposure draft. Individual Board members gave greater weight to some factors than to others.
- 2 The Basis for Conclusions is organized as follows:
- Summary of proposed changes
 - Why was the project needed?
 - How was the exposure draft developed?
 - What is the basis for the Board’s proposed changes to the standard?

Summary of proposed changes

- 3 The exposure draft proposes the removal of the Systemic Risk Management disclosure topic, including the four associated accounting metrics:
- a. ***FN-AC-550a.1.** Percentage of open-end fund assets under management by category of liquidity classification*
 - b. ***FN-AC-550a.2.** Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management*
 - c. ***FN-AC-550a.3.** Total exposure to securities financing transactions*
 - d. ***FN-AC-550a.4.** Net exposure to written credit derivatives*
- 4 See the sections below for the Board’s deliberations behind the proposal.
- 5 See the Appendix for a redline version of the proposed changes to the disclosure topic and the associated accounting metrics.

6 **The proposed changes are exclusively related to the Asset Management & Custody Activities Standard. The Board notes that the changes proposed above and as reflected in the accompanying exposure draft do not affect the Systemic Risk Management disclosure topic or the associated metrics in the SASB standards for the following industries: Commercial Banks, Insurance, and Investment Banking & Brokerage.**

Why was the project approved?

- 7 The project’s objective was to evaluate the Systemic Risk Management topic in the Asset Management & Custody Activities Industry Standard, including potential improvements to the scope of the topic and the associated accounting metrics.
- 8 Since the release of the codified standard in 2018, corporate issuers have provided feedback that the current narrative of the Systemic Risk Management disclosure topic does not reflect relevant

sustainability impacts of companies in the Asset Management & Custody Activities industry and that it is not aligned with the current regulatory narrative around systemic risk in the industry. Further, changes in regulatory reporting requirements in the United States suggest that the types of metrics specified in the standard may not provide decision-useful information and could be potentially misleading or confusing to investors.

9 In addition, analysis conducted by SASB has indicated that metric FN-AC-550a.1¹ is not applicable to asset managers with non-U.S. operations, making it difficult for them to report on the disclosure topic.

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

Background information on the Systemic Risk Management disclosure topic

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

12 In the SASB taxonomy, the disclosure topic is mapped to the Systemic Risk Management General Issue Category (G.I.C.) under Leadership & Governance. From this angle, SASB considers systemic risk a sustainability issue because of the widespread social impacts that may occur when certain industries go through periods of operating disruption or experience widespread shocks with the risk of collapse.

13 The Systemic Risk Management G.I.C. is unique in the sense that while most other G.I.C.s included in the SASB taxonomy address direct impacts of individual entities on the environment, society, or their workforce, the Systemic Risk Management G.I.C. focuses on social impacts that might not be directly attributed to the actions of any one entity.

14 The current disclosure topic in the Asset Management & Custody Activities Industry Standard includes four accounting metrics related to Systemic Risk Management. Two (FN-AC-550a.1 and FN-AC-550a.2²) were designed to measure liquidity risk to assets under management, and two (FN-AC-550a.3³ and FN-AC-550a.4⁴) were designed to address the interconnectedness of companies through securities financing and lending transactions and underwriting or derivatives.

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

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

³ *FN-AC-550a.3. Total exposure to securities financing transactions.*

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

Concerns with the current standard

- 15 When the standard was approved by the Board in November 2018, the inclusion of the disclosure topic was based on the experts' views, at the time, that companies in the industry might compromise the stability of the financial system, which could then lead to significant and widespread negative social impacts. Further, the evidence and stakeholder feedback that were then available to the Board suggested that the topic was likely to be financially material to individual entities in the industry. Specifically, evidence and stakeholder input from 2013 to 2018 were indicative of the possibility that non-bank financial institutions (e.g., asset managers) could be designated as systemically important financial institutions (SIFI). Institutions with SIFI designation face tighter oversight and stricter regulatory requirements. Thus, at that time, the regulatory stance in some countries supported the potential materiality of the Systemic Risk Management disclosure topic.⁵
- 16 In September 2018, the U.S. Securities and Exchange Commission (SEC) rescinded a requirement under Rule 22e-4 stating that registered investment companies must report the percentage of open-end fund assets by liquidity classification. The SEC's decision was driven by feedback that suggested such disclosure may confuse and mislead investors.⁶
- 17 Feedback provided to the SEC during the public comment period and the SEC's action in response to it raised questions about usefulness of FN-AC-550a.1, a quantitative measure of liquidity risk, and FN-AC-550a.2,⁷ a discussion of liquidity risk management, because both were closely aligned with Rule 22e-4.
- 18 In addition, because both metrics FN-AC-550a.1 and FN-AC-550a.2 reference Rule 22e-4, which applies only to companies subject to the SEC reporting requirements, they were also limited in their international applicability. A key attribute of disclosure topics, as articulated in the proposed revision to the *Conceptual Framework*, is that topics be prevalent within an industry and across geographies and that, where possible, they be aligned with common guidance and practice. Thus, this project was also seen as an opportunity to improve not only the decision-usefulness of the accounting metrics under the disclosure topic but also the global applicability of the standard.
- 19 Since the SEC's action in September 2018, the role of the asset management industry in the system (e.g., whether asset managers pose a systemic threat) has continued to be debated, and regulatory environments have continued to evolve. In early 2019, the Financial Stability Oversight Council (FSOC), which is responsible for assigning SIFI designations in the United States, voted unanimously to issue an interpretive guidance revising its entity-based approach to be activities-

⁵ For example, the Financial Stability Oversight Council under the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States and the Capital Requirements Directive and Regulation (CRD IV and CRR) in the European Union.

⁶ Securities and Exchange Commission, 17 CFR Part 274, Investment Company Liquidity Disclosure, <https://www.sec.gov/rules/final/2018/ic-33142.pdf>.

⁷ **FN-AC-550a.2.** *Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management.*

based.⁸ A similar approach was later adopted by the International Association of Insurance Supervisors (IAIS) to assess and mitigate systemic risk in the insurance industry.⁹ Under an activities-based approach, the particular financial activities or practices are regulated to prevent them from causing financial instability.

- 20 As noted above, corporate issuers have provided feedback that the current narrative of the Systemic Risk Management disclosure topic does not reflect the relevant sustainability impacts of companies in the industry and that its narrative is not aligned with the current regulatory narrative around systemic risk in the asset management industry. Further, changes in U.S. regulatory reporting requirements suggest that the types of metrics specified in the standard may not provide decision-useful information and could be potentially misleading or confusing to investors.
- 21 Given that fundamental changes in the regulatory approach to systemic risk for non-bank financial institutions were, among other factors, driven by continued debate about the potential impacts of asset managers on the financial stability, the Board decided to include a holistic re-evaluation of the Systemic Risk Management disclosure topic and associated metrics, as opposed to focusing on revising only metrics FN-AC-550a.1 and FN-AC-550a.2.

How was the exposure draft developed?

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

⁸ Financial Stability Oversight Council 12 CFR Part 1310, RIN 4030–ZA00, Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, *Federal Register* 84, no. 49, 9028, March 13, 2019, <https://www.govinfo.gov/content/pkg/FR-2019-03-13/pdf/2019-04488.pdf>.

⁹ “Holistic Framework for Systemic Risk in the Insurance Sector,” International Association of Insurance Supervisors, November 2019, accessed January 20, 2021, <https://www.iaisweb.org/page/supervisory-material/financial-stability/file/87109/holistic-framework-for-systemic-risk>.

risk managers; while on the investor side, most participants were credit risk analysts who cover asset managers and custodian banks. In addition, subject-matter experts, including academics and other specialists in this field, also participated in consultations.

- 25 Additional information related to the [standard-setting process](#) that the Board follows to maintain and update the SASB standards can be found on the SASB website and in the [Rules of Procedure](#) and the [Conceptual Framework](#). Additional project-specific information can be found on the [Systemic Risk in Asset Management project page](#) on the SASB website.

What is the basis for the Board’s proposed changes to the standard?

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

Proposal to remove metric FN-AC-550a.1

- 27 As noted previously, at the time of the standard codification in 2018, the metric FN-AC-550a.1 was aligned with the SEC’s Rule 22e-4, which required registered investment companies to report the percentage of open-end fund assets by liquidity classification on Form N-PORT. Such disclosures were “designed to promote effective liquidity risk management throughout the fund industry and to enhance disclosure regarding fund liquidity and redemption practices.”
- 28 In September 2018, the SEC rescinded this requirement based on feedback that such disclosure may confuse and mislead investors.¹⁰ Further, the SEC replaced the quantitative liquidity categories required in public disclosures on Form N-PORT with “disclosure in the fund’s annual shareholder report that provides a narrative discussion of the operation and effectiveness of the fund’s liquidity risk management program over the most recently completed fiscal year.”
- 29 These regulatory changes suggest concerns about the usefulness of the original approach taken regarding systemic risk management. In addition, the changes meant that metric FN-AC-550a.1, which already was not aligned with most regulatory regimes, was also no longer aligned with current SEC disclosure requirements, creating additional concerns around incremental reporting costs.

¹⁰ Securities and Exchange Commission, 17 CFR Part 274, Investment Company Liquidity Disclosure, <https://www.sec.gov/rules/final/2018/ic-33142.pdf>.

30 Notably, staff reviewed a number of SASB reports produced by large asset management companies and all omitted this metric. In explaining the rationale for the omissions, some companies cite the SEC’s decision regarding Rule 22e-4 as well as state that aggregate liquidity classification disclosure would not be useful or informative to investors.¹¹

31 In light of the above concerns, feedback received during the consultation period was generally supportive of the removal of metric FN-AC-550a.1. In June 2020, the Standards Board made a preliminary decision to remove accounting metric FN-AC-550a.1 from the Asset Management & Custody Activities Standard, which calls for a breakdown of open-end fund assets by liquidity category.

Proposal to remove the Systemic Risk Management disclosure topic

32 One challenge in developing Systemic Risk Management disclosure topics (in any industry) is that the information needed by prudential regulators might not be the same as what investors need. SASB aims to facilitate disclosure of useful information to investors, while the prudential regulators’ objective is to ensure financial safety and stability of institutions and the broader financial system. Another challenge for developing a disclosure topic that is aligned with regulatory frameworks is when regulatory landscapes are evolving, as is the case in the Asset Management & Custody Activities industry. For SASB to align accounting metrics under Systemic Risk Management disclosure topics with information used by prudential regulators, the information in those metrics needs to provide decision-useful information to investors in a manner that is cost effective for companies.

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

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

¹¹ A few other large and mid-size asset management companies omitted the metric but provided no stated rationale.

- 35 Research conducted by the technical staff and feedback provided by risk management professionals representing asset managers from both the corporate and investor sides of the organizations raise questions about the extent to which asset managers can pose, amplify, or transmit a threat to the financial system and that the most recent regulatory actions by the FSOC reinforce their viewpoint. Specifically, stakeholders believed that the shift from the approach in which an individual non-banking entity (e.g., an asset management institution) can be designated as one that poses a system-wide risk (i.e., an entity-based approach) to the approach in which the system stability is assessed by measuring the concentration of exposure to certain activities and the proliferation of those activities in the industry (i.e., an activities-based approach) makes the narrative of the existing Systemic Risk Management disclosure topic no longer applicable to the asset management industry.
- 36 The Board considered that there is a lack of evidence to suggest that asset management as an industry plays the same or a similar role as that of the banking industry when it comes to systemic risk. In fact, both the Commercial Banks Industry Standard and the Investment Banking & Brokerage Industry Standard include Systemic Risk Management disclosure topics that are supported by evidence and stakeholder feedback as likely to be financially material for the respective industries.
- 37 The discussion around the role of banks in financial stability and the regulatory approach to assessing systemic risk for banks is much more established than it is in the asset management industry. Further, at the time the codified standards were developed, research conducted by the technical staff and feedback provided by companies and investors identified a few accounting metrics for the banking industries that would likely produce relevant and decision-useful information to assess the performance of individual entities.¹²

Additional market feedback received by the Board

- 38 Although feedback received from companies and investors overwhelmingly suggested that the Systemic Risk Management disclosure topic is not relevant to the industry, several respondents indicated that focus on enterprise risk may be appropriate from the standpoint of sustainability impacts of the asset management industry. Stakeholders thought that it could be appropriate to frame the issue through the lens of the business risk to an entity and direct social impacts on the entity's clients, as opposed to the concentration of risk in the system. Specifically, liquidity risk management and fair treatment of clients in times of increased redemption requests were highlighted as areas of interest. A potential disclosure topic focused on entity-level liquidity risk management and the resulting direct impacts on clients would be outside the scope of the Systemic Risk Management G.I.C. and would likely be more appropriate under the Social Capital dimension and the Customer Welfare G.I.C. of the SASB taxonomy.

¹² Systemic Risk Management disclosure topics in the Commercial Banks and Investment Banking & Brokerage Industry Standards include the following two metrics: "Global Systemically Important Bank (G-SIB) score, by category" and "Description of approach to incorporation of results of mandatory and voluntary stress tests into capital adequacy planning, long-term corporate strategy, and other business activities."

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

40 Considering that feedback received from both companies and investors suggests that (1) the current disclosure topic does not reflect relevant sustainability risks of companies in the industry and that (2) the feasibility of developing globally applicable accounting metrics that would provide value-added decision-useful information to investors is low, the Standards Board deliberated the issue and ultimately supported a proposal to remove the Systemic Risk Management disclosure topic and all associated metrics.

Changes proposed in the exposure draft

41 After considerations of research and analysis by the technical staff and market consultations conducted in Q1–Q3 2020, the Board proposes at this time to remove the Systemic Risk Management disclosure topic and associated metrics (FN-AC-550a.1, FN-AC-550a.2, FN-AC-550a.3, and FN-AC-550a.4). The Board arrived at its proposal based on following primary considerations described below.

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

42 Regardless of whether the exposure draft is approved, the technical staff and the Board will continue monitoring regulatory developments around the issue and welcome any unsolicited stakeholder feedback. Specifically, the Board welcomes corporate and investor views on the possibility of developing a disclosure topic focused on enterprise risk management and impacts on asset managers' clients through a failure to manage liquidity and other risks. The Board encourages stakeholders to provide information that could help in developing standardized accounting metrics that would add decision-useful information for measuring such risk. The Board may consider additional standard-setting actions in the future.

Exposure Draft of Proposed Changes to the Asset Management & Custody Activities Standard

About this Exposure Draft

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

The following exposure draft reflects the entirety of the revised Asset Management & Custody Activities Standard after incorporating the Board's proposed removal of the Systemic Risk Management disclosure topic and associated metrics.

The public comment period lasts for 90 days, beginning on March 16, 2021, and ending on June 15, 2021. The standard is subject to change thereafter.

Please use the public comments form on the [Systemic Risk in Asset Management project page](#) on the SASB website or email comments to comments@sasb.org with the subject "Systemic Risk in Asset Management Exposure Draft."

Prepared by the Sustainability Accounting Standards Board

March 2021

Industry Description

The Asset Management & Custody Activities industry is comprised of companies that manage investment portfolios on a commission or fee basis for institutional, retail, and high net-worth investors. In addition, firms in this industry provide wealth management, private banking, financial planning, and investment advisory and retail securities brokerage services. Investment portfolios and strategies may be diversified across multiple asset classes, which include, but are not limited to, equities, fixed income, and hedge fund investments. Specific companies are engaged in venture capital and private equity investments. The industry provides an essential service in assisting a range of customers from individual retail investors to large, institutional asset owners to meet specified investment goals. Companies in the industry range from large multi-national asset managers with a wide range of investable products, strategies, and asset classes to small boutique firms providing services to a very specific market niche. While large firms generally compete on the basis of management fees charged for their services as well as their potential to generate superior investment performance, the smaller firms generally compete on their ability to provide products and services geared towards individual clients to satisfy their diversification needs. The 2008 financial crisis and subsequent regulatory developments highlight the social impact of the industry in terms of providing fair advice to customers and managing risks at the entity, portfolio, and economy-wide levels. In addition, the collective impact of the industry on the allocation of capital creates a responsibility to integrate sustainability factors in investment decisions and management.

SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Transparent Information & Fair Advice for Customers	(1) Number and (2) percentage of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings ²	Quantitative	Number, Percentage (%)	FN-AC-270a.1
	Total amount of monetary losses as a result of legal proceedings associated with marketing and communication of financial product-related information to new and returning customers ³	Quantitative	Reporting currency	FN-AC-270a.2
	Description of approach to informing customers about products and services	Discussion and Analysis	n/a	FN-AC-270a.3
Employee Diversity & Inclusion	Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees ⁴	Quantitative	Percentage (%)	FN-AC-330a.1
Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory	Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening	Quantitative	Reporting currency	FN-AC-410a.1
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies	Discussion and Analysis	n/a	FN-AC-410a.2
	Description of proxy voting and investee engagement policies and procedures	Discussion and Analysis	n/a	FN-AC-410a.3
Business Ethics	Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations ⁵	Quantitative	Reporting currency	FN-AC-510a.1
	Description of whistleblower policies and procedures	Discussion and Analysis	n/a	FN-AC-510a.2

² Note to **FN-AC-270a.1** – The entity shall describe how it ensures that covered employees file and update FINRA and SEC forms in a timely manner.

³ Note to **FN-AC-270a.2** – The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

⁴ Note to **FN-AC-330a.1** – The entity shall describe its policies and programs for fostering equitable employee representation across its global operations.

⁵ Note to **FN-AC-510a.1** – The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Total registered and (2) total unregistered assets under management (AUM) ⁶	Quantitative	Reporting currency	FN-AC-000.A
Total assets under custody and supervision	Quantitative	Reporting currency	FN-AC-000.B

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⁶ Note to **FN-AC-000.A** – Registered AUM include those subject to the regulations of the Investment Company Act of 1940 (1940 Act), such as mutual funds, managed under the Employee Retirement Income Security Act of 1974 (ERISA), subject to the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, or managed under the Commodity Futures Trading Commission’s (CFTC’s) Commodity Pool Operator (CPO) regulations. Unregistered AUM are those that do not fall under the definition of the registered AUM.

Transparent Information & Fair Advice for Customers

Topic Summary

Asset managers have legal obligations and fiduciary duties related to record keeping, operating and marketing, disclosure requirements, and prohibition of fraudulent activities. Regulations surrounding the Asset Management & Custody Activities 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. Failure to provide services that satisfy customer expectations may result in lengthy and costly litigation, diminished trust with clients, and lower sales as a result. Enhanced disclosure on procedures or programs to provide adequate, clear, and transparent information about products and services, the regulatory violation record of employees, and the amount of fines and settlements associated with professional integrity will provide investors with an advanced understanding of how well companies manage risks associated with this issue and whether they are able to preserve long-term value for shareholders.

Accounting Metrics

FN-AC-270a.1. (1) Number and (2) percentage of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings

- 1 The entity shall disclose the total number of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings.
- 2 Covered employees are defined as the entity's employees subject to filing the following forms:
 - 2.1 [Form U4](#) (Uniform Application for Securities Industry Registration or Transfer) with the Central Registration Depository (CRD) of the Financial Industry Regulatory Authority (FINRA)
 - 2.2 [Form U5](#) (Uniform Termination Notice for Securities Industry Registration) with the CRD of the FINRA
 - 2.3 [Form U6](#) (Uniform Disciplinary Action Reporting Form) with the CRD of the FINRA
 - 2.4 [Form BD](#) (Uniform Application for Broker-Dealer Registration) with the Investment Adviser Registration Depository (IARD) of the U.S. Securities and Exchange Commission (SEC)
 - 2.5 [Form BDW](#) (Uniform Request for Broker-Dealer Withdrawal) with the IARD of the SEC
- 3 The entity shall include all covered employees that were employed by the entity at any time during the reporting period in the calculation.

- 4 Investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings include those disclosed by a covered employee on Form U4 in section 14, Form U5 in section 7, Form U6, Form BD, or Form BDW.
- 5 The entity shall calculate the percentage of covered employees with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings by dividing the numerator by the denominator, using the following:
 - 5.1 In the numerator, the entity shall include the number of covered employees that were employed by the entity at any time during the reporting period with a record of investment-related investigations, consumer-initiated complaints, private civil litigations, or other regulatory proceedings.
 - 5.1.1 In instances where the first investment-related investigation, consumer-initiated complaint, private civil litigation, or other regulatory proceeding involving the covered employee occurs at the time of employment with the entity, and when the instance requires filing an update to the aforementioned forms, the entity shall include these covered employees in the numerator.
 - 5.2 In the denominator, the entity shall include the number of covered employees that were employed by the entity at any time during the reporting period.

Note to **FN-AC-270a.1**

- 1 The entity shall describe its policies and procedures around supervision and compliance with industry regulations requiring covered employees to file and update the aforementioned forms.
- 2 The entity shall describe how it ensures that covered employees file and update the aforementioned forms in a timely manner.

FN-AC-270a.2. Total amount of monetary losses as a result of legal proceedings associated with marketing and communication of financial product-related information to new and returning customers

- 1 The entity shall disclose the total amount of monetary losses it incurred during the reporting period as a result of legal proceedings associated with the lack of information transparency, including those related to false advertising, lack of transparency in 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.
 - 1.1 The scope of disclosure includes the [Rules](#) of the Financial Industry Regulatory Authority (FINRA), including, but not limited to, rules [2210](#) and [2211](#).

- 2 The legal proceedings shall include any adjudicative proceeding in which the entity was involved, whether before a court, a regulator, an arbitrator, or otherwise.
- 3 The losses shall include all monetary liabilities to the opposing party or to others (whether as the result of settlement or verdict after trial or otherwise), including fines and other monetary liabilities incurred during the reporting period as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (e.g., governmental, business, or individual).
- 4 The scope of monetary losses shall exclude legal and other fees and expenses incurred by the entity in its defense.

Note to **FN-AC-270a.2**

- 1 The entity shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, or non-prosecution agreement) and context (e.g., fraud, disclosure to clients, or employee compensation) of all monetary losses as a result of legal proceedings.
- 2 The entity shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN-AC-270a.3. Description of approach to informing customers about products and services

- 1 The entity shall describe its approach to informing customers about its products and services, including the focus on transparency of the content, communication method, frequency of communication, and responsibility for communication.
- 2 Relevant content includes, but is not limited to, topics such as risk, suitability, investment alternatives, and the disclosure of conflicts of interest.
 - 2.1 Relevant risks include those related to complex or high-yield products that may be subject to volatility, credit risk exposure, sensitivity to interest rates, liquidity concerns, or otherwise may be misaligned with client risk tolerance.
 - 2.2 Relevant aspects of suitability are those addressed in the Financial Industry Regulatory Authority's (FINRA) [suitability rules](#), where entities "and their associated persons must have a reasonable basis to believe" that a transaction or investment strategy involving securities that they recommend as suitable for the customer. This reasonable belief must be based on the information obtained through the reasonable due diligence of the firm or associated person to ascertain the customer's [investment profile](#).

- 2.3 Relevant conflicts of interest include those related to services (e.g., research) paid for by clients' commissions, the allocation of trades among clients, and rules for the entity's employees' personal accounts (PAs).
- 3 The entity shall describe compliance with industry best practices, including codes of conduct and codes of ethics, as a measure of its management approach to ensuring high Standards of Commercial Honor and Principles of Trade and Communications and Disclosures according to sections 2010 and 2200 of the FINRA manual.
- 4 The entity shall describe how its representatives' compensation structures are linked to incentives for sales of specific products.
- 4.1 The discussion shall include, but is not limited to, any direct linkages between employees' compensation and incentives for sales of specific products, which may include changes in fixed salaries, bonuses and other awards, and targets for volumes or quantities in sales of certain products or services.
- 5 The entity may disclose the percentage of total compensation that is variable and directly linked to sales targets for the relevant pool of employees.
- 6 The entity shall describe communication methods it uses to provide information about its products and services to current and prospective clients.
- 6.1 Communication methods include, but are not limited to, client statements, supplemental brochures, product prospectuses, website listings, or verbal communications.
- 7 The entity may disclose the style of communication it uses, such as the use of legal disclaimers in plain English.
- 8 When necessary, the entity shall describe differences in communication strategies, content, or method between retail customers and institutional clients.
- 9 The entity shall describe how its communication strategy is developed and executed, including, but not limited to, internal controls the entity has in place to ensure compliance with its communication strategy.

Employee Diversity & Inclusion

Topic Summary

Asset management and custody activities companies face a high degree of competition for skilled employees. At the same time, the industry has a low level of diversity, especially among senior roles. In recent years, considerable media attention has been focused on cases of gender discrimination involving publicly listed companies in the industry. As the industry continues to undergo rapid innovation through the introduction of more complex financial products and computerized algorithmic and high-frequency trading, the ability of companies to attract and retain skilled employees will likely be increasingly material. By ensuring gender and racial diversity throughout the organization, companies are likely to expand their candidate pools, which could lower hiring costs and improve operational efficiency. Further, evidence suggests that diverse groups of employees at asset management companies may enhance the risk-return characteristics of investment portfolios. Enhanced disclosure regarding employee gender and racial/ethnic diversity, especially when provided by employee category, will allow shareholders to assess how companies in this industry are managing the associated risks and opportunities.

Accounting Metrics

FN-AC-330a.1. Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees

- 1 The entity shall disclose gender representation for all employees and racial/ethnic group representation for its U.S. employees by employee category.
 - 1.1 The following employee categories shall be used: (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees.
- 2 Gender and racial/ethnic group representation shall be disclosed in percentages, where the percentage shall be calculated as the number of employees in each gender or racial/ethnic group in each employee category divided by the total number of employees in the respective employee category.
- 3 For U.S. employees, the entity shall categorize the employees in accordance with the Equal Employment Opportunity Commission's Employer Information EEO-1 report (EEO-1 Survey) [Instruction Booklet](#), where each employee category for disclosure is defined by corresponding job categories and descriptions in the Instruction Booklet:
 - 3.1 Executive management includes Executives/Senior Level Officials and Managers: individuals who plan, direct and formulate policies, set strategy and provide the overall direction of enterprises/organizations for the development and delivery of products or services, within the parameters approved by boards of directors or other governing bodies. Residing in the highest levels of organizations, these executives plan, direct or coordinate activities with the support of subordinate executives and staff managers. They include, in larger

organizations, those individuals within two reporting levels of the CEO, whose responsibilities require frequent interaction with the CEO. Examples of these kinds of managers are: chief executive officers, chief operating officers, chief financial officers, line of business heads, presidents or executive vice presidents of functional areas or operating groups, chief information officers, chief human resources officers, chief marketing officers, chief legal officers, management directors and managing partners.

- 3.2 Non-executive management includes First/Mid-Level Officials and Managers: individuals who serve as managers, other than those who serve as Executive/Senior Level Officials and Managers, including those who oversee and direct the delivery of products, services or functions at group, regional or divisional levels of organizations. These managers receive directions from the Executive/Senior Level management and typically lead major business units. They implement policies, programs and directives of executive/senior management through subordinate managers and within the parameters set by Executive/Senior Level management. Examples of these kinds of managers are: vice presidents and directors, group, regional or divisional controllers; treasurers; human resources, information systems, marketing, and operations managers. The First/Mid-Level Officials and Managers subcategory also includes those who report directly to middle managers. These individuals serve at functional, line of business segment or branch levels and are responsible for directing and executing the day-to-day operational objectives of enterprises/organizations, conveying the directions of higher level officials and managers to subordinate personnel and, in some instances, directly supervising the activities of exempt and non-exempt personnel. The [EEO-1 Job Classification Guide](#) provides examples of job titles in this category.
 - 3.3 Professionals is defined as the following: most jobs in this category require bachelor and graduate degrees, and/or professional certification. In some instances, comparable experience may establish a person's qualifications. The [EEO-1 Job Classification Guide](#) provides examples of job titles in this category.
 - 3.4 All other employees includes those employees who are not classified as executive management, non-executive management, or professionals.
- 4 For non-U.S. employees, the entity shall categorize the employees in a manner generally consistent with the definitions provided above, though in accordance with, and further facilitated by, any applicable local regulations, guidance, or generally accepted definitions.
 - 5 The entity shall categorize the gender of its employees as female, male, or not disclosed/available.
 - 6 The entity shall categorize the racial/ethnic group of its U.S. employees in accordance with the EEO-1 Survey Instruction Booklet and use the following categories: Asian, Black or African American, Hispanic or Latino, White, Other (which includes Native American or Alaska Native, Native Hawaiian or Pacific Islander, and "Two or More Races" classifications), or not disclosed/available.
 - 7 The entity may provide supplemental disclosures on gender and/or racial/ethnic group representation by country or region.

- 8 The entity may provide supplemental contextual disclosures on factors that significantly influence gender and/or racial/ethnic group representation, such as the country or region where employees are located.
- 9 The entity may disclose gender and/or racial/ethnic group representation by employee category in the following table formats:

Table 3. Gender Representation of Global Employees (%)

	FEMALE	MALE	N/A *
Executive Management			
Non-Executive Management			
Professionals			
All Other Employees			

* N/A = not available or not disclosed

Table 4. Racial/Ethnic Group Representation of U.S. Employees (%)

	ASIAN	BLACK OR AFRICAN AMERICAN	HISPANIC OR LATINO	WHITE	OTHER ^	N/A *
Executive Management						
Non-Executive Management						
Professionals						
All Other Employees						

^ Other includes the classifications: Native American or Alaska Native, Native Hawaiian or Pacific Islander, and "Two or More Races"

* N/A = not available or not disclosed

Note to **FN-AC-330a.1**

- 1 The entity shall describe its policies and programs for fostering equitable employee representation across its global operations.
- 1.1 Relevant policies may include maintaining transparency of hiring, promotion, and wage practices, ensuring equal employment opportunity, developing and disseminating diversity policies, and ensuring management accountability for equitable representation.

- 1.2 Relevant programs may include trainings on diversity, mentorship and sponsorship programs, partnership with employee resource and advisory groups, and provision of flexible work schedules to accommodate the varying needs of employees.
- 1.3 Relevant aspects of employee representation include, at a minimum, gender and race/ethnicity. The entity may disclose on other aspects of its workforce, such as age, physical abilities/qualities, sexual orientation, and religious beliefs, as relevant to local jurisdiction.

2021 EXPOSURE DRAFT

Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory

Topic Summary

Asset management and custody activities companies maintain a fiduciary responsibility to their clients. These companies must therefore consider and incorporate an analysis of all material information into investment decisions, including environmental, social, and governance (ESG) factors. The process of ESG incorporation involves consideration of ESG factors in valuation, modeling, portfolio construction, proxy voting, and engagement with investees and, as a result, in investment decision-making by asset and wealth managers. As the management and use of non-financial forms of capital increasingly contribute to market value, incorporation of ESG factors in analysis of investees has become more relevant. Research has established that a company's management of certain ESG factors can materially impact both its accounting and market returns. Therefore, deep understanding of investees' ESG performance, integration of ESG factors in valuation and modeling, as well as engagement with investees on sustainability issues allows asset managers to generate superior returns. On the other hand, asset management and custody activities companies that fail to consider these risks and opportunities in their investment management activities could see diminished investment returns in their portfolios which would lead to reduced performance fees. Over the long term, it could result in outflow of assets under management (AUM) resulting in the loss of market share and lower management fees.

Accounting Metrics

FN-AC-410a.1. Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening

- 1 The entity shall disclose the amount of assets under managements (AUM), that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening.
 - 1.1 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."
 - 1.2 Integration of ESG issues is defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions, as aligned with the [PRI Reporting Framework – Main definitions 2018](#).
 - 1.3 Sustainability themed investing is defined as investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture), as aligned with the [PRI Reporting Framework – Main definitions 2018](#).

- 1.4 Screening, including (a) negative/exclusionary, (b) positive/best-in-class, and (c) norms-based, is defined by the [PRI Reporting Framework – Main definitions 2018](#).
- 1.5 The scope of disclosure includes both passive and active strategies.
- 2 The entity shall break down its disclosure by asset class: (a) equities, (b) fixed income, (c) cash equivalents/money market instruments, and (d) other (e.g., real estate and commodities).
- 3 The entity shall identify and disclose the amount of any AUM managed using more than one ESG integration strategy (e.g., screening and integration).

FN-AC-410a.2. Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies

- 1 The entity shall describe its approach to incorporation of environmental, social, and governance (ESG) factors in its investment and/or wealth management processes and strategies.
 - 1.1 The definition of incorporation of ESG factors is aligned with that of the [Global Sustainable Investment Alliance \(GSIA\)](#) and includes the use of ESG information in investment decision-making processes.
 - 1.2 Examples of ESG factors/issues are provided in the [PRI Reporting Framework – Main definitions 2018](#), section “ESG issues.”
 - 1.3 Incorporation of ESG factors include the following approaches, consistent with the [PRI Reporting Framework – Main definitions 2018](#):
 - 1.3.1 Screening, including (a) negative/exclusionary, (b) positive/best-in-class, and (c) norms-based
 - 1.3.2 Sustainability themed investment, defined as investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)
 - 1.3.3 Integration of ESG, defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions
 - 1.3.4 A combination of the above
- 2 The entity shall describe policies that determine its approach to incorporation of ESG factors in its investment and/or wealth management processes and strategies.
- 3 The scope of disclosure shall exclude discussion of the entity’s proxy voting and investee engagement policies and procedures, which is included in metric FN-AC-410a.3, “Description of proxy voting and investee engagement policies and procedures.”

- 4 The entity shall describe its approach to implementation of the aspects of the entity's ESG incorporation practices.
 - 4.1 The discussion shall include, but is not limited to:
 - 4.1.1 Parties responsible for day-to-day incorporation of ESG factors
 - 4.1.2 Roles and responsibilities of employees involved
 - 4.1.3 Approach to conducting ESG-related research
 - 4.1.4 Approach to incorporating ESG factors into investment strategies
- 5 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.
 - 5.1 The discussion shall include, but is not limited to:
 - 5.1.1 Formal oversight individuals and/or bodies involved
 - 5.1.2 Roles and responsibilities of employees involved
 - 5.1.3 Criteria used in assessing the quality of ESG incorporation
- 6 The entity shall discuss whether it conducts scenario analysis and/or modeling in which the risk profile of future ESG trends is calculated at the portfolio level.
 - 6.1 ESG trends include, but are not limited to, climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
 - 6.2 The entity shall describe the types of portfolios and/or strategies where it executes scenario analysis and/or modeling.
 - 6.2.1 The entity is not required to provide such disclosure at the individual portfolio and/or strategy level.
- 7 The entity shall discuss ESG trends that it views as broadly applicable in terms of their impact on sectors and industries as well as the trends it views as sector- or industry-specific.
- 8 The entity shall describe whether it incorporates ESG factors in strategic asset allocation and/or allocation of assets between sectors or geographic markets.
 - 8.1 The entity shall describe the types of portfolios and/or strategies where it incorporates ESG factors in strategic asset allocation and/or allocation of assets between sectors or geographic markets.
 - 8.1.1 The entity is not required to provide such disclosure at the individual portfolio and/or strategy level.
- 9 The entity shall describe how ESG factors are incorporated in the assessment of and influence the entity's views on:

- 9.1 Time horizon of investments
 - 9.2 Risk and return profiles of investments
 - 9.3 Traditional fundamental factors such as economic conditions, central bank policy, industry trends, and geopolitical risks
- 10 When relevant, the entity shall discuss its approach to incorporation of ESG factors in selecting external fund managers and fiduciary managers.
- 10.1 The entity shall describe its oversight/accountability approach to assessing the quality of incorporation of ESG factors by external fund managers and fiduciary managers, which includes, but is not limited to:
 - 10.1.1 Formal oversight individuals and/or bodies involved
 - 10.1.2 Roles and responsibilities of employees involved
 - 10.1.3 Criteria used in assessing the quality of ESG incorporation
- 11 The scope of disclosure shall include investment and/or wealth management services where the entity maintains decision-making power, regardless of strategy and asset class.
- 12 The scope of disclosure shall exclude execution and/or advisory services where investment decision-making power remains with clients.
- 13 When relevant, the description of the entity's approach to incorporation of ESG factors in its investment and/or wealth management activities shall be broken down by asset class or by style employed.
- 13.1 The discussion shall include, but is not limited to, the differences in the entity's approaches to incorporation of ESG factors in:
 - 13.1.1 Public equity, fixed income, private equity, or alternative asset classes
 - 13.1.2 Passive versus active investment strategies
 - 13.1.3 Fundamental, quantitative, and technical analyses of investments

FN-AC-410a.3. Description of proxy voting and investee engagement policies and procedures

- 1 The entity shall describe its approach to proxy voting, including, but not limited to, its process for making proxy voting decisions, including its approach to defining materiality.

- 1.1 The discussion shall include, but is not limited to, elements highlighted in the [PRI's Reporting Framework for Direct – Listed Equity Active Ownership](#):
 - 1.1.1 The scope of the entity's voting activities
 - 1.1.2 The objectives of the entity's voting activities
 - 1.1.3 How, if at all, the entity's voting approach differs among markets
 - 1.1.4 Whether the entity has a default position of voting in favor of management in particular markets or on particular issues
 - 1.1.5 Whether and how local regulatory or other requirements influence the entity's approach to voting
 - 1.1.6 Whether the entity votes by proxy or in person by attending annual general meetings (AGMs) (or a combination of both)
- 1.2 The entity shall describe its approach to determining support for proposals, including its approach to defining materiality.
 - 1.2.1 The scope of disclosure includes proposals addressing Environmental and Social (ES) issues
- 1.3 The entity shall describe how it communicates its proxy voting policy to clients as well as to the public.
 - 1.3.1 The entity may provide the link to its formal proxy voting policy.
- 2 The entity shall describe its process of making proxy voting decisions.
 - 2.1 The discussion shall include, but not be limited to, the elements highlighted in the PRI's Reporting Framework for Direct – Listed Equity Active Ownership, which include:
 - 2.1.1 Use of internal research team and/or third-party service providers
 - 2.1.2 Review and monitoring process for service provider recommendations
- 3 The entity shall describe its approach to communicating its voting decisions to company management, including the rationale for voting for/against the management's recommendations.
- 4 The entity shall describe its approach to engagement on ES issues.
 - 4.1 The discussion shall include, but is not limited to:
 - 4.1.1 The entity's objectives for undertaking engagement activities

- 4.1.2 Whether the entity's engagements related to ES issues are primarily proactive to ensure that ES issues are well-managed in a preventive manner, or reactive to address issues that may have already occurred
- 4.1.3 The outcomes the entity seeks from engaging with companies on ES issues (e.g., influencing corporate practice, improve the quality of ES disclosure)
- 4.1.4 The entity's staff that carries out the engagement (e.g., specialized in-house engagement teams, fund managers or equity/credit analysts, more senior-level roles)
- 4.1.5 The roles of individuals at the portfolio companies the entity seeks to engage with (e.g., board members, board chair, CEO, corporate secretary, investor relations managers)
- 4.2 The entity shall describe how it communicates its engagement policy to clients as well as to the public.
 - 4.2.1 The entity may provide the link to its formal engagement policy.
- 4.3 The scope of disclosure includes all asset classes, portfolios, and/or strategies where the entity conducts engagement on ES issues.
- 5 The entity shall describe how the outcomes of its proxy voting and engagement activities inform its investment decision-making process.
 - 5.1 The discussion shall include, but is not limited to:
 - 5.1.1 How the entity decides what information to pass on to investment decision-makers
 - 5.1.2 How the entity monitors the use of the information passed on in investment decision-making
- 6 The entity shall describe its escalation process for engagements when company dialogue is failing.
 - 6.1 The escalation process includes, but is not limited to, tactics highlighted in the International Corporate Governance Network (ICGN) [Global Stewardship Principles](#):
 - 6.1.1 Expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholder meeting
 - 6.1.2 Expressing the entity's concern collectively with other investors
 - 6.1.3 Making a public statement
 - 6.1.4 Submitting shareholder resolutions
 - 6.1.5 Speaking at general meetings

6.1.6 Submitting one or more nominations for election to the board as appropriate and convening a shareholder meeting

6.1.7 Seeking governance improvements and/or damages through legal remedies or arbitration

6.1.8 Exit or threat to exit from the investment

7 The entity shall describe how its ES engagement strategy fits into the entity's overall engagement strategy.

8 The entity may disclose additional quantitative measures related to its proxy voting and engagement activities, such as:

8.1 Number of engagements, percentage of those in-person

8.2 Number of staff involved in proxy voting and engagement activities

2021 EXPOSURE DRAFT

Business Ethics

Topic Summary

The regulatory environment surrounding the Asset Management & Custody Activities industry continues to evolve both nationally and internationally. Companies are required to adhere to a complex and often inconsistent set of rules relating to performance and conduct as well as 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 of their clients. Finally, in some jurisdictions, enhanced rewards for whistleblowers may lead to an increase in the number of complaints brought to regulators. Firms that are able to ensure regulatory compliance through robust internal controls will be better positioned to build trust with clients, leading to increased revenue, and to protect shareholder value by minimizing losses incurred as a result of legal proceedings.

Accounting Metrics

FN-AC-510a.1. Total amount of monetary losses as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice, or other related financial industry laws or regulations

- 1 The entity shall disclose the total amount of monetary losses it incurred during the reporting period as a result of legal proceedings associated with fraud, insider trading, anti-trust, anti-competitive behavior, market manipulation, malpractice or other related financial industry laws or regulations.
- 2 The legal proceedings shall include any adjudicative proceeding in which the entity was involved, whether before a court, a regulator, an arbitrator, or otherwise.
- 3 The losses shall include all monetary liabilities to the opposing party or to others (whether as the result of settlement or verdict after trial or otherwise), including fines and other monetary liabilities incurred during the reporting period as a result of civil actions (e.g., civil judgments or settlements), regulatory proceedings (e.g., penalties, disgorgement, or restitution), and criminal actions (e.g., criminal judgment, penalties, or restitution) brought by any entity (e.g., governmental, business, or individual).
- 4 The scope of monetary losses shall exclude legal and other fees and expenses incurred by the entity in its defense.
- 5 The scope of disclosure shall include, but is not limited to, legal proceedings associated with the enforcement of relevant industry regulations promulgated by regional, national, state, and local regulatory authorities, such as:
 - 5.1 The U.S. Securities and Exchange Commission (SEC)
 - 5.2 The U.S. Commodity Futures Trading Commission (CFTC)

- 5.3 The U.S. Financial Industry Regulatory Authority (FINRA)
 - 5.4 The European Commission
 - 5.5 The U.K. Financial Conduct Authority (FCA)
 - 5.6 The U.S. Federal Reserve Board
 - 5.7 The U.S. Office of the Comptroller of the Currency (OCC)
 - 5.8 The U.S. Financial Crimes Enforcement Network (FinCEN)
 - 5.9 The U.S. Consumer Financial Protection Bureau (CFPB)
 - 5.10 The U.S. Federal Deposit Insurance Corporation (FDIC)
- 6 The scope of disclosure shall exclude the amount of monetary losses disclosed in metric FN-AC-270a.2.
- 7 Disclosure shall also include enforcements related to activities adjudicated by federal regulators with an enforcement mandate broader than the financial industry, such as:
- 7.1 Foreign Account Tax Compliance Act (FATCA) enforced by the U.S. Internal Revenue Service (IRS)
 - 7.2 The Foreign Corrupt Practices Act (FCPA) enforced by the U.S. Department of Justice (DOJ)
 - 7.3 The Specially Designated Nationals List enforced by the U.S. Treasury Department through its Office of Foreign Asset Control (OFAC)

Note to **FN-AC-510a.1**

- 1 The entity shall briefly describe the nature (e.g., judgment or order issued after trial, settlement, guilty plea, deferred prosecution agreement, or non-prosecution agreement) and context (e.g., fraud, anti-trust, or market manipulation) of all monetary losses as a result of legal proceedings.
- 2 The entity shall describe any corrective actions it has implemented as a result of the legal proceedings. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN-AC-510a.2. Description of whistleblower policies and procedures

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

- 2 Disclosure shall include the entity's compliance with applicable whistleblower regulations, including, but not limited to:
 - 2.1 The U.S. Sarbanes-Oxley Act (SOX) [18 U.S.C. § 1514A]
 - 2.2 The U.S. Consumer Financial Protection Act (CFPA) [12 U.S.C. § 5567]
- 3 Disclosure shall include a discussion of any violations of whistleblower regulations and any corrective actions the entity has implemented as a result of violations.

2021 EXPOSURE DRAFT

Appendix: Redline Version of Proposed Changes

The following appendix contains the redline version of the proposed changes for the Asset Management & Custody Activities Standard. The redline includes only the disclosure topic and associated metrics that are proposed for removal.

All respondents are encouraged to review the entirety of the exposure draft above to understand the proposed revisions in the context of all sustainability disclosure topics in the industry.

SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

Table 1. Sustainability Disclosure Topics & Accounting Metrics

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

¹ Note to **FN-AC-270a.1**. The entity shall describe how it ensures that covered employees file and update FINRA and SEC forms in a timely manner.

² Note to **FN-AC-270a.2**. The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

³ Note to **FN-AC-330a.1**. The entity shall describe its policies and programs for fostering equitable employee representation across its global operations.

⁴ Note to **FN-AC-510a.1**. The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
	Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management	Discussion and Analysis	n/a	FN-AC-550a.2
	Total exposure to securities financing transactions	Quantitative	Reporting currency	FN-AC-550a.3
	Net exposure to written credit derivatives	Quantitative	Reporting currency	FN-AC-550a.4

Systemic Risk Management

Topic Summary

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

Accounting Metrics

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

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

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

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

1.3—Moderately liquid investments are defined as any investment reasonably expected to be convertible to cash in current market conditions in more than three calendar days but in seven calendar days or less without the

~~conversion to cash significantly changing the market value of the investment, in accordance to SEC Rule 22e-4, section III. C.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~7.1—Swing pricing is defined as a process of adjusting the net asset value (NAV) of a fund’s shares to pass on to purchasing or redeeming shareholders more of the costs associated with their trading activity.~~

~~FN-AC-550a.3—Total exposure to securities financing transactions~~

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

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

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

~~2—Calculation methodologies shall follow guidance from the Bank for International Settlements’ “Basel III: Finalising post-crisis reforms” items 50 to 56.~~

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

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

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

~~2—The entity shall calculate its net exposure to written credit derivatives as the maximum notional payout of written credit derivatives less the maximum notional payout of purchased credit derivatives on the same reference names, provided:~~

~~2.1—The credit protection purchased is on a reference obligation which ranks pari passu with, or is junior to, the underlying reference obligation of the written credit derivative in the case of single name credit derivatives; and~~

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

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