



FINANCIALS SECTOR

BASIS FOR CONCLUSIONS

ASSET MANAGEMENT &
CUSTODY ACTIVITIES

Sustainable Industry Classification System® (SICS®) FN-AC

Prepared by the
Sustainability Accounting Standards Board

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sasb.org

About SASB

The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organization. The SASB Foundation’s mission is to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors.

The SASB Foundation operates in a governance structure similar to the structure adopted by other internationally recognized bodies that set standards for disclosure to investors, including the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). This structure includes a board of directors (“the Foundation Board”) and a standards-setting board (“the Standards Board” or “the SASB”). The Standards Board develops, issues, and maintains the SASB standards. The Foundation Board oversees the strategy, finances and operations of the entire organization, and appoints the members of the Standards Board.

The Foundation Board is not involved in setting standards, but is responsible for overseeing the Standards Board’s compliance with the organization’s due process requirements. As set out in the SASB Rules of Procedure, the SASB’s standards-setting activities are transparent and follow careful due process, including extensive consultation with companies, investors, and relevant experts.

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Introduction

The publication of the Sustainability Accounting Standard (“Standard”) for the [Asset Management & Custody Activities Industry](#) marks an important milestone for the industry and for global capital markets more generally. It is the first Standard designed to assist companies in the Asset Management & Custody Activities industry in disclosing financially material, decision-useful sustainability information to investors.

The Asset Management & Custody Activities Industry Standard was first released in a provisional form in June 2015 after an extensive standard-setting process. Following the release of the Provisional Standard, the SASB staff, under the guidance of the SASB standard-setting board (“the Standards Board” or “the SASB”), engaged in further due process to revise the Standard. In October 2018, the Standards Board approved revisions to the Standard. The Standards Board subsequently voted to approve the Asset Management & Custody Activities Industry Standard, thereby including it in as one of the 77 industries for which the SASB has developed and published an industry standard.

The *Basis for Conclusions* describes the rationale for revisions made to the provisional industry standard. Additionally, the document outlines the standard-setting process the Standards Board used to codify the standard. All standard-setting documentation, including prior drafts of the standard, summary reports, and comment letters, which informed the development of the standard, are publicly available at the [Standard Setting Archive](#) of the SASB website.

The Standards Board

The Standards Board is charged with developing, issuing, and maintaining SASB standards. The Standards Board operates in accordance with its primary governance documents, including the SASB’s [Conceptual Framework](#) and [Rules of Procedure](#). The [Conceptual Framework](#) sets out the basic concepts, principles, definitions, and objectives that guide the Standards Board in its approach to setting standards. The [Rules of Procedure](#) establishes the due process followed by the Standards Board and staff in their standard-setting activities. The standard-setting process is designed to ensure each industry standard reflects the core objectives established in the [Conceptual Framework](#) to facilitate companies’ cost-effective reporting of financially material and decision-useful sustainability information to investors.

In its standard-setting role, the Standards Board operates in a transparent manner, including holding public board meetings. The Standards Board currently uses a sector-based committee structure, with three Standards Board members assigned primary responsibility for each given sector. In addition to sector committee reviews, the full Standards Board evaluates revisions to the standards. Information on Standards Board meetings, including minutes, agendas, and a schedule of upcoming meetings is available on the SASB website. A list of Standards Board members and their respective sector committee assignments is included in **Appendix A**.

Development of the Sustainability Accounting Standards

SASB staff initiated its standard-setting activities in 2012 under the oversight of the Standards Council.¹ From August 2012 to March 2016, the SASB staff developed provisional standards for each of the industries identified in the

¹ The Standards Council served in a process oversight role, distinct from the standard-setting role the Standards Board serves in. Upon completion of the provisional phase in 2016, the Standards Council was disbanded.

[Sustainable Industry Classification System® \(SICS®\)](#).² The provisional standards were developed through an iterative and transparent process centered on independent research, market input, and oversight from the Standards Council. Each provisional industry standard was developed based on staff research, industry working group (“IWG”) feedback, public comments, and individual consultations with companies, investors, and other relevant experts. Throughout the development of the provisional standards, more than 2,800 individuals participated in IWGs, 172 public comment letters were received, and hundreds of individual consultations were conducted with market participants by the SASB staff.

In 2016, following the issuance of the provisional standards across all industries, the SASB staff initiated a dedicated market consultation period to gain further insight into market views on the provisional standards. Subsequently, the Standards Board was seated and initiated a due process phase that culminated in the codification of 77 industry standards in October 2018. This standard-setting phase that began with the provisional standards and concluded with the codified standards is described more fully below. All standard-setting documentation discussed below are publicly available at the [Standard Setting Archive](#) of the SASB website.

- **Consultation:** In the six-month period from Q4 2016 – Q1 2017, the SASB staff conducted consultations to gather additional input from companies, investors, and relevant experts on the provisional standards. Throughout this phase, the SASB staff received input on the complete set of industry standards from individual consultations conducted with 141 companies, 19 industry associations, and 271 investor consultations via 38 institutional investors. The *Consultation Summary* comprises the findings from the consultations.
- **Technical Agenda:** In July 2017, after a period of review to evaluate market input from consultations on the provisional standards, the Standards Board worked with the SASB staff to publish the *Technical Agenda*. The *Technical Agenda* formally lists the areas of focus to address in preparing the standards for codification, emphasizing those issues for which strong evidence surfaced and/or those which received significant market feedback during the consultation period.
- **Public Comment Period:** In October 2017, the Standards Board published exposure drafts of the standards, which incorporated proposed changes guided by the *Technical Agenda* to the provisional standards. This opened a 90-day period, subsequently extended to a 120-day period, from October 2017 to January 2018, for public comment and review of proposed changes to provisional standards. Market participants provided 120 comment letters during the comment period. All letters received and a *Summary of Public Comments* are available at the [Standard Setting Archive](#).

The Standards Board and the SASB staff evaluated the public comments received in conjunction with previous market input and research to determine the revisions to be made to the provisional standard.

Approval of the Industry Standard

On October 13, 2018, the Standards Board voted unanimously to revise the Provisional Standard for the Asset Management & Custody Activities industry. In light of these revisions, on October 16, 2018, the Standards Board voted unanimously in favor of removing this Standard’s provisional status. In doing so, the Standards Board considered all

² At the time of the development of the provisional standards, SICS® contained 79 industries. SICS® was subsequently revised to 77 industries as a result of the combining of industries that contained similar sustainability-related risk and opportunity characteristics.

phases of the standard-setting process, including those detailed in the above documents, to assess their underlying rationale, their adherence to due process, and their faithfulness to the essential concepts of sustainability accounting, as described in the [Conceptual Framework](#).

The following section of this document describes the rationale for the revisions. **Appendix B** contains a redline table that summarizes these revisions. Revisions relative to the provisional standard that have not altered the scope or content of disclosure topics or metrics, such as those that are intended to improve the consistency, clarity, and accuracy of the standard, are not specifically addressed in the *Basis for Conclusions*.

Future Updates to the Standards

As social, economic, regulatory, and other developments alter an industry's competitive landscape, the SASB standards may need to evolve to reflect new market dynamics. The Standards Board will follow a regular standards review cycle to address emerging and evolving issues that may result in updates to the SASB standards.

The Standards Board intends to direct the SASB staff to compile and publish a *Research Agenda*, which outlines items that have been identified as requiring further analysis. Evidence-based research and market input, including feedback from outreach and consultation, will inform reviews of issues on the *Research Agenda*. Items from the *Research Agenda* may later be added to the Standards Board's *Technical Agenda* for additional due process and formal deliberation. All updates are subject to the standard-setting process described in the [Rules of Procedure](#).

Revision FN-AC:01 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Transparent Information & Fair Advice for Customers

2017 Technical Agenda Item #2-28 Description

The SASB is evaluating the addition of a metric to ensure the relevance and decision-usefulness of the metrics associated with the topic.

Summary of Change – Add Metric

The SASB added a new metric, “(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.”

Adherence to Criteria for Accounting Metrics

The Provisional Asset Management & Custody Activities Industry Standard includes a topic, Transparent Information & Fair Advice for Customers, with two associated metrics to describe a financial institution’s approach to ensuring compliance with regulatory requirements and alignment of objectives with clients’ expectations.

The provisional set of metrics included a quantitative metric asking for the amount of fines and settlements associated with failure to provide adequate and transparent information, and a qualitative metric requesting a description of policies and procedures related to ensuring that such information is passed on to clients. While the provisional set of metrics were useful in assessing the extent to which the company had been involved in issues related to transparency in the past as well as the procedures it had undertaken to avoid any future complications on this topic, disclosures may nevertheless have been insufficient under metric criteria of usefulness and completeness.

The addition of the quantitative metric improves both the usefulness and completeness of the set of metrics. Research suggests such information is useful as a forward-looking indicator of potential transgressions. The metric also broadens the information set by adding disclosure on past disputes or episodes of noncompliance that may not be directly tied to the firm, but are connected to current employees.

Supporting Analysis

Research highlights that information from BrokerCheck, the Financial Industry Regulatory Authority (FINRA) tool to research the background and experience of financial brokers, advisers, and firms, “including disciplinary records, financial disclosures, and employment history of brokers has significant power to predict investor harm.”³ Therefore, the percentage of employees with a disciplinary record would be a useful forward-looking indicator for client-initiated litigations, fines, and settlements. “The FINRA By-Laws require brokers and registered representatives to report any disclosure event within 30 days after they learn about it and in some instances within 10 days. These rules ensure that there is not a significant lag in when the underlying event occurred and when it is reported.”⁴ Such evidence suggests that addition of the metric improves usefulness of the SASB Standard on the disclosures related to the topic of Transparent Information & Fair Advice for Customers. The revision also improves the completeness criterion by

³ Hammad Qureshi and Jonathan S. Sokobin, “Do Investors Have Valuable Information About Brokers?” FINRA Office of the Chief Economist Working Paper, August 20, 2015, accessed August 29, 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2652535.

⁴ Ibid.

including a forward-looking indicator which, when combined with the other metrics included in the topic, provides sufficient information for evaluating issues related to the topic.

Market Input

Investors: The metric was proposed by a subject matter expert as a useful forward-looking indicator. Feedback received from analysts indicates that referencing FINRA for a metric related to investment banks and asset managers is the best approach as such data can be standardized and collected in a cost-effective manner.

Companies: Several large-cap, publicly listed companies with asset management operations stated that the revised metric is relevant to the disclosure topic, applicable to companies in the industry, and may generate decision-useful information to investors, when the scope of disclosure is defined appropriately.

Other: Feedback from a subject matter expert on the revised metric “(1) Number and (2) percentage of covered employees with record of investment-related investigations, consumer-initiated complaints, private civil litigations, and other regulatory proceedings” suggested the importance of timely filing and updating of regulatory forms specified in the technical protocol to ensure relevance of the information generated by the metric. Therefore, the stakeholder suggested including a qualitative note to the metric asking companies how they ensure that the “covered employees” file such forms in a timely manner as well as promptly update them if any information changes or becomes inaccurate.

Benefits

Improves decision-usefulness: The revised metric significantly improves the decision-usefulness of the information disclosed on this topic as it provides forward-looking insight into a company’s performance. As shown by studies and based on feedback received, the metric has been shown to have predictive ability and is also relevant fundamentally as an indicator of corporate culture with respect to human capital management (e.g., hiring practices).

Improves cost-effectiveness: The revised metric references the industry regulatory framework and, therefore, the information is mandatory to report to FINRA. Because companies already collect this data, it is cost-effective for companies to report this metric.

Revision FN-AC:02 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Transparent Information & Fair Advice for Customers

2017 Technical Agenda Item #2-29 Description

The SASB is evaluating the revision of metric FN0103-07⁵ to ensure the relevance and decision-usefulness of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB revised provisional metric FN0103-07 to require the discussion of procedures and programs intended to provide adequate and transparent information to customers, including how representatives' compensation structures are linked to sales of investment products and services.

Adherence to Criteria for Accounting Metrics

The Asset Management & Custody Activities Industry Provisional Standard includes a topic, Transparent Information & Fair Advice for Customers, with associated metrics to describe a company's management of related risks and opportunities. Specifically, provisional metric FN0103-07 called for a "Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflicts of interest." The technical protocol associated with the provisional metric outlined the topics the company should describe in more detail. These included disclosures on relevant risks associated with complex or high-yield products that may be misaligned with clients risk tolerance, a company's approach to adhering to FINRA's suitability rule, and disclosure on relevant conflicts of interest ranging from services paid for by clients' commissions and policies on employees' personal trading accounts. While the metric touched on important points for understanding a company's risks relating to potential lack of transparency or fairness toward customers, it left out a discussion of investment advisors' and sales representatives' compensation structures. Evidence suggests that this structure is relevant as a gauge of potential regulatory and legal issues that the company may face. A discussion on incentive structures improves completeness and applicability of the metric, in accordance with the attributes identified in the *SASB Conceptual Framework* as essential for technical protocols.

Supporting Analysis

The SASB's analysis supported by feedback from companies suggests that misaligned compensation structures for employees involved in selling investment products to individual and institutional clients in several instances have resulted in violation of fiduciary duty through the failure to provide transparent information and fair advice about products, and sales of products not suitable for clients. In one of the more recent cases, a large company in the industry was accused of high-pressure contests for its financial advisers to cross-sell risky loans to clients. Incentive compensation structure allegedly resulted in financial advisers pushing clients to open credit lines even if they did not intend to use them. The case is still active and the company may be liable to compensate damages to clients. There have been multiple cases over recent years where individual investors were impacted by such sales tactics driven by incentive structure of their advisers. Therefore, companies should discuss compensation of sales employees along with

⁵ FN0103-07 - Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflicts of interest

their discussion of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflicts of interest.

Market Input

Investors: The SASB did not directly obtain feedback on the revision from analysts covering the Asset Management & Custody Activities industry.

Companies: Some of the largest companies in the industry stated that compensation of sales employees is a relevant element of the disclosure topic, and when mismanaged, it can create conflicts of interest and incentivize advisers to sell products that are not in the best interest of their clients.

Benefits

Improves decision-usefulness: Discussion of compensation provides a relevant element to help analysts assess company performance on the topic. The revision therefore improves the completeness of the metric, as understanding incentive compensation is an integral element for assessing potential for conflict of interest.

Revision FN-AC:03 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Employee Inclusion

2017 Technical Agenda Item #2-27 Description

The SASB is evaluating the revision of metric FN0103-05⁶ to ensure the decision-usefulness of the metrics associated with the topic.

Summary of Change – Revise Metric and Revise Topic Name

The SASB revised provisional metric FN0103-05 from “Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others” to “Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees.”

Note: For integrated banks, the guidance would be to report employees of the asset management segment. If the company is also involved in asset/wealth management where the same metric is included, disclosure should include reporting by segment, not aggregated at the corporate level.

Additionally, the SASB has revised the topic name from Employee Inclusion to Employee Diversity & Inclusion to improve its representativeness of the associated metric and measured performance.

Adherence to Criteria for Accounting Metrics

The Asset Management & Custody Activities Industry Provisional Standard included a topic, Employee Inclusion, with an associated metric intended to measure how companies in the industry manage their human capital and ensure attraction and retention of talent by hiring diverse candidates. Asset management and custody activities companies face a high degree of competition for skilled employees, and the ability of companies to attract and retain them is likely to become increasingly material. By ensuring gender and racial diversity throughout the organization, companies are likely to expand their candidate pool. Further, evidence suggests that diverse groups of employees at asset management companies may increase portfolio return and reduce risk.

The provisional metric FN0103-05 provided a breakdown of gender/racial diversity at only two general levels: executives versus non-executives. The SASB revised the metric to include a more decision-useful breakdown of employee categories. Specifically, the revised metric includes (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employee categories. For the U.S. workforce, these four categories directly match to the (1) Executives/Senior Officials and Managers, (2) First/Mid-Level Officials and Managers, (3) Professionals, and (4) All Other Employees categories from the U.S. Equal Employment Opportunity Commission’s (EEOC’s) EEO-1 Job Classification Guide. Although the provisional metric provided a picture of the company’s overall workforce diversity, it failed to separate employees into categories where diversity may be a driver of corporate value, i.e., decision makers. As highlighted by companies and investors and supported by the evidence discussed below, diversity among employees involved in decision-making processes (e.g., portfolio managers, investment analysts, and traders) at financial institutions may improve the risk-return profile of organizations. Employees occupying such positions are generally classified in three of the referenced EEOC categories. Therefore, the revised breakdown provides more decision-useful information.

⁶ FN0103-05 - Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others

The revised metric references the U.S. EEOC's EEO-1 Job Classification Guide, which enhances the alignment of the metric with standard practice, as well as the comparability and verifiability of the reported data. As supported by market feedback, the revision also improves the fair representation, usefulness, and completeness of information disclosed in line with the metric, as the breakdown reveals additional relevant information that is decision-useful in assessing companies' performance on the disclosure topic.

Further, the SASB updated the technical protocol of the metric to allow asset managers to report gender representation by country and/or region outside of the U.S. The provisional version of the technical protocol required gender diversity data to be reported for global operations in a single table, in which employees from all geographic regions would be aggregated. As workforce diversity can vary significantly by geographic region, and due to differing regulation, legal risk, or reputational risks associated with workforce diversity depending on region, a geographic breakdown of performance provides more representative, useful, and comparable data for investors. As such, it is appropriate to provide diversity disclosure at a country or regional level to prevent potentially unrepresentative datasets that are largely driven by company geographic exposure rather than workforce diversity within a given geographic area.

Therefore, the SASB included the following note: "Where relevant, the entity may provide supplemental breakdown of racial/ethnic group and/or gender representation by country or region." The update improves fair representation and neutrality criteria of the metric by allowing the additional disclosure of such data for jurisdictions in which such data would be a useful and relevant data point to understand company exposure to and management of risks and opportunities related to the topic.

Lastly, the SASB provided clarification that the U.S. EEOC's EEO-1 Job Classification Guide shall be used for classifying employees into four occupational categories only for the U.S. workforce. The SASB stated in the technical protocol that non-U.S. workforce companies shall use occupational classifications systems adopted in countries where the workforce is employed. Companies will further categorize non-U.S. employees into four occupational categories equivalent to the EEO-1 categories using their best judgement by linking equivalent occupation categories from occupational classification systems adopted in countries where non-U.S. workforce is employed. The revision therefore enhances applicability of the technical guidance associated with the metric to companies with a globally diversified workforce.

Supporting Analysis

Research suggests that diversity may be of particular importance within individual departments of investment banks and asset managers, such as trading desks, research and portfolio management teams, and sales, where diverse groups show better performance on metrics such as return on investment, risk, and client attraction and retention. Diversity within those groups of employees, as shown by evidence, can have a material impact on an asset manager. For example, one study shows that men are 2.5 times more likely to break rules, which can lead to excessive risk-taking and losses to the firm.⁷ Further, a 2015 study by Morningstar found that funds run by mixed-gender teams of analysts and portfolio managers outperformed those run by only men or only women.⁸ In order to understand a firm's diversity at the decision-useful level (as was done for the studies above), the metric should look at a breakdown

⁷ Sarah Butcher, "New Figures Show Women Make Better Traders than Men on Every Metric Imaginable," eFinancialCareers, January 26, 2015, accessed September 11, 2017, <http://news.efinancialcareers.com/us-en/197066/exclusive-figures-show-women-make-far-better-traders-men/>.

⁸ "Morningstar Research Report: Fund Managers by Gender," Morningstar, June 2015, accessed September 11, 2017, <http://corporate.morningstar.com/US/documents/ResearchPapers/Fund-Managers-by-Gender.pdf>.

deeper than simply executives versus non-executives, as asset managers and investment banks have a large number of staff not involved in investment decision-making, and whose activities do not impact the company's risk-return profile.

The provisional metric may have obscured diversity levels within specific employee categories by grouping them together across the organization, as highlighted by market feedback (see Market Input).

Analysis of corporate disclosure suggests that large financial institutions report diversity metrics referencing categories defined by the EEOC. Some of the largest companies in the sector, including four of the ten largest integrated banks, for which the Asset Management & Custody Activities Industry Standard applies, provide disclosure using the EEOC categories referenced in the revision.

There are several challenges related to reporting racial/ethnic data outside of the United States. First, classification categories vary significantly country-by-country and region-by-region; therefore, it would not be practical or necessarily representative of racial/ethnic diversity for companies to aggregate their global number of employees by EEO-1 categories. Second, data are typically only available in some countries (e.g., Canada and Brazil) due to privacy laws preventing disclosure. Finally, some countries also look at age, disability, gender identity, sexual orientation, or other aspects of diversity, but these categories may be defined differently by each country.

The updated metric addresses these concerns by requiring gender breakdown globally but racial/ethnic breakdown per the EEO-1 categories only for the U.S. workforce. Companies shall describe their policies for promoting inclusivity and preventing the development of a homogenous workforce outside the U.S. that is not representative of the local populations. They can also disclose racial/ethnic or other breakdowns by region or country-specific categories, if they choose. This update recognizes that a perfectly representative workforce would mirror population demographics, but that regional demographics and ideal representation may vary widely. Thus, it improves the representativeness and the usefulness of the metric.

Lastly, the SASB revised the topic name from Employee Inclusion to Employee Diversity & Inclusion. The majority of companies (including all of the largest publicly listed companies) in the industry refer to the sustainability human capital issue covered by the disclosure topic as "diversity and inclusion" in their filings and/or web sites. Financial services companies develop policies and strategies around "diversity and inclusion" that are referenced in their sustainability reports or other corporate communications and reporting documents. In the context of their diversity and inclusion discussion, some companies report quantitative metrics, including those measuring gender and racial/ethnic representation of their employees. Such quantitative metrics are essentially the measure of diversity as well as inclusion, when provided by occupation category, rather than a measure of inclusion only. Since the SASB metric provides investors information relevant to measuring both diversity and inclusion, the SASB revised the disclosure topic name to more accurately reflect the intent of the topic and the underlying metric.

Market Input

Investors: Investors and companies across sectors, including analysts covering investment banks and asset managers, consistently communicated that while a gender breakdown is relevant globally, a racial/ethnic group breakdown by EEO-1 categories is feasible only in the United States. In addition, some stated that the provisional metric is overly U.S.-centric and would not provide meaningful information for large multinational companies that operate in different countries.

Companies: Several banks and asset management companies noted that aggregating diversity across an organization may hinder its comparability, as companies reporting the data at the enterprise level while having a large retail banking presence would likely appear more diverse. Several companies raised concerns that segregating the data only at executive versus non-executive level masks the “true performance” when seemingly diverse companies overall may still have very poor diversity when the data is sliced at the department or seniority level. Companies from the Investment Banking & Brokerage and Asset Management & Custody Activities industries, where the SASB addresses Employee Inclusion as a disclosure topic, have shown strong support for a greater level of detail to highlight the importance of diversity in such roles as research and portfolio management, trading, IT, and others. Companies stated that the revised metric with a more detailed segregation would be cost-effective to report as it references (EEOC) categories that are used internally by companies. The vast majority of banks and asset management companies, as well as companies across sectors, consistently communicated that while a gender breakdown is relevant globally, a racial/ethnic group breakdown by EEO-1 categories is feasible only in the United States. In addition, some stated that the provisional metric is overly U.S.-centric and would not provide meaningful information for large multinational companies that operate in different countries.

One company expressed concerns regarding limitations for tracking employee data globally, as required by the provisional metric. The company points out that depending on a geographic breakdown of operations, comparability of the reported data may be negated due to its skewness, i.e., based on the percentage of total employees for whom gender and racial data is available as well as based on difference of exposure to countries with differing levels of diversity in the population and/or workforce.

Benefits

Improves decision-usefulness: Additional breakdown by EEOC category, as well as reporting by segment improves fair representation, usefulness, and completeness of the revised metric, and therefore provides more relevant information about performance and improves comparability across companies that may have different exposures to various segments.

Improves cost-effectiveness: As stated by companies, the revised metric is aligned with the framework used by human resources departments at companies, hence improves alignment, comparability, and verifiable criteria of the metric, which makes it cost-effective to collect and report. By limiting the required quantitative disclosure on race/ethnicity to U.S. operations, the revision further improves cost-effectiveness.

Improves the SASB Standard: This change improves cost-effectiveness by limiting the required quantitative disclosure on race/ethnicity to U.S. operations, which is measurable and complete. It also improves decision-usefulness by only requiring the aggregation of gender data, which is more likely to be comparable across companies in different industries and geographies.

Revision FN-AC:04 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory

2017 Technical Agenda Item #2-34 Description

The SASB is evaluating the revision of metric FN0103-17⁹ to ensure the decision-usefulness and cost-effectiveness of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB revised provisional metric from:

- FN0103-17 – Percentage of total proxies voted, and number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action

to:

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

Adherence to Criteria for Accounting Metrics

The Provisional Asset Management & Custody Activities Standard included a topic for Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory¹⁰ to describe how companies maintain their fiduciary duty to clients by integrating ESG factors with potential impact on value for investees in investment management. The process of ESG integration involves consideration of ESG factors in valuation, modeling, proxy voting, and engagement with investees and, as a result, in investment decision making by asset managers. Metrics associated with the disclosure topic were meant to capture the quality of a company’s integration processes in each of the applicable activities.

The provisional metric FN0103-17 was a quantitative measurement of the asset manager’s proxy voting activities. However, it did not adhere to the criterion of fair representation, as it was not indicative of the quality of the company’s ESG integration. In some cases, such measures may create a moral hazard and incentivize companies to vote in favor of all ESG proposals without a proper consideration of cost-benefit to investors. Furthermore, the provisional metric included the percentage of proxies voted that result in company action. However, this is outside of the company’s control, which further supports the notion that the metric did not adhere to the fair representation criterion.

⁹ FN0103-17 - Percentage of total proxies voted, and number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action

¹⁰ See Revision FN-AC:06 which discusses the provisional topic name change from “Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory” to “Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory.”

The SASB replaced the provisional quantitative metric with a qualitative discussion of the company's policies and procedures around proxy voting and company engagement. The revision is aimed to improve the criterion of fair representation, while also improving the usefulness of the information generated by the metric. Furthermore, the revised metric supplements the discussion on proxy voting with the discussion on engagement with investees to highlight another relevant aspect of ESG integration and further improve the usefulness of the standard.

The SASB also aligned the technical protocol of the updated metric with the disclosure recommendations provided by the Principles for Responsible Investment (PRI) in its Reporting Framework for Direct – Listed Equity Active Ownership. The reporting framework addresses asset managers' approach to proxy voting and engagement that falls within the scope of the disclosure topic and the rationale of the revised metric. The SASB included the components. The alignment is likely to improve the cost-effectiveness of the standard.

Supporting Analysis

The Securities and Exchange Commission's Rule on Proxy Voting by Investment Advisers¹¹ requires asset managers to vote "proxies in the best interests of clients, to disclose to clients information about those policies and procedures, and to disclose to clients how they may obtain information on how the adviser has voted their proxies." Therefore, the "percentage of total proxies voted" included in the provisional metric would not generate distributive and useful information to investors.

While the PRI signatories have more than \$70 trillion in assets under management (AUM) that is supposed to invest client assets while considering ESG criteria, it has been challenging to understand the definition of ESG integration used by these asset managers, and, therefore, to distinguish among them based on the robustness of their processes. As a part of its 2016 Reporting Framework for Direct – Listed Equity Active Ownership, the PRI captures proxy voting and engagement as two of the relevant elements applicable to the ESG integration process. The Framework includes multiple questions aimed at understanding asset managers' policies and procedures around voting proxies, along with a few quantitative indicators.

The PRI is considering updating the proxy voting and engagement framework by emphasizing the qualitative elements of discussion around decision making in vote casting, as well as the link to investment decision making. The changes are mostly driven by feedback the PRI received from its signatories that quantitative measures on the percentage of proxies supported or number of meetings conducted with investees are not indicative of the quality of ESG integration. Regardless of views on regulations surrounding the shareholder proposal process, companies in the asset management industry must, generally speaking, assess the materiality and alignment of proxy proposals with their clients' long-term interests. For that reason, measuring the robustness of a company's approach to proxy voting quantitatively may not necessarily be appropriate without consideration of the cost-benefit of individual proposals. Therefore, the provisional metric fails to satisfy the criterion of fair representation, as to adequately and accurately describe performance related to the applicable disclosure topic.

The PRI Reporting Framework for Direct – Listed Equity Active Ownership, through its questionnaire for asset managers, primarily hones in on qualitative aspects of performance such as robustness of the adopted policies and ensuring compliance. The SASB modeled the approach to measuring performance on the topic with the PRI's Framework. The revision to the provisional metric improves its usefulness and alignment as defined by the SASB

¹¹ "Final Rule: Proxy Voting by Investment Advisers, 17 CFR Part 275," U.S. Securities and Exchange Commission, accessed October 5, 2018, <https://www.sec.gov/rules/final/ia-2106.htm>.

Conceptual Framework by providing information relevant to assess the quality of ESG integration and by aligning it with the PRI, which is a widely recognized framework. Companies suggested that a discussion of policies around ESG proxy voting is a more decision-useful way of measuring performance.

Companies are still able to report quantitative metrics when they feel it is appropriate. To improve cost-effectiveness of such disclosure, SASB aligns the technical protocol of the updated metric with the PRI guidance on proxy voting and engagement.

Market Input

Investors: The SASB did not directly obtain feedback on the revision from analysts covering the Asset Management & Custody Activities industry.

Companies: All of the pure-play asset managers and integrated banks involved in asset management activities that provided feedback on the SASB Standards stated that the revised metric is more appropriate and cost-effective to measure performance on the quality of ESG integration efforts. The companies echoed the feedback the PRI received (as discussed above), suggesting that the provisional metric FN0103-17 was unlikely to be decision-useful as the number of submitted proposals varies, the quality and relevance of those proposals to all investors may vary, the actions taken by investees are outside of asset managers' control, and that, generally, the data would provide no information to help investors in understanding the quality of management of the corresponding disclosure topic by companies. According to feedback, the discussion on the revised metric is often reported in ESG filings. Wealth managers commented that the Discussion and Analysis approach to the metric is more appropriate, as the proxy-voting policies may not be applicable to the segment due to the lack of voting rights.

Others: As highlighted above, the SASB received substantial feedback from the PRI and organizations aligning their approaches to managing ESG integration and asset management activities.

Benefits

Improves decision-usefulness: According to the feedback received, the provisional metric might have generated a significant amount of information that would not be decision-useful and would be potentially misleading to investors, in violation of fair representation, a guiding criterion of metrics development for the standards. Decision-useful information that fairly represents corporate performance concerning the degree and nature of asset managers engagement with investees and satisfaction of their fiduciary duties is likely to be generated through a standardized and structured discussion of policies and practices rather than quantitative data.

Improves cost-effectiveness: A number of companies stated that the proposed qualitative metric is more cost-effective to disclose than a quantitative measure due to the scope defined in the technical protocol of the provisional metric.

Revision FN-AC:05 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory

2017 Technical Agenda Item #2-35 Description

The SASB is evaluating the removal of metric FN0103-18¹² to ensure the relevance and cost-effectiveness of the metrics associated with the topic.

Summary of Change – Remove Metric

The SASB removed metric FN0103-18, “Ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management.”

Adherence to Criteria for Accounting Metrics

The Provisional Asset Management & Custody Activities Standard included a topic for Integration of Environmental, Social, and Governance Factors in Investment Management & Advisory¹³ to describe how companies maintain their fiduciary duty to clients by integrating ESG factors with potential impact on value of investees in investment management. The process of ESG integration involves consideration of ESG factors in valuation, modeling, proxy voting, and engagement with investees and, as a result, in investment decision making by asset managers. Metrics included in the disclosure topic are meant to capture the quality of companies’ integration processes in each of the applicable activities.

The provisional metric FN0103-18 measured the ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management, which is focused on the climate risk, specifically carbon-related climate risk, exposure of companies held in portfolios of asset managers.

The provisional metric did not satisfy the SASB criterion of fair representation as it was not indicative of the company’s quality of integration of ESG factors in investment management and is, for the most part, derivative of investment strategies employed by asset managers (which are most often driven by investor mandates). To fulfill their fiduciary duty, investment managers consider a wide range of financial and non-financial factors, including balance sheet, income statement, and cash flow items, as well as various ESG-related metrics, in constructing portfolios. Exposure to carbon reserves is one of many factors that needs to be taken into account and, therefore, when taken in isolation and not relative to a benchmark, may not be indicative of poor risk-return profile of individual mandates. Higher carbon exposure may often be the result of a specific strategy employed by the managers, and therefore such managers should not be evaluated based on that indicator alone.

The metric failed to satisfy the criterion of verifiability due to its complexity of calculation, heavy reliance on estimates, and significant reporting cost burden. Further, the provisional metric failed to satisfy the criterion of usefulness as it

¹² FN0103-18 - Ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management

¹³ See Revision FN-AC:06 which discusses the provisional topic name change from Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory to Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory.

failed to provide information investors in stocks of asset management companies would be able to use for comparability purposes and to make their investment decisions. Therefore, the SASB removed the provisional metric FN0103-18.

Supporting Analysis

Analysis of corporate disclosure showed that no asset managers report embedded carbon dioxide emissions of proved hydrocarbon reserves held by their investees. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) for asset managers include a metric focused on exposure to carbon emissions, not on carbon reserves. Feedback the TCFD received from companies indicated extreme complexity of calculation of their metric and the need to avoid overlap and use of estimates. This highlights the fact that the provisional metric was unlikely to be cost-effective to report due to the lack of verifiability. The TCFD also acknowledges these limitations of the metric by stating the following: “The Task Force acknowledges the challenges and limitations of current carbon footprinting metrics, including that such metrics should not necessarily be interpreted as risk metrics. Nevertheless, the Task Force views the reporting of weighted average carbon intensity as a first step and expects disclosure of this information to prompt important advancements in the development of decision-useful, climate-related risk metrics. [. . .] The Task Force recognizes that some asset owners and asset managers may be able to report the weighted average carbon intensity and other metrics on only a portion of their investments given data availability and methodological issues.”¹⁴

Market Input

Investors: Investors unanimously stated that metrics included in this topic should describe the processes a company employs to integrate ESG in its investment management and the strategies it employs to increase the assets under management (AUM) employing ESG integration (e.g., waiting for investor demand, or active creation and marketing of products and education of clients on the benefits of ESG investing). According to investor feedback, metric FN0103-18 was not providing decision-useful information to assess quality of ESG integration, was not cost-effective, was difficult to standardize, and was not useful to compare asset managers that use different investment strategies.

Companies and others: Feedback from companies and subject matter experts suggest that metric FN0103-18 is not a decision-useful measure of ESG integration, which is the focus of the disclosure topic. This supports the conclusion that the provisional metric did not satisfy the criterion for fair representation. Inherently, the provisional metric was highlighting only one of the many ESG risks investees of asset managers are exposed to, which was thought of as inappropriate by multiple companies in the industry. Instead, companies and subject matter experts stated that metrics included in this topic should describe the processes a company employs to integrate ESG in its investment management and the strategies it employs to increase the assets under management (AUM) employing ESG integration (e.g., waiting for investor demand, or active creation and marketing of products and education of clients on the benefits of ESG investing). According to feedback from companies and other stakeholders (including the PRI), metric FN0103-18 did not provide decision-useful information to assess quality of ESG integration, was not cost-effective, was difficult to standardize, and was not useful to compare asset managers that use different investment strategies.

¹⁴ “Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures,” Task Force on Climate-related Financial Disclosures, June 2017, accessed September 19, 2017, https://www.eenews.net/assets/2017/06/29/document_cw_02.pdf.

Benefits

Improves the SASB Standard: By removing the metric, the SASB reduces the amount of information that is unlikely to be decision-useful to a reasonable investor, thereby improving materiality of the standard. It further improves cost-effectiveness for reporting for companies.

Revision FN-AC:06 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory

Summary of Change – Revise Metric

The SASB revised metric from:

- FN0103-15 – Discussion of how environmental, social, and governance (ESG) factors are integrated into investment analysis and decisions and of how this integration intersects with fiduciary duties

to:

- 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.

Adherence to Criteria for Accounting Metrics

The Provisional Asset Management & Custody Activities Standard included a topic for Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory¹⁵ capturing how companies maintain their fiduciary duty to clients by integrating ESG factors that have the potential to impact the value of investee’s assets. The process of ESG incorporation involves consideration of ESG factors in valuation, modeling, proxy voting, and engagement with investees and, as a result, in investment decision making by asset managers. Metrics included with the disclosure topic were meant to capture the quality of companies’ incorporation processes in each of their applicable activities.

While the provisional metric provided investors with relevant, useful information related to the topic, the revision better aligns the metric with existing industry approaches to the integration of ESG factors into company operations. Specifically, the SASB updated the metric to address feedback from multiple stakeholders suggesting that the SASB seek to align its approach to disclosures related to the level of ESG incorporation by companies with existing frameworks and standards such as the Principles for Responsible Investment (PRI). The revision to the metric and associated technical protocol therefore enhances the comparability, completeness, verifiability, and alignment criteria specified in the *SASB Conceptual Framework*.

The SASB additionally revised the topic name from Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory to Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory to better align with the industry terminology.

Supporting Analysis

The revised format of the technical protocol enhances alignment, as it builds on the structure provided by the PRI Framework around how companies should approach the incorporation of ESG factors in investment and wealth

¹⁵ See Revision FN-AC:06 which discusses the provisional topic name change from Integration of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory to Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory.

management processes. The PRI is a widely recognized framework with around 1,800 signatories with close to \$70 trillion of assets under management (AUM)¹⁶. Therefore, alignment of the SASB metric is likely to improve cost-effectiveness. Furthermore, alignment of the scope of disclosure and definitions (i.e., “incorporation of ESG factors” and examples of ESG factors/issues) to the PRI enhances the comparability criterion by providing additional, specific guidance to companies regarding elements of the disclosure they shall include related to their incorporation of ESG factors. Finally, the technical protocol was revised to incorporate a discussion of scenario analysis and modeling used by companies in their investment management activities; such analysis is aligned with the recommendations of the TCFD.

The disclosure guidance of the technical protocol follows and incorporates elements covered by the PRI Reporting Framework ([Organizational Overview](#) and [Strategy and Governance](#) modules). Specifically, the discussion includes: (1) description of the entity’s policies that set its approach to incorporation of ESG factors; (2) description of the entity’s approach to implementation of the aspects of ESG incorporation practices; and (3) description of the entity’s oversight/accountability approach to the incorporation of ESG factors. Additionally, the SASB included discussion of companies’ approach to using scenario analyses and/or modeling in which the risk profile of future ESG trends is calculated at the portfolio level. Lastly, the technical protocol discusses the approach to incorporation of ESG factors in strategic asset allocation. The revised structure significantly improves the completeness criterion of the metric as the technical protocol of the provisional metric largely focuses on technical aspects of integration of ESG factors in decision-making, while omitting the importance of strategic and operational elements of ESG incorporation. Per the discussion elements noted above, the revised technical protocol includes a more comprehensive set of factors related to ESG integration that are relevant to understanding a company’s strategy relative to its peers. Therefore, the revision improves decision-usefulness of disclosure generated by the metric.

Lastly, the SASB replaced the term “integration” with term “incorporation” to improve alignment with the industry terminology. The PRI defines incorporation of ESG factors broadly, where “integration of ESG issues” is one of the four ways it can be done in practice. The other ways of ESG incorporation include screening, sustainability themed investment, or a combination of all three ways. As the scope of the disclosure topic and associated metrics intends to capture a variety of approaches and strategies to ESG incorporation, the change improves the appropriateness of the name.

Market Input

Companies: Companies strongly advocated for the alignment of the metrics with existent frameworks, including the TCFD as it pertains to the Insurance industry and the PRI and TCFD as it pertained to the Asset Management & Custody Activities industry. Companies stated that with the emergence of several ESG Frameworks in recent years, compliance and reporting of ESG data is likely to become costly. Therefore, ensuring alignment across such frameworks was highly advocated by companies in the industry to ensure cost-effectiveness of disclosure.

Others: The SASB received positive feedback on the format of technical protocol of the revised metric from the PRI which highlighted the relevance, completeness, and alignment of specified disclosure, yet its succinctness of its format.

¹⁶ “About the PRI,” Principles for Responsible Investment, accessed May 9, 2018, <https://www.unpri.org/pri>.

Benefits

Improves decision-usefulness: The technical protocols of the provisional metrics lacked coherence which would have adversely impacted the consistency of disclosures provided by the metrics from being complete and comparable, and therefore, decision-useful to investors. Enhancement of adherence to the aforementioned criteria improves the decision-usefulness of such disclosure.

Improves cost-effectiveness: The revision improves cost-effectiveness of standard by aligning the guidance provided in the technical protocol with that of the PRI.

Revision FN-AC:07 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Management of the Legal & Regulatory Environment

2017 Technical Agenda Item #2-30 Description

The SASB is evaluating the revision of metric FN0103-08¹⁷ to ensure the relevance and decision-usefulness of the metrics associated with the topic.

Summary of Change – Add Metric and Revise Metric

The SASB split metric:

- FN0103-08 – Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions

into its quantitative and qualitative components:

- FN0103-08 – 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

with a new metric subsequently created to capture whistleblower policies:

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

Adherence to Criteria for Accounting Metrics

The Provisional Asset Management & Custody Activities SASB Industry Standard included a topic for Management of the Legal & Regulatory Environment with associated metrics to describe a company's management of risks related to the legal and regulatory environment. Specifically, the topic and two associated quantitative metrics provided information to help analysts assess a company's internal control policies to prevent tax evasion, fraud, money laundering, and corruption. The provisional metric FN0103-08 measured the amount of legal and regulatory fines and settlements that resulted from whistleblowing actions. The provisional metric was unlikely to provide a fair representation and complete view of the topic and a company's efforts and abilities to institute a successful whistleblower program, limiting its decision-usefulness. The revision of the provisional metric eliminates the need to disclose the percentage of fines and settlements stemming from whistleblowers. To more adequately capture the nature of a company's whistleblower program, the SASB added a qualitative metric that facilitates disclosure of the unique characteristics of a company's whistleblower policies and practices in a more holistic manner. In tandem, both metrics more fairly represent the topic and improve the completeness of the standard.

Supporting Analysis

The provisional metric did not provide a complete picture of a company's whistleblower program, which may reduce its decision-usefulness. During the consultation period (see Market Input), the SASB received feedback noting that

¹⁷ FN0103-08 - Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions

reporting on the issue generally includes the amount of fines and settlements related to violations of financial industry regulations plus a stand-alone discussion of whistleblower policies. This was confirmed by an analysis of current disclosure practices in SEC filings. As a set, the pair of revised metrics are more useful in measuring a company's performance on the topic because they provide a mix of quantitative and qualitative information, which is a characteristic that the provisional metric lacked. Reporting on the share of fines resulting from whistleblower action does not necessarily highlight the quality of a company's whistleblower policies. "For example," notes a report from Harvard Law, "Elements of an Effective Whistleblower Hotline," "a high volume of calls to a company's hotline (as compared to peers and its industry) may indicate that the company is experiencing significant compliance issues and potentially has an ineffective compliance and ethics program. Conversely, a high volume of hotline calls may suggest that the hotline is working as planned, that the company's compliance and ethics employee training program is effective, that there is greater awareness of the hotline and increased trust in the company's compliance department."¹⁸ The split of the metrics consequently improves completeness of the metric by allowing investors to understand better the extent to which the volume of whistleblowing-related fines may be influenced by the company's policies regarding whistleblowing. The split improves the SASB criteria for fair representation and usefulness by making the links between whistleblowing policies and related fines clearer.

Market Input

Investors and others: A limited number of investors provided feedback on the revision. Nevertheless, those who did unanimously stated that the breakdown of regulatory fines and settlements resulting from whistleblowing actions is unlikely to yield additional decision-useful information, and is therefore unnecessary. Alternatively, these analysts and one subject matter expert recommended including a discussion of a company's whistleblower policies because, combined with other metrics associated with the topic, it provides a holistic view of the company's performance. Based on feedback from analysts, the share of fines resulting from whistleblower action does not necessarily highlight the quality of a company's whistleblower policies.

Companies: Five companies, including large-cap integrated banks with wealth management operations and pure-play asset management companies, also suggested changing the metric and to include a qualitative discussion and analysis on whistleblower policies and a company's procedures.

Benefits

Improves decision-usefulness: Splitting the provisional metric into two different metrics improves the decision-usefulness of disclosure by providing a mix of quantitative and qualitative information. The quantitative metric on fines and settlements provides an indication of past performance on the topic, while a stand-alone qualitative discussion of whistleblower policies and practices sheds light on a company's unique whistleblower programs. In tandem, and compared to the previous requirement to report on the percentage of fines and settlements resulting from whistleblowing actions, both metrics fairly represent performance on the topic.

¹⁸ Bill Libit, Walt Draney, and Todd Freier, "Elements of an Effective Whistleblower Hotline," Harvard Law School Forum on Corporate Governance and Financial Regulation, October 25, 2014, accessed September 15, 2017, <https://corpgov.law.harvard.edu/2014/10/25/elements-of-an-effective-whistleblower-hotline/>.

Revision FN-AC:08 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Management of the Legal & Regulatory Environment

2017 Technical Agenda Item #2-31 Description

The SASB is evaluating the revision of metric FN0103-09¹⁹ to ensure the relevance, decision-usefulness, and cost-effectiveness of the metrics associated with the topic.

Summary of Change – Remove Metric

The SASB removed metric FN0103-09, “Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated.”

Adherence to Criteria for Accounting Metrics

The Provisional Asset Management & Custody Activities Industry Standard included a topic, Management of the Legal & Regulatory Environment²⁰, that was focused on a company’s management of risks related to the asset management industry’s legal and regulatory environment. Specifically, the topic and associated metrics provided information to help analysts assess a company’s internal control policies to prevent tax evasion, fraud, money laundering, and corruption. The other metric associated with the topic included disclosure of the amount of legal and regulatory fines incurred that are associated with industry regulation and a description of the company’s policies and procedures regarding internal whistleblowing.

The provisional metric FN0103-09 measured the number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and the percentage that were substantiated. This metric was meant to be an indicator of the effectiveness of a company’s internal compliance controls and a forward-looking proxy for potential violations and subsequent fines and penalties. Nonetheless, as indicated by feedback from companies, the provisional metric was lacking in comparability, as companies have different types of policies and procedures and internal controls, and therefore the number of inquiries could range significantly and not be indicative of actual performance on the topic. The removal of the metric therefore retains the decision-usefulness of the disclosures contained in the remaining metrics (please refer to Revision FN-AC:07) associated with the topic, while reducing the cost burden of reporting, and avoiding potential issues in terms of comparability.

Supporting Analysis

The SASB analysis of company disclosures has not revealed instances where a company would disclose the number of inquiries, complaints, or issues received by the legal and compliance offices. These findings echo the feedback received from companies highlighting the issue with the provisional metric FN0103-09 of not being comparable, affecting also its decision-usefulness and appropriateness as a measure of performance.

¹⁹ FN0103-09 - Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated

²⁰ See Revision FN-AC:09 which discusses the provisional topic name change from “Management of the Legal & Regulatory Environment” to “Business Ethics.”

Market Input

Investors: Several investors stated that the metric would be challenging to interpret in a decision-useful manner.

Companies: All three large companies who provided comments on the disclosure topic unanimously expressed concerns with metric FN0103-09. Companies stated that it would not be cost-effective to obtain information comparable across companies due to the fact that individual companies may have differences in their internal compliance processes. The current metric does not reference a recognized industry framework.

Benefits

Improves the SASB Standard: Removal of the metric improves comparability of the remaining set of disclosures. Given that each company has different approaches to internal controls and reporting issues to internal compliance departments, removal of the metric prevents disclosure comparability issues among companies.

Improves cost-effectiveness: The provisional metric would have been very cost-burdensome to standardize to ensure comparability, and therefore its removal improves cost-effectiveness.

Revision FN-AC:09 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Management of the Legal & Regulatory Environment

Summary of Change – Revise Topic Name

The SASB revised the provisional topic name from Management of the Legal & Regulatory Environment to Business Ethics.

Supporting Rationale

The disclosure topic is intended to capture investment asset managers' adherence to a complex and inconsistent set of rules relating to performance and conduct. In addition, the associated metrics encourage disclosure on issues, including insider trading, anti-trust, price fixing, and market manipulation. As such, the topic is intended to measure companies' policies and practices regarding potentially controversial issues, broadly defined as business ethics. On the other hand, the SASB defines Management of the Legal & Regulatory Environment as a company's strategy and reliance upon regulatory policy or monetary incentives (such as subsidies and taxes), its actions to influence industry policy (such as through lobbying), overall reliance on a favorable regulatory environment for business competitiveness, and ability to comply with relevant regulations. To better reflect the nature of the topic, the SASB has revised the topic name from Management of the Legal & Regulatory Environment to Business Ethics.

Benefits

Improves the SASB Standard: The revision improves the clarity and accuracy of the disclosure topic name.

Revision FN-AC:10 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Systemic Risk Management

2017 Technical Agenda Item #2-32 Description

The SASB is evaluating the revision of metrics FN0103-10,²¹ FN0103-13,²² and FN0103-14²³ to ensure the alignment, decision-usefulness, and cost-effectiveness of the metrics associated with the topic.

Summary of Change – Revise Metrics

The SASB replaced the following provisional metrics:

- FN0103-10 – (1) Registered and (2) unregistered assets under management
- FN0103-13 – (1) Tier 1 common capital ratio (2) Tier 1 capital ratio (3) Total risk-based capital ratio (4) Tier 1 leverage ratio
- FN0103-14 – Basel III Liquidity Coverage Ratio (LCR)

with the following new metrics:

- FN-AC-550a.1 – Percentage of open-end fund assets under management by category of liquidity classification
- FN-AC-550a.2 – Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management

Adherence to Criteria for Accounting Metrics

The Asset Management & Custody Activities Industry Standard includes a topic, Systemic Risk Management, with associated metrics to describe a financial institution’s capacity to operate after economic shocks and the degree to which its operations may affect other companies and the broader economy. The objective of these metrics is to measure how a company manages its liquidity risk and whether it is well positioned to absorb shocks arising from financial and economic stress. A firm’s ability to absorb such shocks is important not only to the firm itself, but also the broader financial system, as financial institutions are usually creditors and debtors to myriad other firms.

Based on the SASB’s analysis and stakeholder feedback, the provisional metrics FN0103-10, FN0103-13, and FN0103-14 were not relevant for measuring the financial stability of companies in the industry. Therefore, the provisional metrics failed to satisfy the fair representation and usefulness criteria for accounting metrics outlined in the *SASB Conceptual Framework*. The provisional metrics were also not aligned with the regulatory approach to addressing systemic risk in the Asset Management & Custody Activities industry.

Adding a discussion of liquidity risk management, including the company’s approach to in-kind redemptions and swing pricing, improves understanding of the firm’s stability. This added qualitative metric references Securities and Exchange Commission (SEC) regulations for asset managers, including SEC Rule 22e-4, Form N-1A, and Form N-CEN,

²¹ FN0103-10 - (1) Registered and (2) unregistered assets under management

²² FN0103-13 - (1) Tier 1 common capital ratio (2) Tier 1 capital ratio (3) Total risk-based capital ratio (4) Tier 1 leverage ratio

²³ FN0103-14 - Basel III Liquidity Coverage Ratio (LCR)

which require, respectively, disclosures on liquidity risk management, redeem-in-kind policies, and swing pricing policies. The broader scope of discussion on the subject, with disclosure focused on existing regulations, adds to the completeness of the metric, along with alignment and fair representation.

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. The SEC requires covered firms to classify their assets as “highly liquid” (can be reasonably expected to be converted in three business days or less, without significantly changing the market value of the investment), “moderately liquid” (between three to seven days), “less liquid” (sale agreed on in up to seven days, but settlement taking longer) or “illiquid” (for assets outside the previous categories). Consequently, the addition of this metric improves the SASB Standard by improving fair representation, usefulness, applicability, and alignment.

Supporting Analysis

The provisional metrics were not relevant to asset management companies because capital and liquidity coverage ratios apply to banks and are meant to measure balance sheet and off-balance sheet risk (which is not the risk for investment firms). The provisional metrics that were removed primarily focus on assets owned by firms rather than assets under management. Analysis by the SASB shows that liquidity, leverage, and interconnectedness are the factors that highlight exposure to systemic risk for asset managers. Interconnectedness and leverage are addressed through the provisional metrics FN0103-11 (please refer to Revision FN-AC:11) and FN0103-12, which highlight asset managers’ security lending and exposure to derivatives.

The SASB included two additional metrics measuring liquidity of assets under management. In 2016, the SEC adopted changes “to modernize and enhance the reporting and disclosure of information by registered investment companies and to enhance liquidity risk management by open-end funds, including mutual funds and exchange-traded funds (ETFs).”²⁴

Analysis of disclosures made by industry firms shows that at least 10 publicly listed asset management companies, including some of the largest companies, discuss Rule 22e-4, which regulates liquidity risk management programs in their SEC filings. Consequently, this revision improves the usefulness and applicability of the metrics associated with the topic.

Market Input

Investors: All investors who commented on the revision agreed that metrics FN0103-10, FN0103-13, and FN0103-14 were not relevant or decision-useful for assessing systemic risks of asset managers. Investors stated that metrics measuring liquidity, leverage, and interconnectedness through security lending are applicable.

Companies: Some of the largest companies stated that the provisional metrics were not relevant and that the revision is reasonable, as liquidity, leverage, and interconnectedness are the main pillars of the systemic risk for asset managers. Analysis of SEC filings shows that asset management firms discuss the recent SEC proposals on liquidity of open-ended funds.

²⁴ “SEC Adopts Rules to Modernize Information Reported by Funds, Require Liquidity Risk Management Programs, and Permit Swing Pricing,” U.S. Securities and Exchange Commission press release, October 13, 2016, accessed October 5, 2018, <https://www.sec.gov/news/pressrelease/2016-215.html>.

Benefits

Improves the SASB Standard: Removal of the provisional metrics and their replacement with the revised metrics improves relevance of information provided to investors. The revised metrics significantly improve fair representation of companies' performance on the disclosure topic.

Improves cost-effectiveness: Removing several provisional metrics that were not applicable, and therefore not reported by companies, and replacing them with those covered by industry regulations and relevant to companies improves cost-effectiveness of disclosure.

Improves decision-usefulness: Improving fair representation, usefulness, and relevance of metrics included in the disclosure topic significantly enhances decision-usefulness of information provided to investors.

Revision FN-AC:11 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Systemic Risk Management

2017 Technical Agenda Item #2-33 Description

The SASB is evaluating the revision of metric FN0103-11²⁵ to ensure the alignment and decision-usefulness of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB replaced provisional metric FN0103-11, “Value of collateral received from securities lending and amount received from repurchase agreements involving clients’ assets” with “Total exposure to securities financing transactions.”

Adherence to Criteria for Accounting Metrics

The Asset Management & Custody Activities Industry Standard includes a topic, Systemic Risk Management, with associated metrics to describe a financial institution’s capacity to operate after economic shocks and the degree to which its operations may affect other companies and the broader economy.

Provisional metric FN0103-11’s objective was to provide a measure of a company’s interconnectedness and the extent to which it could absorb shocks arising from economic stress, whether internal or stemming from other market participants. However, the metric did not directly address the issues that are relevant for financial stability in this industry and was not well aligned with industry reporting practices. As such, the provisional metric did not meet the criteria of usefulness, applicability, and alignment, as set forth in the *SASB Conceptual Framework*.

The revised metric, which provides a measure of a firm’s securities financing exposure, improves understanding of the systemic risk to which a firm is exposed and is aligned with existing industry reporting practices. The revised metric uses the Bank for International Settlements’s guidelines for measuring exposure to securities financing transactions (SFTs), helping assess the extent to which the company is interconnected with the broader financial sector and the risk that a shock to the broader economy or one of the sector’s firms could affect the company itself. This change adds to the standard by adding to the metric’s alignment, usefulness, and completeness.

Supporting Analysis

The revision aligns disclosure on SFTs with the Basel III²⁶ framework. The report states that, “secured lending and borrowing in the form of SFTs is an important source of leverage, and ensures consistent international implementation by providing a common measure for dealing with the main differences in the operative accounting frameworks.”

The intent of provisional metric FN0103-11 was to measure exposure to such financing activities, but its structure did not align with existing reporting frameworks. The value of collateral received is not how asset managers and banks address their leverage and interconnectedness risks associated with the SFT activities. The provisional metric did not capture all the elements of risk associated with such activities and therefore does not satisfy the completeness criterion. Value of collateral received is also volatile, so it may not have necessarily been useful for assessing company’s

²⁵ FN0103-11 - Value of collateral received from securities lending and amount received from repurchase agreements involving clients’ assets

²⁶ “Basel III Leverage Ratio Framework and Disclosure Requirements,” Bank for International Settlements, Basel Committee on Banking Supervision, January 2014, accessed August 29, 2017, <http://www.bis.org/publ/bcbs270.pdf>.

risk exposure as it may change substantially under new market conditions. The SFT exposure in the revised format, though, is addressed by the Securities Financing Transactions Regulation, and the SASB's analysis of industry disclosures shows that a large number of U.S. and international publicly listed companies report this information in their SEC filings. As such, the new metric adds to the alignment, usefulness, and completeness of the SASB Standard.

Market Input

Companies: Feedback from a limited number of large-cap companies indicated that the change was warranted and that existing SFT disclosure under Basel III is aligned with the revised SASB metric.

Others: Feedback from subject matter experts confirmed that the value of collateral is impossible to measure and disclose in a decision-useful manner and the alignment with the existent regulatory framework improves the criteria for metric selection.

Benefits

Improves decision-usefulness: The revision ensures alignment of the metric with regulatory reporting requirements, making the information provided to investors more decision-useful.

Revision FN-AC:12 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Employee Incentives & Risk Taking

2017 Technical Agenda Item #2-26 Description

The SASB is evaluating the removal of the topic, including the corresponding metrics FN0103-01,²⁷ FN0103-02,²⁸ FN0103-03,²⁹ and FN0103-04³⁰ based on investor interest and its potential to affect corporate value.

Summary of Change – Remove Topic and Metrics

The SASB removed the topic Employee Incentives & Risk Taking, including the corresponding metrics:

- FN0103-01 – Discussion of variable compensation policies and practices
- FN0103-02 – Percentage of total compensation that is variable for: (1) executives and (2) all others
- FN0103-03 – Percentage of variable compensation that is equity for: (1) executives and (2) all others
- FN0103-04 – Percentage of employee compensation which includes ex-post adjustments for: (1) executives and (2) all others

Adherence to Principles for Topic Selection

This topic, included in the Provisional Standard for the Asset Management & Custody Activities industry, related to how compensation can incentivize short-term or long-term firm 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. The removal of the topic and the corresponding metrics is based on a lack of evidence to demonstrate the issue's relevance across the industry, as well as on stakeholder input.

Supporting Analysis

The SASB's analysis shows that incentives and compensation structures for employees involved in asset and wealth management are unlikely to have a material impact on the performance of a company. Therefore, disclosure on this topic is unlikely to provide decision-useful information to a reasonable investor.

According to the *SASB Conceptual Framework*, the evidence of financial impact is sufficient to consider the topic material to the industry as a whole when, "information provides an overall picture of whether the management or mismanagement of the topic has the potential to affect the valuation or operational and financial performance of most companies in an industry." The rationale for including the topic in the Provisional Standard was based on studies showing that, in a hedge fund setting, failure to generate performance fees may incentivize managers to take on tail risk. However, hedge funds represent a small percentage of the overall asset management industry and a negligible

²⁷ FN0103-01 - Discussion of variable compensation policies and practices

²⁸ FN0103-02 - Percentage of total compensation that is variable for: (1) executives and (2) all others

²⁹ FN0103-03 - Percentage of variable compensation that is equity for: (1) executives and (2) all others

³⁰ FN0103-04 - Percentage of employee compensation which includes ex-post adjustments for: (1) executives and (2) all others

share when only publicly listed asset managers are considered (approximately 1.7 percent of global industry revenue, according to Bloomberg Professional as of June 5, 2017).

For a traditional asset manager, there is no evidence that the incentive compensation structure of individual employees or the fee structure of individual funds incentivizes excess risk-taking, which could impact the risk profile or financial condition of the company. Furthermore, the SASB's analysis of industry disclosure shows that less than 7 percent of publicly listed asset management companies discuss employee compensation and risk taking in their annual filings with the Securities and Exchange Commission (SEC).

Market Input

Investors: While a relatively small number of analysts provided feedback on the topic, they unanimously stated that the topic is less applicable to the Asset Management & Custody Activities industry than to the Investment Banking & Brokerage industry, as the risk of moral hazard from compensation is less prevalent in the former.

Companies: Companies were not opposed to removing the topic. One of the largest companies in the industry stated that compensation of sales employees would be of interest, in the context of it being an incentive for selling more products to clients. The link between the amount of compensation and the type of products sold may create a hazardous incentive for selling products that generate higher commissions rather than those suitable for clients. The compensation of sales employees is addressed in the disclosure topic Transparent Information & Fair Advice for Customers (See Revision FN-AC:02) as it better fits the angles covered in that disclosure topic. The topic of Employee Incentives & Risk Taking has a different rationale, where compensation would have an impact on the riskiness of investment decision making rather than on the suitability of products sold to clients. Therefore, the companies were in general agreement about the removal of the topic.

Benefits

Improves the SASB Standard: The revision ensures that the Standard includes only disclosure topics that are reasonably likely to have a material impact on industry companies, thereby minimizing the amount of reported information that would not be decision-useful to a reasonable investor.

Improves cost-effectiveness: The revision reduces the amount of new and unnecessary disclosure from companies. The SASB's analysis of disclosure shows that 93.5 percent of U.S.-listed public companies do not currently mention the topic in their SEC filings.

Revision FN-AC:13 – **Industry:** Asset Management & Custody Activities; **Topic Name:** Activity Metrics

2017 Technical Agenda Item #2-36 Description

The SASB proposes to include activity metrics for the Asset Management & Custody Activities industry.

Summary of Change – Add Activity Metrics

The SASB added the following activity metrics:

- FN-AC-000.A – (1) Total registered and (2) total unregistered assets under management (AUM)
- FN-AC-000.B – Total assets under custody and supervision

Supporting Analysis

The SASB added activity metrics as a new element of the Asset Management & Custody Activities Standard. At the time of release of the Provisional Standards for the Financials sector, the SASB had not incorporated the concept of activity metrics into the industry standards. Activity metrics are useful for measuring the scope and scale of a company's operations, providing normalization factors for the performance metrics included in the disclosure topics.

The added metrics are aligned with industry norms for reporting the size of operational activities. Moreover, the metrics are commonly reported by publicly listed companies in annual Securities and Exchange Commission (SEC) filings, underlining their relevance and suggesting that their addition would not have a significant negative impact on the cost-effectiveness of the standard. Finally, the metrics are regularly used by analysts and third-party data providers to measure the size of asset management companies and custodian banks, suggesting that adding them as a component of the SASB Standard improves overall decision-usefulness of the information disclosed by companies.

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 "registered AUM."

Market Input

Investors: The SASB received limited feedback from investors on the included activity metrics in the Asset Management & Custody Activities industry. The feedback indicated that the revised metric related to AUM is cost-effective to report as it is aligned with internally collected information and, for the most part, is already disclosed publicly. The SASB did not receive feedback regarding the assets under custody metric as it was proposed after the consultation period to ensure applicability to the custody banks, the segment included in the scope of the industry.

Companies: The SASB received feedback from three large-cap integrated banks with asset and wealth management operations that the revised metric related to AUM is relevant, decision-useful, and partially disclosed already (registered AUM). The SASB did not receive feedback regarding the assets under custody metric as it was proposed

after the consultation period to ensure applicability to the custody banks, the segment included in the scope of the industry.

Benefits

Improves the SASB Standard: The activity metrics provide investors with normalization factors to ensure comparability of SASB metrics across companies.

Improves decision-usefulness: The revised metrics improve decision-usefulness of all quantitative SASB metrics included in the standard by allowing investors to convert them from absolute to relative measures of performance.

Appendix A. Standards Board – Sector Committee Assignments

STANDARDS BOARD MEMBER	SECTOR CHAIR	OTHER COMMITTEES
Jeffrey Hales, PhD (Chair) Professor, Georgia Institute of Technology – Ernest Scheller Jr. College of Business	Financials, Renewable Resources & Alternative Energy	Transportation, Services, Resource Transformation
Verity Chegar (Vice Chair) Vice President, BlackRock	Extractives & Minerals Processing	Financials, Technology & Communications, Infrastructure
Robert B. Hirth Jr. (Vice Chair) Senior Managing Director, Protiviti; Chairman Emeritus, COSO	Technology & Communications	Health Care, Extractives & Minerals Processing, Services
Daniel L. Goelzer, JD Senior Counsel, Baker & McKenzie LLP	Services	Financials, Resource Transformation, Infrastructure
Kurt Kuehn Former CFO, United Parcel Service	Transportation, Infrastructure	Consumer Goods, Renewable Resources & Alternative Energy
Lloyd Kurtz, CFA Senior Portfolio Manager, Head of Social Impact Investing, Wells Fargo Private Bank	Health Care, Resource Transformation	Technology & Communications, Food & Beverage
Elizabeth Seeger Head of Sustainable Investing, KKR	Consumer Goods	Health Care, Extractives & Minerals Processing, Food & Beverage
Stephanie Tang, JD Director of Legal, Corporate Securities, Stitch Fix	Food & Beverage	Transportation, Consumer Goods, Renewable Resources & Alternative Energy

Appendix B. Redline Metric Tables

Redline tables are provided below for all sustainability accounting metrics (Table 1) and activity metrics (Table 2). All significant revisions to topics and metrics between the provisional standard and the codified standard are shown in redline; however, such redlines are not intended to communicate the full scope of such revisions, for which readers should refer to the codified Standard and accompanying content elsewhere in the *Basis for Conclusions*.

All redlines presented in these tables are associated with a revision number in the Revision Number column. Significant revisions to the technical protocol associated with a given metric will not necessarily be apparent in redline in the tables; however, the associated revision number will be noted in the Revision Number column of each table.

Any redlines that depict revisions to metrics but that are not accompanied by a revision number (i.e., “n/a”) are not addressed in the *Basis for Conclusions* as these revisions have not altered the scope or content of metrics, such as those that are intended to improve the consistency, clarity, and accuracy of the standard. Similarly, if a metric is not accompanied by a revision number, the technical protocol may have been revised to improve the consistency, clarity, and accuracy of the standard.

Asset Management & Custody Activities Industry

Table 1.

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	PROVISIONAL METRIC CODE	CODIFIED METRIC CODE ³¹	REVISION NUMBER
Transparent Information & Fair Advice for Customers	<u>(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</u>	Quantitative	Number, Percentage (%)	n/a	<u>FN-AC-270a.1</u>	FN-AC:01
	<u>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</u> <u>Amount of fines and settlements associated with failure to provide adequate, clear, and transparent information about products and services</u>	Quantitative	Reporting currency, U.S. dollars (\$) U.S. dollars (\$)	FN0103-06	<u>FN-AC-270a.2</u>	n/a
	<u>Description of approach to informing customers about products and services</u> <u>Description of procedure or programs to provide adequate, clear, and transparent information about products and services, including risks, suitability, and conflicts of interest</u>	Discussion and Analysis	n/a	FN0103-07	<u>FN-AC-270a.3</u>	FN-AC:02
Employee Diversity & Inclusion	<u>Percentage of gender and racial/ethnic group representation for (1) executive management, (2) non-executive management, (3) professionals, and (4) all other employees</u> <u>Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others</u>	Quantitative	Percentage (%)	FN0103-05	<u>FN-AC-330a.1</u>	FN-AC:03

³¹ The Provisional Metric Code column provides the metric code that appeared in the Provisional Standard. The Codified Metric Code column provides the revised metric code that appears in the Codified Standard. The revised metric code is structured as follows: [Sector Code]-[Industry Code]-[Topic Code].[Metric Number].

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	PROVISIONAL METRIC CODE	CODIFIED METRIC CODE ³¹	REVISION NUMBER
Integration-Incorporation of Environmental, Social, and Governance Risk Factors in Investment Management & Advisory	<p><u>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</u></p> <p>Percentage of assets under management, by major asset class, that employ:</p> <ul style="list-style-type: none"> ▶ Integration of ESG factors ▶ Sustainability themed investing ▶ Screening (exclusionary, inclusionary, or benchmarked) Impact or community investing 	Quantitative	Percentage (%) in Reporting currency U.S. dollars	FN0103-16	<u>FN-AC-410a.1</u>	n/a
	<p><u>Description of approach to incorporation of Environmental, Social, and Governance (ESG) factors in investment and/or wealth management processes and strategies</u></p> <p>Discussion of how environmental, social, and governance (ESG) factors are integrated into investment analysis and decisions and of how this integration intersects with fiduciary duties</p>	Discussion and Analysis	n/a	FN0103-15	<u>FN-AC-410a.2</u>	FN-AC:06
	<p><u>Description of proxy voting and investee engagement policies and procedures</u></p> <p>Percentage of total proxies voted, and number of proxy votes supporting environmental, social, and/or governance (ESG) shareholder proposals, including percentage resulting in company action</p>	Discussion and Analysis	n/a Percentage (%), number (#)	FN0103-17	<u>FN-AC-410a.3</u>	FN-AC:04
	<p>Ratio of embedded carbon dioxide emissions of proved hydrocarbon reserves held by investees to total assets under management</p>	Quantitative	Tons CO ₂ / U.S. dollars (\$)	FN0103-18	<u>n/a</u>	FN-AC:05

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	PROVISIONAL METRIC CODE	CODIFIED METRIC CODE ³¹	REVISION NUMBER
Management of the Legal & Regulatory Environment Business Ethics	<u>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</u> Amount of legal and regulatory fines and settlements associated with financial fraud and percentage that resulted from whistleblowing actions	Quantitative	<u>Reporting currency</u> /U.S. dollars (\$), percentage (%)	FN0103-08	FN-AC-510a.1	FN-AC:07, FN-AC:09
	<u>Description of whistleblower policies and procedures</u> Number of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated	<u>Discussion and Analysis</u> Quantitative	n/aNumber (#), percentage (%)	FN0103-09	FN-AC-510a.2	FN-AC:07, FN-AC:08, FN-AC:09
Systemic Risk Management	<u>Percentage of open-end fund assets under management by category of liquidity classification</u> (1) Registered and (2) unregistered assets under management	Quantitative	<u>Percentage (%)</u> U.S. dollars (\$)	FN0103-10	FN-AC-550a.1	FN-AC:10
	<u>Description of approach to incorporation of liquidity risk management programs into portfolio strategy and redemption risk management</u> <ul style="list-style-type: none"> ▶ Tier 1 common capital ratio ▶ Tier 1 capital ratio ▶ Total risk-based capital ratio Tier 1 leverage ratio	<u>Discussion and Analysis</u> Quantitative	n/aRatio in U.S. dollars (\$)	FN0103-13	FN-AC-550a.2	FN-AC:10
	<u>Total exposure to securities financing transactions</u> Value of collateral received from securities lending and amount received from repurchase agreements involving clients' assets	Quantitative	<u>Reporting currency</u> /U.S. dollars (\$)	FN0103-11	FN-AC-550a.3	FN-AC:11

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	PROVISIONAL METRIC CODE	CODIFIED METRIC CODE ³¹	REVISION NUMBER
	Net exposure to written credit derivatives	Quantitative	U.S. dollars- (\$)Reporting currency	FN0103-12	FN-AC-550a.4	n/a
	Basel III Liquidity Coverage Ratio (LCR)	Quantitative	Ratio in U.S. dollars (\$)	FN0103-14	n/a	FN-AC:10
Employee- Incentives & Risk- Taking	Discussion of variable compensation policies and practices	Discussion and Analysis	n/a	FN0103-01	n/a	FN-AC:12
	Percentage of total compensation that is variable for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-02	n/a	FN-AC:12
	Percentage of variable compensation that is equity for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-03	n/a	FN-AC:12
	Percentage of employee compensation which includes ex- post adjustments for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0103-04	n/a	FN-AC:12

Table 2.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	PROVISIONAL METRIC CODE	CODIFIED METRIC CODE ³²	REVISION NUMBER
(1) Total registered and (2) total unregistered assets under management (AUM)	Quantitative	Reporting currency U.S. dollars (\$)	n/a	FN-AC-000.A	FN-AC:13
Total assets under custody and supervision	Quantitative	Reporting currency U.S. dollars (\$)	n/a	FN-AC-000.B	FN-AC:13

³² The Provisional Metric Code column provides the metric code that appeared in the Provisional Standard. The Codified Metric Code column provides the revised metric code that appears in the Codified Standard. The revised metric code is structured as follows: [Sector Code]-[Industry Code]-[Topic Code].[Metric Number].

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