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

Volume B15—Asset Management & Custody Activities

Comments to be received by 29 July 2022



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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.

Asset Management & Custody Activities

Industry Description

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

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory	Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening	Quantitative	Reporting currency	FN-AC-410a.1
	Description of approach to incorporation of environmental, social, and governance (ESG) factors in investment and/or wealth management processes and strategies	Discussion and Analysis	n/a	FN-AC-410a.2
	Description of proxy voting and investee engagement policies and procedures	Discussion and Analysis	n/a	FN-AC-410a.3
Transition Risk Exposure	<u>Percentage of total assets under management (AUM) included in the financed emissions calculation</u>	Quantitative	Percentage (%)	FN-AC-1
	<u>(1) Absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)</u>	Quantitative	Metric tons (t) CO ₂ -e, Presentation currency	FN-AC-2
	<u>(1) Gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)</u>	Quantitative	Metric tons (t) CO ₂ -e per unit of economic output, Presentation currency	FN-AC-3
	<u>Description of the methodology used to calculate financed emissions</u>	Discussion and Analysis	n/a	FN-AC-4

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Total registered and (2) total unregistered assets under management (AUM) ¹⁹	Quantitative	Presentation currency	FN-AC-000.A
Total assets under custody and supervision	Quantitative	Presentation currency	FN-AC-000.B

¹⁹ ~~Note to FN-AC-000.A — Registered AUM include those subject to the regulations of the Investment Company Act of 1940 (1940 Act), such as mutual funds, managed under the Employee Retirement Income Security Act of 1974 (ERISA), subject to the Undertakings for Collective Investment in Transferable Securities (UCITS) Directive, or managed under the Commodity Futures Trading Commission's (CFTC's) Commodity Pool Operator (CPO) regulations. Unregistered AUM are those that do not fall under the definition of the registered AUM.~~

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

Topic Summary

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

Metrics

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

- 1 The entity shall disclose the amount of assets under managements (AUM), that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing, and (3) screening.
 - 1.1 ~~AUM shall be defined broadly as the total market value, expressed in the entity's presentation currency, of the assets managed by a financial institution on behalf of clients, as per Section 203A of the Investment Advisers Act of 1940 Section 203A as, "the securities portfolios with respect to which an adviser provides continuous and regular supervisory or management services."~~
 - 1.2 Integration of ESG issues is defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions, as aligned with the PRI Reporting Framework – Main definitions 2018.
 - 1.3 Sustainability themed investing is defined as investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture), as aligned with the PRI Reporting Framework – Main definitions 2018.
 - 1.4 Screening, including (a) negative/exclusionary, (b) positive/best-in-class, and (c) norms-based, is defined by the PRI Reporting Framework – Main definitions 2018.

- 1.5 The scope of disclosure includes both passive and active strategies.
- 2 The entity shall break down its disclosure by asset class: (a) equities, (b) fixed income, (c) cash equivalents/money market instruments, and (d) other (e.g., real estate and commodities).
- 3 The entity shall identify and disclose the amount of any AUM managed using more than one ESG integration strategy (e.g., screening and integration).

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

- 1 The entity shall describe its approach to incorporation of environmental, social, and governance (ESG) factors in its investment and/or wealth management processes and strategies.
 - 1.1 The definition of incorporation of ESG factors is aligned with that of the Global Sustainable Investment Alliance (GSIA) and includes the use of ESG information in investment decision-making processes.
 - 1.2 Examples of ESG factors/issues are provided in the PRI Reporting Framework – Main definitions 2018, section “ESG issues.”
 - 1.3 Incorporation of ESG factors include the following approaches, consistent with the PRI Reporting Framework – Main definitions 2018:
 - 1.3.1 Screening, including (a) negative/exclusionary, (b) positive/best-in-class, and (c) norms-based
 - 1.3.2 Sustainability themed investment, defined as investment in themes or assets specifically related to sustainability (for example clean energy, green technology or sustainable agriculture)
 - 1.3.3 Integration of ESG, defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions
 - 1.3.4 A combination of the above
- 2 The entity shall describe policies that determine its approach to incorporation of ESG factors in its investment and/or wealth management processes and strategies.
- 3 The scope of disclosure shall exclude discussion of the entity’s proxy voting and investee engagement policies and procedures, which is included in metric FN-AC-410a.3, “Description of proxy voting and investee engagement policies and procedures.”
- 4 The entity shall describe its approach to implementation of the aspects of the entity’s ESG incorporation practices.
 - 4.1 The discussion shall include, but is not limited to:
 - 4.1.1 Parties responsible for day-to-day incorporation of ESG factors
 - 4.1.2 Roles and responsibilities of employees involved
 - 4.1.3 Approach to conducting ESG-related research

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4.1.4 Approach to incorporating ESG factors into investment strategies

- 5 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.
- 5.1 The discussion shall include, but is not limited to:
- 5.1.1 Formal oversight individuals and/or bodies involved
- 5.1.2 Roles and responsibilities of employees involved
- 5.1.3 Criteria used in assessing the quality of ESG incorporation
- 6 The entity shall discuss whether it conducts scenario analysis and/or modeling in which the risk profile of future ESG trends is calculated at the portfolio level.
- 6.1 ESG trends include, but are not limited to, climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
- 6.2 The entity shall describe the types of portfolios and/or strategies where it executes scenario analysis and/or modeling.
- 6.2.1 The entity is not required to provide such disclosure at the individual portfolio and/or strategy level.
- 7 The entity shall discuss ESG trends that it views as broadly applicable in terms of their impact on sectors and industries as well as the trends it views as sector- or industry-specific.
- 8 The entity shall describe whether it incorporates ESG factors in strategic asset allocation and/or allocation of assets between sectors or geographic markets.
- 8.1 The entity shall describe the types of portfolios and/or strategies where it incorporates ESG factors in strategic asset allocation and/or allocation of assets between sectors or geographic markets.
- 8.1.1 The entity is not required to provide such disclosure at the individual portfolio and/or strategy level.
- 9 The entity shall describe how ESG factors are incorporated in the assessment of and influence the entity's views on:
- 9.1 Time horizon of investments
- 9.2 Risk and return profiles of investments
- 9.3 Traditional fundamental factors such as economic conditions, central bank policy, industry trends, and geopolitical risks
- 10 When relevant, the entity shall discuss its approach to incorporation of ESG factors in selecting external fund managers and fiduciary managers.
- 10.1 The entity shall describe its oversight/accountability approach to assessing the quality of incorporation of ESG factors by external fund managers and fiduciary managers, which includes, but is not limited to:
- 10.1.1 Formal oversight individuals and/or bodies involved

10.1.2 Roles and responsibilities of employees involved

10.1.3 Criteria used in assessing the quality of ESG incorporation

- 11 The scope of disclosure shall include investment and/or wealth management services where the entity maintains decision-making power, regardless of strategy and asset class.
- 12 The scope of disclosure shall exclude execution and/or advisory services where investment decision-making power remains with clients.
- 13 When relevant, the description of the entity's approach to incorporation of ESG factors in its investment and/or wealth management activities shall be broken down by asset class or by style employed.
 - 13.1 The discussion shall include, but is not limited to, the differences in the entity's approaches to incorporation of ESG factors in:
 - 13.1.1 Public equity, fixed income, private equity, or alternative asset classes
 - 13.1.2 Passive versus active investment strategies
 - 13.1.3 Fundamental, quantitative, and technical analyses of investments

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

- 1 The entity shall describe its approach to proxy voting, including, but not limited to, its process for making proxy voting decisions, including its approach to defining materiality.
 - 1.1 The discussion shall include, but is not limited to, elements highlighted in the PRI's Reporting Framework for Direct – Listed Equity Active Ownership:
 - 1.1.1 The scope of the entity's voting activities
 - 1.1.2 The objectives of the entity's voting activities
 - 1.1.3 How, if at all, the entity's voting approach differs among markets
 - 1.1.4 Whether the entity has a default position of voting in favor of management in particular markets or on particular issues
 - 1.1.5 Whether and how local regulatory or other requirements influence the entity's approach to voting
 - 1.1.6 Whether the entity votes by proxy or in person by attending annual general meetings (AGMs) (or a combination of both)
 - 1.2 The entity shall describe its approach to determining support for proposals, including its approach to defining materiality.
 - 1.2.1 The scope of disclosure includes proposals addressing Environmental and Social (ES) issues
 - 1.3 The entity shall describe how it communicates its proxy voting policy to clients as well as to the public.

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- 1.3.1 The entity may provide the link to its formal proxy voting policy.
- 2 The entity shall describe its process of making proxy voting decisions.
 - 2.1 The discussion shall include, but not be limited to, the elements highlighted in the PRI's Reporting Framework for Direct – Listed Equity Active Ownership, which include:
 - 2.1.1 Use of internal research team and/or third-party service providers
 - 2.1.2 Review and monitoring process for service provider recommendations
- 3 The entity shall describe its approach to communicating its voting decisions to company management, including the rationale for voting for/against the management's recommendations.
- 4 The entity shall describe its approach to engagement on ES issues.
 - 4.1 The discussion shall include, but is not limited to:
 - 4.1.1 The entity's objectives for undertaking engagement activities
 - 4.1.2 Whether the entity's engagements related to ES issues are primarily proactive to ensure that ES issues are well-managed in a preventive manner, or reactive to address issues that may have already occurred
 - 4.1.3 The outcomes the entity seeks from engaging with companies on ES issues (e.g., influencing corporate practice, improve the quality of ES disclosure)
 - 4.1.4 The entity's staff that carries out the engagement (e.g., specialized in-house engagement teams, fund managers or equity/credit analysts, more senior-level roles)
 - 4.1.5 The roles of individuals at the portfolio companies the entity seeks to engage with (e.g., board members, board chair, CEO, corporate secretary, investor relations managers)
 - 4.2 The entity shall describe how it communicates its engagement policy to clients as well as to the public.
 - 4.2.1 The entity may provide the link to its formal engagement policy.
 - 4.3 The scope of disclosure includes all asset classes, portfolios, and/or strategies where the entity conducts engagement on ES issues.
- 5 The entity shall describe how the outcomes of its proxy voting and engagement activities inform its investment decision-making process.
 - 5.1 The discussion shall include, but is not limited to:
 - 5.1.1 How the entity decides what information to pass on to investment decision-makers
 - 5.1.2 How the entity monitors the use of the information passed on in investment decision-making

- 6 The entity shall describe its escalation process for engagements when company dialogue is failing.
 - 6.1 The escalation process includes, but is not limited to, tactics highlighted in the International Corporate Governance Network (ICGN) Global Stewardship Principles:
 - 6.1.1 Expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholder meeting
 - 6.1.2 Expressing the entity's concern collectively with other investors
 - 6.1.3 Making a public statement
 - 6.1.4 Submitting shareholder resolutions
 - 6.1.5 Speaking at general meetings
 - 6.1.6 Submitting one or more nominations for election to the board as appropriate and convening a shareholder meeting
 - 6.1.7 Seeking governance improvements and/or damages through legal remedies or arbitration
 - 6.1.8 Exit or threat to exit from the investment
- 7 The entity shall describe how its ES engagement strategy fits into the entity's overall engagement strategy.
- 8 The entity may disclose additional quantitative measures related to its proxy voting and engagement activities, such as:
 - 8.1 Number of engagements, percentage of those in-person
 - 8.2 Number of staff involved in proxy voting and engagement activities

Transition Risk Exposure

Topic Summary

Asset management and custody activities entities maintain a fiduciary responsibility to their clients and therefore consider all material information in their investment decisions. Transition risks and opportunities stemming from, for example, policy change, emerging regulation or technological innovation, are becoming more prevalent and are therefore increasingly being factored into investment decision making. A core component of identifying and assessing these risks and opportunities is the ability to measure greenhouse gas (GHG) emissions of investment portfolios, a concept commonly referred to as ‘financed emissions.’ Failure to manage this risk could result in diminished investment returns in an asset manager’s investment portfolios, which in turn may lead to reduced performance fees. Over the long term, mismanagement of this risk could precipitate an outflow of assets under management (AUM) resulting in the loss of market share and lower revenue . On the other hand, investment opportunities may arise from effective management of this risk, leading to increased performance and fee income from increased AUM, thus strengthening market share.

Metrics

FN-AC-1. Percentage of total assets under management (AUM) included in the financed emissions calculation

- 1 The entity will disclose the percentage of AUM included in the financed emissions calculation.
 - 1.1 AUM shall be defined broadly as the total market value, expressed in the entity’s presentation currency, of the assets managed by a financial institution on behalf of clients.
 - 1.2 The entity shall calculate the percentage by dividing the AUM included in the financed emissions calculation by total AUM.
 - 1.2.1 If less than 100%, the entity will provide an explanation for exclusions including type of assets and associated amount of AUM expressed in the entity’s presentation currency.

FN-AC-2. (1) Absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)

- 1 The entity shall disclose its absolute gross financed emissions, disaggregated by Scope 1, Scope 2, and Scope 3 emissions.
 - 1.1 Financed emissions refers to the portion of gross emissions of the investee attributed to the investments made by the entity on behalf of a third party which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.
 - 1.2 Absolute gross emissions are defined as the total quantity of Scope 1 emissions, Scope 2 emissions and Scope 3 emissions expressed in metric tons of CO₂ equivalent (i.e., mt CO₂-e).

- 1.3 Gross emissions are the GHGs emitted into the atmosphere before accounting for offsets and credits that have reduced or compensated for emissions.
- 1.4 Scope 1, Scope 2, and Scope 3 emissions are defined and shall be calculated according to the methodology contained in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol), Revised Edition, March 2004, published by the World Resources Institute and the World Business Council on Sustainable Development (WRI/WBCSD).
- 2. The entity shall disclose the total amount of AUM included in the financed emissions disclosure.
 - 2.1 AUM shall be defined broadly as the total market value, expressed in the entity's presentation currency, of the assets managed by a financial institution on behalf of clients.

FN-AC-3. (1) Gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) associated amount of total AUM (i.e., financed emissions)

- 1 The entity shall disclose the gross emissions intensity of financed emissions, disaggregated by Scope 1, Scope 2, and Scope 3 emissions.
 - 1.1 Financed emissions refers to the portion of gross GHG emissions of the investee attributed to the investments made by the entity on behalf of a third party which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.
 - 1.2 Emissions intensity is defined as the amount of Scope 1 emissions, Scope 2 emissions and Scope 3 emissions per unit of economic activity (e.g., mt CO₂-e/ USD 1 million revenue or mt CO₂-e/USD 1 billion AUM).
 - 1.3 Gross emissions are the GHGs emitted into the atmosphere before accounting for offsets and credits that have reduced or compensated for emissions.
 - 1.4 Scope 1, Scope 2, and Scope 3 emissions are defined and shall be calculated according to the methodology contained in The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol), Revised Edition, March 2004, published by the World Resources Institute and the World Business Council on Sustainable Development (WRI/WBCSD).

FN-AC-4. Description of the methodology used to calculate financed emissions

- 1 The entity shall describe the methodology used to calculate the financed emissions of total AUM.
 - 1.1 Financed emissions refers to the portion of gross emissions of the investee attributed to the investments made by the entity on behalf of a third party which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.

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- 1.1.1 Gross emissions are the GHGs emitted into the atmosphere before accounting for offsets and credits that have reduced or compensated for emissions.
- 1.2 The description shall include the allocation method used to attribute the entity's share of emissions in relation to the size of investments.
- 1.3 The description shall include the approach to collecting underlying emissions data including its source.
- 1.4 The entity shall disclose if the source data has been verified by a third party, where possible.
- 1.5 The entity shall describe the use of estimations, proxies or assumptions.
- 1.6 If the entity is unable to include GHG emissions of an investee or counterparty, it shall state the reason for the omission such as, for example, because it is unable to establish a faithful measure.