IFRS® Sustainability

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[Draft] IFRS S2 Climate-related Disclosures Appendix B Industry-based disclosure requirements

Volume B19—Mortgage Finance

Comments to be received by 29 July 2022

International Sustainability Standards Board

ED/2022/S2

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Introduction

This volume is part of Appendix B of [draft] IFRS S2 Climate-related Disclosures *and is an integral part of that [draft] Standard. It has the same authority as the other parts of that [draft] Standard.*

This volume sets out the requirements for identifying, measuring and disclosing information related to an entity's significant climate-related risks and opportunities that are associated with specific business models, economic activities and other common features that characterise participation in this industry.

The industry-based disclosure requirements are derived from SASB Standards (see paragraphs B10–B12 of [Draft] IFRS S2 *Climate-related Disclosures*). Amendments to the SASB Standards, described in paragraph B11, are marked up for ease of reference. New text is underlined and deleted text is struck through. The metric codes used in SASB Standards have also been included, where applicable, for ease of reference. For additional context regarding the industry-based disclosure requirements contained in this volume, including structure and terminology, application and illustrative examples, refer to Appendix B paragraphs B3–B17.

Mortgage Finance

Industry Description

The Mortgage Finance industry provides an essential public good in enabling consumers to purchase homes, and contributes to the overall home ownership rate. Companies in the industry lend capital to individual and commercial customers with property as collateral. The primary products are residential and commercial mortgages, while other services offered include: mortgage servicing, title insurance, closing and settlement services, and valuation. In addition, mortgage finance firms own, manage, and finance real estate related investments such as mortgage pass-through certificates and collateralized mortgage obligations. Recent trends in the regulatory environment indicate a significant shift toward consumer protection, disclosure, and accountability. Legislation passed in response to the 2008 mortgage crisis demonstrates the potential for further alignment between the interests of society and those of long-term investors.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Environmental Risk to Mortgaged Properties	(1) Number and (2) value of mortgage loans in 100-year flood zones	Quantitative	Number, Reporting currency	FN-MF-450a.1
	(1) Total expected loss and (2) Loss Given Default (LGD) attributable to mortgage loan default and delinquency due to weather-related natural catastrophes, by geographic region	Quantitative	Reporting currency, Percentage (%)	FN-MF-450a.2
	Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting	Discussion and Analysis	n/a	FN-MF-450a.3

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of mortgages originated by category: (a) residential and (b) commercial	Quantitative	Number, Reporting currency	FN-MF-000.A
(1) Number and (2) value of mortgages purchased by category: (a) residential and (b) commercial	Quantitative	Number, Reporting currency	FN-MF-000.B

Environmental Risk to Mortgaged Properties

Topic Summary

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

Metrics

FN-MF-450a.1. (1) Number and (2) value of mortgage loans in 100-year flood zones

1 The entity shall disclose the (1) number and (2) value of mortgage loans in the entity's portfolio underwritten on properties that are located in 100-year flood zones.

1.1 100-year flood zones are defined as land areas subject to a one-percent or greater chance of flooding in any given year. Such areas may also be referred to as being subject to the one-percent annual chance flood, the one-percent annual exceedance probability flood, or the 100-year flood.

1.1.1 Examples of 100-year flood zones may include, but are not limited to, coastal flood plains, flood plains along major rivers, and areas subject to flooding from ponding in low-lying areas.

~~1.2 For mortgage loans on properties located in the U.S., 100-year flood zones shall include those land areas designated by the U.S. Federal Emergency Management Agency (FEMA) as special flood hazard areas (SFHA).~~

~~1.2.1 SFHAs are defined as land area in the flood plain subject to a one-percent or greater chance of flooding in any given year. The area may be designated in the applicable flood insurance rate map, as per the U.S. National Flood Insurance Program, as Zones A, AO, AH, A1-30, AE, A99, AR, AR/A1-30, AR/AE, AR/AO, AR/AH, AR/A, VO, V1-30, VE, and V. This definition is derived from U.S. 44 CFR 59.1.~~

~~1.2.2 The entity may disclose its risk perception and potential impacts resulting from reclassification of FEMA SFHAs, including the risk of expansion of such areas into real estate property covered by mortgages owned by the entity.~~

~~1.3 For mortgage loans on properties located in Canada, the entity may refer to Canada's Provincial/Territorial Flood Damage Reduction Programs.~~

~~1.4 For mortgage loans on properties located in the EU, the entity may refer to the EU's Flood Directive.~~

2 The scope of disclosure shall include all of the entity's mortgage loans underwritten on properties that are located in 100-year flood zones, regardless of the country of their location.

2.1 The scope of mortgage loans shall include those first mortgages (1-4 family) and junior lien (1-4 family second mortgages or home equity lines of credit) loans that the entity holds as loan assets.

2.2 The scope of mortgage loans shall exclude mortgages held for sale, mortgage-backed securities, and mortgages serviced by the entity.

FN-MF-450a.2. (1) Total expected loss and (2) Loss Given Default (LGD) attributable to mortgage loan default and delinquency due to weather-related natural catastrophes, by geographic region

1 The entity shall disclose the (1) total expected loss and (2) Loss Given Default (LGD), as a percentage, attributable to mortgage loan default and delinquency due to weather-related natural catastrophes.

1.1 Expected loss is defined and calculated as the sum of the values of all the possible losses for the entity's mortgage loans, each multiplied by the probability of that loss occurring.

1.2 LGD is defined as the share of an asset lost in the situation of default.

1.3 Weather-related natural catastrophes include:

1.3.1 Meteorological events (e.g., hurricanes and storms)

1.3.2 Hydrological events (floods)

1.3.3 Climatological events (e.g., heat waves, cold waves, droughts, and wildfires)

1.4 Weather-related natural catastrophes exclude geophysical events (e.g., earthquakes and volcanic eruptions)

2 The entity shall break down its disclosure by geographic region.

2.1 Applicable regions are determined by the entity~~, and may include: Gulf Coast, California, Northeast, Mountain, Midwest~~.

FN-MF-450a.3. Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting

1 The entity shall describe how it has incorporated climate change and other environmental risks into its mortgage origination and underwriting processes.

1.1 The mortgage origination process is defined broadly as all the steps in a mortgage transaction between a lender and a borrower, including, but not limited to, application, processing, and underwriting.

1.2 The scope of climate change and other environmental risks includes, but is not limited to:

1.2.1 The increased frequency and severity of weather-related natural catastrophes, including meteorological events (e.g., hurricanes and storms), hydrological events (floods), and climatological events (e.g., heat waves, cold waves, droughts, and wildfires).

1.2.2 The occurrence of geophysical events (e.g., earthquakes and volcanic eruptions).

2 The entity shall disclose how and if these risks affect its origination models and decisions.

2.1 The scope of disclosure includes, but is not limited to:

2.1.1 How the risk impacts the valuation of collateral, such as accounting for inherent risks due to location or assessing for the implementation of basic adaptive measures (e.g., reinforcement, hurricane shutters).

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

