



**IFRS<sup>®</sup>**  
Sustainability

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# **IFRS S2**

IFRS<sup>®</sup> Sustainability Disclosure Standard

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## **Industry-based Guidance on implementing Climate-related Disclosures**

Volume 18—Investment Banking & Brokerage

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**International Sustainability Standards Board**

## IFRS S2 CLIMATE-RELATED DISCLOSURES–JUNE 2023

This Industry-based Guidance accompanies IFRS S2 *Climate related Disclosures* (published June 2023; see separate booklet) and is issued by the International Sustainability Standards Board (ISSB).

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## IFRS S2 INDUSTRY-BASED GUIDANCE

### **Introduction**

*This volume is part of the Industry-based Guidance on Implementing IFRS S2 Climate-related Disclosures. This guidance suggests possible ways to apply some of the disclosure requirements in IFRS S2 but does not create additional requirements.*

This volume suggests possible ways to identify, measure and disclose information about climate-related risks and opportunities that are associated with particular business models, economic activities and other common features that characterise participation in this industry.

This industry-based guidance has been derived from Sustainability Accounting Standards Board (SASB) Standards, which are maintained by the International Sustainability Standards Board (ISSB). The metric codes used in SASB Standards have been included for ease of reference. For additional context regarding the industry-based guidance contained in this volume, including structure and terminology, application and illustrative examples, refer to Section III of the Accompanying Guidance to IFRS S2.

## Volume 18—Investment Banking & Brokerage

### Industry Description

Investment Banking & Brokerage industry entities perform a wide range of functions in the capital markets, including raising and allocating capital and providing market-making and advisory services for corporations, financial institutions, governments and high net-worth individuals. Specific activities include financial advisory and securities underwriting services conducted on a fee basis; securities and commodities brokerage activities, which involve buying and selling securities or commodities contracts and options on a commission or fee basis; and trading and principal investment activities, which involve the buying and selling of equities, fixed income, currencies, commodities and other securities for client-driven and proprietary trading. Investment banks also originate and securitise loans for infrastructure and other projects. Entities in the industry generate revenues from global markets and, therefore, are exposed to various regulatory regimes. The industry continues to face regulatory pressure to reform and disclose aspects of operations that present systemic risks. Specifically, entities are facing new capital requirements, stress testing, limits on proprietary trading and increased scrutiny over compensation practices.

Note: This standard addresses ‘pure play’ investment banking and brokerage services. Separate standards exist for the Mortgage Finance (FN-MF), Commercial Banking (FN-CB), Consumer Finance (FN-CF), Asset Management & Custody Services (FN-AM), and Insurance (FN-IN) industries.

### 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 Banking & Brokerage Activities	Revenue from (1) underwriting, (2) advisory and (3) securitisation transactions incorporating integration of environmental, social and governance (ESG) factors, by industry	Quantitative	Presentation currency	FN-IB-410a.1
	(1) Number and (2) total value of investments and loans incorporating integration of environmental, social and governance (ESG) factors, by industry	Quantitative	Number, Presentation currency	FN-IB-410a.2
	Description of approach to incorporation of environmental, social and governance (ESG) factors in investment banking and brokerage activities	Discussion and Analysis	n/a	FN-IB-410a.3

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**Table 2. Activity Metrics**

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of (a) underwriting, (b) advisory, and (c) securitisation transactions <sup>22</sup>	Quantitative	Number, Presentation currency	FN-IB-000.A
(1) Number and (2) value of proprietary investments and loans by sector <sup>23</sup>	Quantitative	Number, Presentation currency	FN-IB-000.B
(1) Number and (2) value of market making transactions in (a) fixed income, (b) equity, (c) currency, (d) derivatives, and (e) commodity products	Quantitative	Number, Presentation currency	FN-IB-000.C

### **Incorporation of Environmental, Social, and Governance Factors in Investment Banking & Brokerage Activities**

#### **Topic Summary**

Environmental, social and governance (ESG) factors may have material impacts on the entities assets and projects across a range of industries to which investment banks provide services or in which they invest. Therefore, by accounting for these factors in underwriting, advisory, investing and lending activities, investment banks may manage significant positive and negative environmental and social externalities effectively. The potential for both value creation and loss associated with ESG factors suggests that investment banking and brokerage entities have a responsibility to shareholders and clients to consider these factors when analysing and valuing core products, including sell-side research, advisory services, origination, underwriting and principal transactions. Investment banking and brokerage entities that fail to manage these risks and opportunities effectively may expose themselves to increased reputational and financial risks. Appropriately pricing ESG risks may reduce investment banks' financial risk exposure, help generate additional revenue or open new market opportunities. To help investors better understand how entities in the industry manage these issues, investment banks should disclose how they incorporate ESG factors in their core products and services.

#### **Metrics**

*FN-IB-410a.1. Revenue from (1) underwriting, (2) advisory and (3) securitisation transactions incorporating integration of environmental, social and governance (ESG) factors, by industry*

- 1 The entity shall report the total revenue earned from transactions in which the entity incorporates integration of environmental, social and governance (ESG) factors.

<sup>22</sup> Note to FN-IB-000.A – For syndicate transactions, the entity shall include only the value for which it was accountable.

<sup>23</sup> Note to FN-IB-000.B – The entity shall use the Global Industry Classification Standard (GICS) for classifying investees and borrowers.

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- 1.1 Integration of ESG factors is defined as the systematic and explicit inclusion of material ESG factors into underwriting, advisory and securitisation activities and may include review of transactions by the entity's Environmental and Social Risk Management (ESRM) group or screening (exclusionary, inclusionary or benchmarked).
  - 1.1.1 The entity shall describe how ESG factors are integrated in the aforementioned activities.
- 2 The entity shall disaggregate the revenue from transactions by important business activities including (a) underwriting, (b) advisory and (c) securitisation.
  - 2.1 Underwriting is defined as activities in which the entity raises investment capital from investors on behalf of corporations and governments that are issuing either equity or debt securities. It includes public offerings and private placements, including local and cross-border transactions and acquisition financing of a wide range of securities and other financial instruments, including loans. Underwriting also includes derivative transactions entered into with public and private sector clients in connection with the entity's underwriting activities.
  - 2.2 Advisory is defined as activities in which the entity provides financial advice to institutional clients on a fee basis. It excludes wealth management and asset management activities.
  - 2.3 Securitisation is defined as the process through which the entity creates a financial instrument by combining other financial assets and then marketing different tiers of the repackaged instruments to investors. It may include securitisation of residential and commercial mortgages, corporate bonds, loans and other types of financial assets by selling these assets to securitisation vehicles (for example, trusts, corporate entities and limited liability entities) or through a re-securitisation.
- 3 The entity shall disaggregate the revenue from transactions by industry.
  - 3.1 The entity shall use the Global Industry Classification Standard (GICS) six-digit industry-level code for classifying transactions.
    - 3.1.1 The entity shall use the latest version of the classification system available at the date of reporting.
    - 3.1.2 The entity shall disclose the classification standard used if different from GICS.
- 4 The entity shall provide disclosure for at least the 10 largest industries by monetary amount of exposure or to industries representing at least 2% of the overall monetary amount of exposure.

*FN-IB-410a.2. (1) Number and (2) total value of investments and loans incorporating integration of environmental, social and governance (ESG) factors, by industry*

- 1 The entity shall report the number of proprietary investments and loans incorporating integration of environmental, social and governance (ESG) factors.

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- 2 The entity shall report the value of proprietary investments and loans incorporating integration of ESG factors.
- 3 The disclosure scope includes the entity's investing and relationship lending activities across asset classes, including debt securities and loans, public and private equity securities, infrastructure, and real estate. These activities include investing directly in publicly and privately traded securities and in loans, and also investing through some investment funds that the entity manages and through funds managed by external parties.
  - 3.1 The scope of disclosure excludes commercial, consumer and mortgage-lending activities.
- 4 Integration of ESG factors is defined as the systematic and explicit inclusion of material ESG factors into traditional fundamental financial analysis through the consideration of qualitative risks and opportunities, quantitative metrics, and the incorporation of ESG variables into models to inform the entity's decision-making processes involved in proprietary investing and lending.
- 5 The entity shall break down the number and value of investments and loans by industry.
  - 5.1 The entity shall use the Global Industry Classification Standard (GICS) six-digit industry-level code for classifying investees and borrowers.
    - 5.1.1 The entity shall use the latest version of the classification system available at the date of reporting.
    - 5.1.2 The entity shall disclose the classification standard used if different from GICS.
  - 5.2 The entity shall disclose its exposure to at least the 10 largest industries by monetary amount of exposure or to industries representing at least 2% of the overall portfolio monetary exposure.

### *FN-IB-410a.3. Description of approach to incorporation of environmental, social and governance (ESG) factors in investment banking and brokerage activities*

- 1 The entity shall describe its approach to incorporation of environmental, social and governance (ESG) factors in its investment banking and brokerage activities.
  - 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 the 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 The scope of investment banking and brokerage activities may include (a) underwriting, (b) advisory, (c) securitisation, (d) investing and lending and (e) securities services.
    - 1.3.1 Underwriting is defined as activities in which the entity raises investment capital from investors on behalf of entities that are issuing either equity or debt securities. It includes public offerings and private placements, including local and cross-border

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transactions and acquisition financing of a wide range of securities and other financial instruments, including loans. Underwriting also includes derivative transactions entered into with public and private sector clients in connection with the entity's underwriting activities.

- 1.3.2 Advisory is defined as activities in which the entity provides financial advice to institutional clients on a fee basis.
  - 1.3.3 Securitisation is defined as the process through which the entity creates a financial instrument by combining other financial assets and then marketing various tiers of the repackaged instruments to investors. It may include securitisation of residential and commercial mortgages, corporate bonds, loans and other types of financial assets by selling these assets to securitisation vehicles (for example, trusts, corporate entities and limited liability entities) or through a re-securitisation.
  - 1.3.4 Investing and lending includes short-term and long-term investing and relationship lending activities across asset classes such as debt securities and loans, public and private equity securities, infrastructure, and real estate.
  - 1.3.5 Securities services include (i) financing services (for the entity's clients' securities trading activities through margin loans that are collateralised by securities), (ii) securities lending services (borrowing and lending securities to cover institutional clients' short sales, borrowing securities to cover the entity's short sales, otherwise to making deliveries into the market, broker-to-broker securities lending, and third-party agency lending activities), and (iii) other prime brokerage services (clearing and settlement services).
- 2 The entity shall describe its approach to implementation of the aspects of the entity's ESG incorporation practices.
    - 2.1 The discussion shall include:
      - 2.1.1 Parties responsible for day-to-day incorporation of ESG factors
      - 2.1.2 Roles and responsibilities of employees involved
      - 2.1.3 Approach to conducting ESG-related research
      - 2.1.4 Approach to incorporating ESG factors into products and services
  - 3 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.
    - 3.1 The discussion shall include:
      - 3.1.1 Formal oversight individuals or bodies involved
      - 3.1.2 Roles and responsibilities of employees involved
      - 3.1.3 Criteria used in assessing the quality of ESG incorporation



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- 4 The entity shall discuss whether it conducts scenario analysis or modelling in which the risk profile of future ESG trends is calculated across its investment banking and brokerage activities.
  - 4.1 Where relevant, the entity shall disclose whether such scenario analysis is performed for specific business activities, including (a) underwriting, (b) advisory, (c) securitisation, (d) investing and lending and (e) securities services lines of business.
  - 4.2 ESG trends may include climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
- 5 The entity shall discuss ESG trends that it considers apply broadly in terms of their effect on sectors and industries, as well as trends it deems as sector- or industry-specific.
  - 5.1 The entity may further provide the discussion in the context of geographical exposure of its portfolio, by line of business.
- 6 The entity shall describe significant concentrations of exposure to ESG factors, which may include carbon-related assets, water-stressed regions and cybersecurity risks.
- 7 The entity shall describe how it incorporates ESG factors in the assessment of, and the entity's perspectives on:
  - 7.1 Traditional macroeconomic factors such as the economic conditions, central bank monetary policy, industry trends and geopolitical risks that affect risk profile of clients or individual transactions
  - 7.2 Traditional microeconomic factors such as supply of and demand for products or services which affect financial conditions and operational results of clients as well as their creditworthiness
  - 7.3 Time horizon of investments and loans
  - 7.4 Risk and return profiles of investments and loans
  - 7.5 Risk profiles of (a) underwritten debt and equity securities, (b) advisory transactions (for example, mergers and acquisitions) and (c) securitised assets.
- 8 The entity may disclose additional quantitative measures related to the incorporation of ESG factors in investment banking and brokerage activities, such as:
  - 8.1 Number of investment banking and brokerage transactions screened according to Equator Principles (EP III) (or equivalent) by EP Category
  - 8.2 Number of investment banking and brokerage transactions for which a review of environmental or social risks was performed, for example, by the entity's Environmental and Social Risk Management (ESRM) group.



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