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IFRS[®] Sustainability Disclosure Standard

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

Volume B16—Commercial Banks

Comments to be received by 29 July 2022



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.

Commercial Banks

Industry Description

Commercial banks accept deposits and make loans to individuals and corporations as well as engage in lending for infrastructure, real estate, and other projects. By providing these services, the industry serves an essential role in the functioning of global economies and in facilitating the transfer of financial resources to their most productive capacity. The industry is driven by the volume of deposits, quality of loans made, the economic environment, and interest rates. It is further characterized by risk from mismatched assets and liabilities. The regulatory environment that governs the commercial banking industry saw significant changes in the wake of the financial crisis of 2008 and continues to evolve today. These and other regulatory trends have the potential to impact shareholder value and sustainability performance. Commercial banks with global operations must manage new regulations in multiple jurisdictions that are creating regulatory uncertainty, particularly around consistent application of new rules.

Note: The SASB Commercial Banks (FN-CB) Standard addresses “pure play” commercial banking services, which the SASB recognizes may not include all the activities of integrated financial institutions, such as investment banking and brokerage services, mortgage finance, 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 Credit Analysis	Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2
Transition Risk Exposure	(1) Gross exposure to carbon-related industries, by industry, (2) total gross exposure to all industries, and (3) percentage of total gross exposure for each carbon-related industry	Quantitative	Presentation currency, Percentage %	FN-CB-1
	Percentage of gross exposure included in the financed emissions calculation	Quantitative	Percentage %	FN-CB-2
	For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, (c) Scope 3 emissions and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO ₂ -e, Presentation currency	FN-CB-3
	For each industry by asset class: (1) gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)	Quantitative	Metric tons (t) CO ₂ -e per unit of physical or economic output, Presentation currency	FN-CB-4
	Description of the methodology used to calculate financed emissions	Discussion and Analysis	n/a	FN-CB-5

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	Number, Presentation currency	FN-CB-000.A
(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate ²⁰	Quantitative	Number, Presentation currency	FN-CB-000.B

²⁰ Note to FN-CB-000.B – Mortgage loans as well as revolving credit loans shall be excluded from the scope of disclosure.

Incorporation of Environmental, Social, and Governance Factors in Credit Analysis

Topic Summary

As financial intermediaries, commercial banks contribute to significant positive and negative environmental and social externalities through their lending practices. Therefore, environmental, social, and governance (ESG) factors can have material implications for the underlying companies, assets, and projects that commercial banks lend to across a range of industries. It is therefore increasingly necessary for companies to examine ESG factors when determining the quality of collateral. Commercial banks also have the potential to enable positive environmental and social externalities and to generate significant revenue streams through their lending practices. Commercial banks that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. Commercial banks should subsequently disclose how ESG factors are integrated into lending processes and the current level of portfolio risk associated with specific sustainability trends. In particular, investor and regulatory pressure is mounting for banks to disclose how they address climate change related risks.

Metrics

FN-CB-410a.2. Description of approach to incorporation of environmental, social, and governance (ESG) factors in credit analysis

- 1 The entity shall describe its approach to the incorporating environmental, social, and governance (ESG) factors into its credit analysis.
 - 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 Credit analysis is defined as method to calculate the creditworthiness of a business or organization, i.e., their ability to honor debt obligations, which seeks to identify the appropriate level of default risk associated with financing such business, organization, or project.
- 2 The scope of disclosure shall include commercial and industrial lending as well as project finance.
- 3 The entity shall describe policies that determine its approach to the incorporation of ESG factors in credit analysis.
- 4 The entity shall discuss how it incorporates ESG factors when estimating credit losses over the contractual term of the entity’s financial assets.
- 5 The entity shall describe its approach to implementation of the aspects of the entity’s ESG incorporation practices.
 - 5.1 The discussion shall include, but is not limited to:
 - 5.1.1 Parties responsible for day-to-day incorporation of ESG factors
 - 5.1.2 Roles and responsibilities of employees involved

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- 5.1.3 Approach to conducting ESG-related research
- 5.1.4 Approach to incorporating ESG factors into assessing creditworthiness of borrowers
- 6 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.
 - 6.1 The discussion shall include, but is not limited to:
 - 6.1.1 Formal oversight individuals and/or bodies involved
 - 6.1.2 Roles and responsibilities of employees involved
 - 6.1.3 Criteria used in assessing the quality of ESG incorporation
- 7 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 of commercial and industrial credit exposure.
 - 7.1 ESG trends include, but are not limited to, climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
- 8 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.
 - 8.1 The entity may further provide the discussion in the context of geographic exposure of its commercial and industrial credit portfolio.
- 9 The entity shall describe significant concentrations of credit exposure to ESG factors, including, but not limited to, carbon-related assets, water-stressed regions, and cybersecurity risks.
- 10 The entity shall describe how ESG factors are incorporated in the assessment of and influence the entity's perspectives on:
 - 10.1 Traditional macroeconomic factors such as the economic conditions, central bank monetary policy, industry trends, and geopolitical risks that affect creditworthiness of borrowers
 - 10.2 Traditional microeconomic factors such as supply and demand for products or services that affect financial conditions and operational results of borrowers as well as their creditworthiness
 - 10.3 Overall creditworthiness of a borrower
 - 10.4 Maturity or tenor of a loan
 - 10.5 Expected loss, including probability of default, exposure at default, and loss given default
 - 10.6 Value of posted collateral
- 11 The entity may disclose additional quantitative measures related to its approach to the incorporation of ESG factors in credit analysis, such as:

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- 11.1 Number of commercial and industrial loans and project finance screened according to the Equator Principles (EP III) (or equivalent) by EP Category
- 11.2 Number of loans 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

Commercial banks' loans to and investments in carbon-related industries are becoming inherently and increasingly risky due to evolving regulation and rapid technological change related to the transition to a low-carbon and climate-resilient global economy. Heightened risk may emerge for entities in carbon-related industries from the premature write-downs, or potential 'stranding,' of long-lived assets. Borrowers or investees may also face further financial pressure from increased costs of operations and compliance due to climate-related risks. Calculating and disclosing the greenhouse gas (GHG) emissions of counterparties and investees attributed to the loans and investments made by a commercial bank—i.e., the bank's 'financed emissions'—can therefore help users of the general purpose financial reporting of commercial banks better understand their exposure to such risks. Commercial banks that fail to manage these transition risks and associated opportunities through their lending and investing could face diminished returns and reduced value for investors.

Metrics

FN-CB-1. (1) Gross exposure to carbon-related industries, by industry, (2) total gross exposure to all industries, and (3) percentage of total gross exposure for each carbon-related industry

- 1 The entity shall disclose its gross exposure to carbon-related industries, by industry.
 - 1.1 For funded amounts, gross exposure is defined as the funded carrying amounts expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.
 - 1.1.1 Carrying amount means the amount before subtracting the loss allowance, when applicable.
 - 1.2 For undrawn loan commitments, gross exposure is defined as the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
 - 1.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
 - 1.4 Carbon-related industries are industries responsible for relatively high direct or indirect GHG emissions.
 - 1.4.1 Carbon related industries include but are not limited to:
 - Oil, Gas & Consumable Fuels
 - Chemicals, Construction Materials, Metals & Mining, and Paper & Forest Products

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- Air Freight & Logistics, Airlines, Marine, and Road & Rail
- Automobiles
- Homebuilding
- Beverages and Food Products
- Electric Utilities, Gas Utilities and Multi Utilities
- Real Estate Management & Development

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

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

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

2 The entity shall disclose its gross exposure to all industries.

3 The entity shall disclose the percentage of total gross exposure for each carbon-related industry.

3.1 The entity shall calculate the percentage by dividing its gross exposure to each carbon-related industry by the total gross exposure to all industries.

4 The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives.

4.1 Undrawn loan commitments to carbon-related industries shall be disclosed separately.

4.1.1 For undrawn loan commitments, the entity shall separately calculate the percentage by dividing the full amount of undrawn loan commitments to carbon related industries by the full amount of undrawn loan commitments to all industries.

4.2 The entity may additionally calculate and disclose gross exposure to other asset classes.

4.2.1 In such cases, the entity shall include an explanation of why the inclusion of those additional asset classes provides more relevant information to primary users of general purpose financial reporting.

FN-CB-2. Percentage of gross exposure included in the financed emissions calculation

1 The entity shall disclose the percentage of gross exposure to asset classes included in the financed emissions calculation.

1.1 For funded amounts, gross exposure is defined as the funded carrying amounts expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.

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- 1.1.1 Carrying amount means the amount before subtracting the loss allowance, when applicable.
 - 1.2 For undrawn loan commitments, gross exposure is defined as the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
 - 1.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
- 2 The entity shall calculate the percentage by dividing the gross exposure included in the financed emissions calculation by total gross exposure to all industries and asset classes.
 - 2.1 If less than 100%, the entity will provide an explanation for exclusions including type of assets.
- 3 The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives.
- 4 The percentage of undrawn loan commitments included in the financed emissions calculation shall be disclosed separately.
 - 4.1 The entity shall calculate the percentage by dividing the full amount of undrawn loan commitments included in the financed emissions calculation by the full amount of undrawn loan commitment to all industries and asset classes.

FN-CB-3. For each industry by asset class: (1) absolute gross (a) Scope 1 emissions, (b) Scope 2 emissions, (c) Scope 3 emissions and (2) gross exposure (i.e., financed emissions)

- 1 The entity shall disclose its absolute gross financed emissions, disaggregated by Scope 1, Scope 2, and Scope 3 emissions for each industry by asset class.
 - 1.1 Financed emissions refers to the portion of gross emissions of an investee or counterparty attributed to the loans and investments made by the entity to the investee or 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 CO₂ equivalent (i.e., mt CO₂-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 also disclose its gross exposure to each industry by asset class.
- 2.1 For funded amounts, gross exposure is defined as the funded carrying amounts expressed in the presentation currency of the entity's financial statements whether prepared in accordance with IFRS Accounting Standards or other GAAP.
- 2.1.1 Carrying amount means the amount before subtracting the loss allowance, when applicable.
- 2.2 Undrawn loan commitments shall be disclosed separately using the full amount of the commitment expressed in the presentation currency of the entity's financial statements.
- 2.3 For derivatives, gross exposure is defined as the contractual amounts to be exchanged in a derivative for which gross cash flows are exchanged, or the net amounts in a derivative for which net cash flows are exchanged, as applicable, expressed in the presentation currency of the entity's financial statements.
- 3 The scope of the disclosure shall include all industries, not only carbon-related industries.
- 3.1 The entity shall use the Global Industry Classification Standard (GICS) 6-digit industry-level code for classifying counterparties.
- 3.1.1 The entity shall use the latest version of the classification system available at the date of reporting.
- 3.2 The entity shall disclose the classification standard used if different from GICS.
- 4 The scope of disclosure includes but is not limited to loans, project finance, bonds, equity investments and derivatives, as well as undrawn loan commitments.
- 4.1 The entity may additionally calculate and disclose financed emissions for other asset classes.
- 4.1.1 In such cases, the entity shall include an explanation of why the inclusion of those additional asset classes provides more relevant information to users of general purpose financial reporting.

FN-CB-4. For each industry by asset class: (1) gross emissions intensity by (a) Scope 1 emissions, (b) Scope 2 emissions, and (c) Scope 3 emissions, and (2) gross exposure (i.e., financed emissions)

- 1 The entity shall disclose the emissions intensity of financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 emissions, for each industry by asset class.

4.1.1 In such cases, the entity shall include an explanation of why the inclusion of those additional asset classes provides more relevant information to users of general purpose financial reporting.

FN-CB-5. Description of the methodology used to calculate financed emissions

- 1 The entity shall describe the methodology used to calculate financed emissions.
 - 1.1 Financed emissions refers to the portion of gross emissions of an investee or counterparty attributed to the loans and investments made by the entity to the investee or 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. The description shall include the method used to attribute the entity's share of emissions in relation to the size of its gross exposure.
 - 1.2 The description shall include the approach to collecting underlying emissions data including its source.
 - 1.3 The entity shall disclose if the source data has been verified by a third party, where possible.
 - 1.4 The entity shall describe the use of estimations, proxies or assumptions, where possible.
 - 1.5 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.