IFRS® Sustainability

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IFRS® Sustainability Disclosure Standard

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

Volume B18—Investment Banking & Brokerage

Comments to be received by 29 July 2022

International Sustainability Standards Board

ED/2022/S2

This industry from Appendix B Industry-based disclosure requirements accompanies the Exposure Draft ED/2022/S2 *Climate-related Disclosures* (published March 2022; see separate booklet). It is published by the International Sustainability Standards Board (ISSB) for comment only. Comments need to be received by 29 July 2022 and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

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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.

Investment Banking & Brokerage

Industry Description

The Investment Banking & Brokerage industry consists of firms performing a wide range of functions in the capital markets, including assisting with the capital-raising and allocation process, 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 involves buying and selling securities or commodities contracts and options on a commission or fee basis for investors; and trading and principal investment activities, which involves the buying and selling of equities, fixed income, currencies, commodities, and other securities for client-driven and proprietary trading. Investment banks also originate and securitize loans for infrastructure and other projects. Companies in the industry generate their revenues from global markets and, therefore, are exposed to various regulatory environments. The industry continues to face regulatory pressure to reform and disclose aspects of operations that present systemic risks. Specifically, firms are facing new capital requirements, stress testing, limits on proprietary trading, and increased scrutiny on compensation practices.

Note: The SASB Investment Banking & Brokerage (FN-IB) Standard addresses “pure play” investment banking and brokerage services, which the SASB recognizes may not include all the activities of integrated financial institutions, such as mortgage finance, commercial banking, consumer finance, asset management and custody services, and insurance. Separate SASB accounting standards are available that address the sustainability issues for activities in those 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) securitization transactions incorporating integration of environmental, social, and governance (ESG) factors, by industry	Quantitative	Reporting 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, Reporting 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
Transition Risk Exposure	For each key business line by industry: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions and (c) Scope 3 emissions, and (2) associated revenue (i.e., facilitated emissions)	Quantitative	Metric tons (t) CO_2-e, Presentation currency	FN-IB-1
	Description of the methodology used to calculate facilitated emissions	Discussion and Analysis	n/a	FN-IB-2

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of (a) underwriting, (b) advisory, and (c) securitization transactions [24]	Quantitative	Number, Presentation currency	FN-IB-000.A
(1) Number and (2) value of proprietary investments and loans by sector [25]	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

[24] Note to **FN-IB-000.A** – For syndicate transactions, the entity shall include only the value for which it was accountable.

[25] Note to **FN-IB-000.B** – The entity shall use the ~~North American Industry Classification System (NAICS)~~ Global Industry Classification Standard (GICS) for classifying investees and borrowers.

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

Topic Summary

Environmental, social, and governance (ESG) factors can have material implications for the companies, assets, and projects that investment banks provide services to or invest in across a range of industries. Therefore, by taking these factors into account in their underwriting, advisory, and investing and lending activities, investment banks can address significant positive and negative environmental and social externalities. The potential for both value creation and loss associated with ESG factors suggests that investment banking and brokerage firms have a responsibility to their shareholders and clients to incorporate consideration of these factors into analysis and valuation related to all core products, including sell-side research, advisory services, origination, underwriting, and principal transactions. Investment banking and brokerage companies that fail to address these risks and opportunities could expose themselves to increased reputational and financial risks. On the other hand, appropriately pricing ESG risks could reduce investment banks' financial risk exposure, help generate additional revenue, and/or open new market opportunities. To help investors understand how well companies in the industry manage performance around this issue, investment banks should disclose how ESG factors are incorporated into their core products and services.

Metrics

FN-IB-410a.1. Revenue from (1) underwriting, (2) advisory, and (3) securitization 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.

1.1 Integration of ESG factors is defined as the systematic and explicit inclusion of material ESG factors into underwriting, advisory, and securitization activities and may include, but is not limited to, review of transactions by the entity's Environmental and Social Risk Management (ESRM) group and/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 break down the revenue from transactions by key business activities including (a) underwriting, (b) advisory, and (c) securitization.

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 covers 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 Securitization 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 securitization of residential and commercial mortgages, corporate bonds, loans, and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities, and limited liability companies) or through a re-securitization.

3 The entity shall break down the revenue from transactions by industry.

3.1 The entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code ~~North American Industry Classification System (NAICS)~~ for classifying transactions.

3.1.1 The entity shall use the latest version of the classification system available at the date of reporting ~~the NAICS 3 Digit Subsector code-level breakdown in its disclosure~~.

3.1.2 The entity shall disclose the classification standard used if different from GICS ~~use the latest version of the NAICS available at the time of disclosure~~.

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 percent 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.

2 The entity shall report the value of proprietary investments and loans incorporating integration of ESG factors.

3 The scope of disclosure includes the entity's investing and relationship lending activities across various 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 through certain 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) 6-digit industry-level code ~~North American Industry Classification System (NAICS)~~ 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 ~~NAICS 3 Digit Subsector code-level breakdown in its disclosure~~.

5.1.2 The entity shall disclose the classification standard used if different from GICS ~~use the latest version of the NAICS available at the time of disclosure~~.

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 percent 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 include, but are not limited to, (a) underwriting, (b) advisory, (c) securitization, (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 ~~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 covers 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. ~~It excludes wealth management and asset management activities.~~

1.3.3 Securitization 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 securitization of residential and commercial mortgages, corporate bonds, loans, and other types of financial assets by selling these assets to securitization vehicles (e.g., trusts, corporate entities, and limited liability companies) or through a re-securitization.

1.3.4 Investing and lending includes short-term and long-term investing and relationship lending activities across various 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 clients' securities trading activities through margin loans that are collateralized 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, but is not limited to:

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, but is not limited to:

3.1.1 Formal oversight individuals and/or bodies involved

3.1.2 Roles and responsibilities of employees involved

3.1.3 Criteria used in assessing the quality of ESG incorporation

4 The entity shall discuss whether it conducts scenario analysis and/or modeling 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) securitization, (d) investing and lending, and (e) securities services lines of business.

4.2 ESG trends include, but are not limited to, climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.

5 The entity shall discuss ESG trends that it views as broadly applicable in terms of their impact on sectors and industries as well as trends it views as sector- or industry-specific.

5.1 The entity may further provide the discussion in the context of geographic exposure of its portfolio, by line of business.

6 The entity shall describe significant concentrations of exposure to ESG factors, including, but not limited to, carbon-related assets, water-stressed regions, and cybersecurity risks.

7 The entity shall describe how ESG factors are incorporated in the assessment of, and influence 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 supply 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 (e.g., mergers and acquisitions), and (c) securitized assets

8 The entity may disclose additional quantitative measures related to its approach to 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, e.g., by the entity's Environmental and Social Risk Management (ESRM) group

Transition Risk Exposure

Topic Summary

Risks and opportunities relating to the transition to a lower-carbon economy can have significant implications for the entities, assets, and projects that investment banks service either through the provision of finance and/or other capital markets activities and financial advisory services. With respect to the latter, policy change, technological innovation and shifting market dynamics, can give rise to transition risks including reputational damage which could ultimately impact the bank's enterprise value. Alternatively, the transition to a lower-carbon economy could open new market opportunities leading to increased revenue. Measuring and disclosing the greenhouse gas (GHG) emissions associated with the provision of core products and services such as underwriting, advisory and securitisation activities—a concept known as 'facilitated emissions'—can provide useful information to enable users of general purpose financial reporting to assess implications for the revenue generated by the entity's capital markets activities.

Metrics

FN-IB-1. For each key business line by industry: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions and (c) Scope 3 emissions, and (2) associated revenue (i.e., facilitated emissions)

1 The entity shall disclose its absolute gross facilitated emissions, disaggregated by Scope 1, Scope 2, and Scope 3 emissions for each industry by key business line.

1.1 Facilitated emissions refers to the gross emissions of a counterparty that is attributed to the entity providing capital markets and financial advisory services to the counterparty, 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 or Scope 3 emissions expressed in metric tons of CO_2 equivalent (i.e., mt CO_2-e).

1.3 Gross emissions are 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 total revenue of key business line by industry for the reporting period.

2.1 Revenue shall be consistent with the corresponding amounts recognized in the entity's financial statements prepared in accordance with IFRS Accounting Standards or other GAAP.

2.2 Revenue shall be disclosed using the entity's presentation currency.

3 Key business lines include but are not limited to: (a) underwriting, (b) advisory, and (c) securitisation.

3.1 Underwriting is defined as activities in which the entity raises investment capital from investors on behalf of entities that are issuing securities. It includes public offerings and private placements, including local and cross-border transactions and acquisition financing of a wide range of and other financial instruments, including loans. Underwriting also covers derivative transactions entered into with public and private sector clients in connection with the entity's underwriting activities.

3.2 Advisory is defined as activities in which the entity provides financial advice to institutional clients on a fee basis.

3.3 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 (e.g., trusts, corporate entities, and limited liability companies) or through a re-securitisation.

4 The scope of the disclosure shall include all industries.

4.1 The entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties.

4.1.1 The entity shall use the latest version of the classification system available at the date of reporting.

4.2 The entity shall disclose the classification standard used if different from GICS.

FN-IB-2. Description of the methodology used to calculate facilitated emissions

1 The entity shall describe the methodology used to calculate facilitated emissions.

1.1 Facilitated emissions refers to the gross emissions of a counterparty that is attributed to the entity providing capital markets and financial advisory services to the counterparty, which falls under Scope 3: category 15 (investments) in accordance with the GHG Protocol Corporate Value Chain (Scope 3) Standard.

1.1.1 Gross emissions are 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 capital markets and financial advisory services provided.

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.

