Commercial Banking
Sustainability Accounting Standard

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The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability issues for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization and is accredited to set standards by the American National Standards Institute (ANSI).

SASB is developing standards for more than 80 industries in 10 sectors. SASB’s standards-setting process includes evidence-based analysis with in-depth industry research and engagement with a broad range of stakeholders. The end result of this process is the creation of a complete, industry-specific accounting standard which accurately reflects the material issues for each industry.

About this Standard
This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 45 days beginning Friday, November 15, 2013 and ending Monday, December 30, 2013. This Standard is subject to change thereafter.

For instructions on providing comments to SASB please click here.

For an introduction to SASB Standards please click here.

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SASB Sustainability Accounting Standard

Commercial Banks (FN0101)

Industry Description

Companies in the commercial banking industry accept deposits and make loans to individuals and corporations. Some firms in this industry are engaged in lending for infrastructure, real estate, and other projects.

Note: The SASB Commercial Banks (FN0101) Standard addresses “pure play” commercial banking services, which SASB recognizes may not include all the activities of integrated financial institutions, such as investment banking & brokerage services, mortgage finance, consumer finance, asset management & custody services, and insurance. Separate SASB accounting standards are available that address the sustainability issues for activities in those industries.

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Integration of Environmental, Social and Governance Factors in Credit Risk Analysis

Description

Environmental, social, and governance (ESG) factors are increasingly contributing to the financial performance of specific projects and companies at large. Commercial banks that fail to address these risks and opportunities could face diminished returns and reduced value for shareholders. Companies should subsequently disclose how ESG factors are integrated into lending processes and the current level of portfolio risk associated with specific sustainability trends.

Accounting Metrics

FN0101-01. Discussion of how environmental, social, and governance (ESG) factors are integrated into the lending process, including credit risk analysis, valuation of underlying secured assets, macroeconomic assessments, and the ultimate decision to extend a loan.

.01 ESG integration is defined broadly as the incorporation of environmental, social, and governance factors alongside traditional financial considerations in the range of activities and decision making processes involved in lending and project finance.

.02 Environmental, social, and governance (ESG) factors are defined – and their basic use in financial analysis is described – in the SASB Conceptual Framework in the section, “Key Definitions and Characteristics of Sustainability Accounting and Disclosure”.

.03 The registrant shall discuss how it integrates ESG factors into its lending decisions, including – but not limited to – during the following activities or aspects:

- Credit risk analysis – assessing the increased potential for default (non-performing loans) or payment rescheduling due to ESG factors.
- Valuation of underlying secured assets – assessing the risk of devaluation of collateral and potential for stranded, illiquid assets due to ESG factors.
- Evaluating reputational risk – assessing any potential risks to the registrant’s reputation due to management or mismanagement of ESG factors associated with a loan purpose or project, such that it may affect the registrant’s ultimate decision to offer lending.
- Assessment of macroeconomic factors – assessing how ESG factors may impact macroeconomic conditions – which in turn may affect credit risk or loan quality – such as GDP, inflation, interest rates, money supply, or industrial production.

.04 The registrant shall discuss how it incorporates ESG metrics into its quantitative analysis, modeling, and statistical methods, including what metrics, standards, benchmarks, or datasets are used and how they are weighed alongside traditional financial metrics in credit risk analysis.

.05 The registrant should discuss how ESG factors are incorporated into its diversification strategies at a firm level, including if the registrant assesses for concentrations of ESG risks and attempts to mitigate them through diversification of these risks.

- This may include how ESG factors intersect with or influence the registrant’s view of fundamental factors (economic conditions, Federal Reserve Policy, industry trends, geopolitical risks, etc.)

.06 The registrant should discuss how it factors the macroeconomic value of loans into its lending decisions, where this broadly may include considering one or more of the following alongside the projected financial returns of a loan:

- Whether the lending could create or contribute to systemic risk for the economy
- Whether the borrower’s activities could create negative social or environmental externalities

.07 The registrant may choose to disclose quantitative data related to its Equator Principles (EP III) implementation, such as the number of projects screened according to Equator Principles (or equivalent) by EP Category.

.08 The registrant may choose to disclose a qualitative description of its EP III implementation, including at a minimum: (1) how concepts have been incorporated into the bank’s credit and risk management policies and procedures (2) responsibility for implementation within the bank, and (3) internal adoption processes and implementation efforts and timetables, and staff training to ensure that bank staff are fully informed of the standards.

.09 The registrant may choose to disclose quantitative data related to its Carbon Principles implementation, such as the number of coal plant power plants financed and the percentage subject to Carbon Principles screening.
FN0101-02. Discussion of credit risk to the loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends, and the identification of specific industries, geographies, and demographic segments where the registrant has exposure.

.10 The registrant shall discuss how it assesses risks to its loan portfolio presented by climate change, natural resource constraints, human rights concerns, or other broad sustainability trends.

- Climate change risks should be understood to include, but not be limited to, direct regulatory costs (e.g., emissions trading costs), anticipated shifts in demand, supply chain impacts, capital expenditures requirements for adaptation or GHG emissions reductions, etc.
- Natural resource constraints risk should be understood to include, but not be limited to, decreased availability, increased competition, and/or volatility in availability for water, forestry products, fossil fuels, and extractives.
- Human rights concerns should be understood to include, but not be limited to, operational risks (project delays or cancellation), legal and regulatory risks (lawsuits or fines), and reputational risks (negative press coverage and brand damage) associated with violations to basic human rights (i.e. those enumerated in the U.N. Universal Declaration of Human Rights).
- Other broad sustainability trends include but are not limited to high-risk (or predatory) lending, offshore outsourcing, global supply chains, or shifting population demographics.

.11 The registrant shall identify specific industries (or sectors) in which it has exposure to risks from the trends it has identified, where industries are categorized according to a standard industry classification system (e.g., GICS, ICB, NAICS, etc.).

- The registrant should quantify its exposure to sustainability risks as the dollar amount of investment in industries most susceptible to the risks the registrant has identified, or if available, as a risk-adjusted exposure (e.g., to cash flow or discount rates) to these industries.

.12 The registrant shall identify specific geographies (e.g., regions, countries, states, etc.) and/or demographic segments (e.g., income, education, etc.) in which the registrant has activity and recognizes risks from the broad sustainability trends disclosed.

FN0101-03. Amount and percentage, by dollar, of lending and project finance that employs:

(1) Integration of ESG factors
(2) Sustainability themed lending or finance
(3) Screening (exclusionary, inclusionary, or benchmarked)
(4) Impact or community lending or finance

.13 Lending and project finance shall be defined generally as receivables activities disclosed per FASB Section 310 Receivables (Loans and Trade Receivables).

.14 Integration is defined by the systematic and explicit inclusion of material ESG factors into traditional fundamental financial analysis through use of qualitative risks and opportunities, quantitative metrics, and the incorporation of ESG variables into models, etc.

.15 Sustainability themed lending or project finance is defined as lending that identifies, prioritizes, and encourages companies and/or projects that address key sustainability trends (e.g., such as climate change or sustainable agriculture). Examples of this type of thematic lending may relate to loans to low carbon, energy efficiency-focused corporations, sustainable agriculture-focused companies, or finance for green building, renewable energy, or energy efficiency projects.

.16 Screening of loans is defined by the use of negative, positive, or norms-based selection filters. Negative (also referred to as exclusionary) screening for risk considerations may occur at the sector or company level, or it could be triggered by an activity or action. Positive (also referred to as “best in class”) screening includes the selection of companies (or sectors) that outperform their peers in terms of ESG performance. Norms-based (also referred to as benchmark) screening is the screening of companies or projects against a minimum set of ESG criteria (e.g. selected by the registrant, industry best practices, or international norms).

.17 Impact lending (sometimes referred to as community lending) is characterized by lending to or project finance for social enterprises that seek to generate measureable, positive social impact alongside financial returns. This type of lending or project finance may include lending for basic housing, rural water delivery, maternal health, or primary education.

.18 The registrant shall identify and disclose the amount of lending (in U.S. dollars) broken down by the amount which employ:

- Integration of ESG factors
- Sustainability-themed investing
- Screening (exclusionary, inclusionary, or benchmarked)
- Impact or community investing
.19 The registrant shall identify and disclose the amount of any lending that employs more than one ESG integration strategy (e.g., screening and integration).

.20 If the registrant cannot classify its ESG lending or project finance strategy according to one of the four categories identified, then it should provide a description of its practices, indicating the key aspects in which it differs from the categories listed.

Notes

Additional references

The Carbon Principles.

Financial Inclusion and Capacity Building

Description

Emerging financing models coupled with legislative incentives provide commercial banks with an opportunity to offer products and services to underserved populations. In addition, the recent financial crisis demonstrated the importance of diversified and resilient funding sources that these communities can provide. Commercial banks should disclose how they are enhancing shareholder value through efforts to expand inclusion and build capacity.

Accounting Metrics

FN0101-04. Number of participants in financial literacy initiatives for unbanked, underbanked, or underserved customers, including a description of initiatives.

.21 The registrant shall disclose the number of individuals that participated in financial literacy initiatives including, but not limited to, educational programs, workshops, seminars, courses, counseling, and community partnerships.

- The registrant shall calculate the total number of unique individuals who are documented to have participated in at least one of its initiatives during the fiscal year.
- Disclosure shall include participants in ongoing programs in the case that active participation can be documented during the fiscal year.

.22 The registrant shall describe its initiatives, programs, or financial services that are focused on enhancing the financial literacy of unbanked, underbanked, or underserved customers.

.23 Unbanked customers are those in households without a checking or saving account, who may rely on alternative financial services (AFS), such as payday loans, non-bank money orders, non-bank check cashing services, non-bank remittances, rent-to-own services, pawn shops, or refund anticipation loans (RALs).

.24 Underbanked customers are in households that have a checking and/or a savings account but may still regularly use AFS.

.25 Underserved customers include those who are unbanked, underbanked, or otherwise have limited access to mainstream financial services, often due to limited or no credit history. These customers commonly include young adults, immigrants and/or non-native English speakers, the elderly, ethnic minorities, low-income customers (i.e., with less than $30,000 in household income), or members of the military.

.26 The scope of disclosure shall include both individual retail customers and relevant commercial customers (e.g. small and medium enterprises, minority owned business, etc.).

FN0101-05. Percentage of total domestic loans (in U.S. dollars) for underserved and underbanked business segments.

.27 The registrant shall disclose the average net amount (in U.S. dollars) of commercial and industrial lending portfolio for underserved business segments as a percentage of the average net amount (in U.S. dollars) of all commercial and industrial lending.

.28 The registrant shall calculate the average net loan amount in conformance with Federal Financial Institutions Examination Council (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

.29 The scope includes lending that qualifies as a Small Business Administration (SBA) 7(a) loan for small businesses, lending to businesses that qualify for Small Business Administration’s 8(a) Business Development Program (e.g., minority owned businesses), lending to businesses that have minority-owned or women-owned certification (e.g., National Minority Supplier Development Council, Women’s Business Enterprise National Council), or businesses located in and serving low-income neighborhoods.

.30 The scope of disclosure excludes residential and commercial mortgage activities.

FN0101-06. Loan-to-deposit ratio for:

(1) Overall domestic lending

(2) Underserved and underbanked business segments

.31 The registrant shall calculate the loan-to-deposit (LTD) ratio as the average net loans divided by the average deposits, where:
• Average net loan value (in U.S. dollars) is calculated in conformance with Federal Financial Institutions Examination Council (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.
• Average deposits (in U.S. dollars) are calculated in conformance with Federal Financial Institutions Examination Council (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

.32 The LTD ratio shall be calculated and disclosed for the registrant’s overall domestic lending, which includes all U.S. consumer and wholesale loans.
• In the case that the registrant is non-U.S. domiciled, domestic lending shall include all consumer and wholesale lending within the registrant’s country of domicile.

.33 The LTD ratio shall be calculated and disclosed for the registrant’s lending to underserved and/or underbanked business segments includes all loans disclosed in FN0101-05.

**FN0101-07. Loan default rates for:**
(1) Overall domestic lending
(2) Underserved and underbanked business segments

.34 The registrant shall calculate the loan default rate as the sum of all loan charge-offs (in U.S. dollars) divided by the average net loan amount (in U.S. dollars).
• Charge-offs are the amount of loans in default (i.e., 120 past due) for which the value of loans has been removed from the registrant’s books and charged against loss reserves, less the amount recovered from delinquent borrowers.
• Average net loan value (in U.S. dollars) is calculated in conformance with Federal Financial Institutions Examination Council (FFIEC) Consolidated Report of Condition and Income (call report) preparation instructions.

.35 The loan default rate shall be calculated and disclosed for the registrant’s overall domestic lending, which includes all U.S. consumer and wholesale loans.
• In the case that the registrant is non-U.S. domiciled, domestic lending shall include all consumer and wholesale lending within the registrant’s country of domicile.

.36 The loan default rate shall be calculated and disclosed for the registrant’s lending to underserved and/or underbanked business segments includes all loans disclosed in FN0101-05.

.37 The scope of disclosure excludes residential and commercial mortgage activities.

*Notes*
Employee Development and Inclusion

Description

Commercial banks face heavy competition for skilled employees. As the industry continues to undergo rapid innovation through the introduction of more complex financial products and computerized algorithmic and high frequency trading, the ability of companies to attract and retain employees will likely be increasingly material. In addition, companies can generate significant value through meaningful employee engagement strategies, and by ensuring diversity through inclusive training and development practices. Enhanced disclosure of employee engagement and diversity of employees and applicants will allow shareholders to assess how companies in this industry are managing the risks and opportunities associated with employee development and inclusion.

Accounting Metrics

FN0101-08. Measure of employee engagement, including a description of measurement methodology.

.38 The registrant shall disclose employee engagement as a percentage (i.e., percentage of employees deemed “engaged”) or as an index (e.g., strength of employee agreement with a survey statement).

.39 The disclosure shall be calculated based on the results of an employee engagement survey or a research study conducted by the registrant, by an external entity contracted to perform such a study by the registrant, or by an independent third party.

.40 The registrant shall briefly describe the following, where applicable:
   - Source of its survey (e.g., third-party survey or registrant’s own).
   - Methodology used to calculate the index (e.g., a simple average of individual employee survey responses, with a numerical value assigned to the strength of agreement or disagreement with a survey statement).
   - Possible range of the index.
   - Summary of questions or statements included in the survey or study (e.g., those related to goal setting, support to achieve goals, training and development, work processes, and commitment to the organization).

.41 Where the survey methodology has changed compared to previous fiscal year, the registrant shall indicate results based on both the old and new methods in the year in which the change is made.

.42 If results are limited to a subsection of employees, the registrant shall include the percentage of employees included in the study or survey and discuss the representativeness of the sample.

FN0101-09. Percentage of gender and racial/ethnic group representation by employee category.

.43 The registrant shall summarize and disclose employee representation by employee category in the following table format:

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Gender (%)</th>
<th>Race and Ethnicity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Executives/Sr. Managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mid-level Managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All others (EEO-1 categories technicians, sales, admin support, service workers)</td>
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<td></td>
</tr>
</tbody>
</table>

*NA = not available / not disclosed
*Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and “two or more races” classification
The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following categories: Executives/Sr. Managers, Mid-level Managers, Professionals, and All others (EEO-1 categories technicians, sales, admin support, and service workers).

The registrant shall categorize the gender of its employees as: male, female, or not disclosed/available.

The registrant shall classify the racial/ethnic group of its employees into the following categories, using the same definitions employed for the registrant’s EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, or Other (includes: American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), or not disclosed/available.

FN0101-10. Applicant pool and hired employees by gender and racial/ethnic group.

The registrant shall summarize and disclose the gender and racial/ethnic group representation of job applicants and newly hired employees in the following table format:

<table>
<thead>
<tr>
<th>Category</th>
<th>Gender (%)</th>
<th>Race and Ethnicity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Applicant pool</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hired Employees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*NA = not available/not disclosed

*Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and “two or more races” classification

Hired employees are defined as the total number of vacant positions that were filled during the fiscal year.

The applicant pool is defined as the individuals who submitted formal applications for positions during the fiscal year.

- The registrant shall exclude applications for positions that were not filled during the fiscal year.
- The registrant shall include the individuals who were ultimately hired in its calculation of total applicants.

The registrant shall categorize the gender of its hired employees and applicant pool as male, female, or not disclosed/available.

The registrant shall classify the racial/ethnic group of its hired employees and applicant pool in the following categories, using the same definitions employed for the registrant’s EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and two or more races), not disclosed/available.

Notes
Customer Privacy and Data Security

Description

Ensuring the privacy and data security of personal financial data is an essential responsibility of the commercial banking industry. Companies that fail to manage performance in this area are susceptible to decreased revenue and consumer confidence. Further, although many states have passed laws requiring businesses to notify authorities in the event of a security breach, the current absence of federal standards has led to increased costs as companies are required to comply with a patchwork of state laws. Enhanced disclosure on the number and nature of security breaches, and management strategies to address these risks will allow shareholders to understand how commercial banks are protecting shareholder value.

Accounting Metrics

FN0101-11. Number of data security breaches, including:

(1) Percentage that resulted in the actual outcomes of a business process deviating from the expected outcomes with respect to confidentiality, integrity, and availability
(2) Percentage involving personal data, in which customers were notified of breach
(3) Description of corrective actions.

.52 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.
.53 The registrant shall disclose the percentage of data security breaches, cybersecurity risks, and incidents that resulted in the registrant’s business processes deviating from its expected outcomes for confidentiality, integrity, and availability.
  • Disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization resulting from people, process, or technology deficiencies or failures.
  • Disclosure shall exclude disruptions of service due to equipment failures.
.54 The registrant shall disclose the percentage of data security breaches in which customers’ unencrypted personal information (such as a social security number, driver’s license number, account number, credit or debit card number, or access code) was compromised and customers were notified of the breach.
  • Notification includes that which is voluntary by the registrant or required by state law.
  • Disclosure shall include incidents when encrypted data were acquired with an encryption key that was also acquired.
  • The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise such investigation.
.55 Disclosure shall include, but not be limited to, incidents disclosed according to the U.S. Security and Exchange Commission (SEC)’s CF Disclosure Guidance: Topic No. 2, Cybersecurity.
  • At a minimum this includes when the costs or other consequences associated with one or more known incidents – or the risk of potential incidents – represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant’s results of operations, liquidity, or financial condition or would cause reported financial information not to be necessarily indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).
.56 The registrant shall describe the corrective actions taken in response to specific incidents, trends in security breaches, or future security uncertainties, such as changes in operations, management, processes, products, business partners, training, or technology.
.57 All disclosure shall be sufficient such that it is specific to the risks the registrant faces but disclosure itself would not compromise the registrant’s ability to maintain data privacy and security.

FN0101-12. Discussion of management approach to identifying and addressing vulnerabilities and threats from the following U.S. Department of Commerce National Institute of Standards and Technology (NIST)-defined attack vectors: external/removable media, attrition, web, email, improper usage, and loss/theft of equipment.

.58 The registrant shall identify which attack vectors it has identified as posing a threat or vulnerability, where:
• A threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the Nation through an information system via unauthorized access, destruction, disclosure, or modification of information, and/or denial of service.
• Vulnerability is defined as weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a threat source.

.59 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including but not limited to, through operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.

.60 The registrant should discuss trends it has observed in type, frequency, and origination of attack vectors.

.61 Disclosure shall include, but not be limited to, preparation, detection, containment, and post-incident activity that is disclosed according to the U.S. Security and Exchange Commission’s (SEC) CF Disclosure Guidance: Topic No. 2, Cybersecurity.
• At a minimum this includes when the costs or other consequences associated with one or more known incidents – or the risk of potential incidents – represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant’s results of operations, liquidity, or financial condition or would cause reported financial information not to be necessarily indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.62 All disclosure shall be sufficient such that it is specific to the risks the registrant faces but disclosure itself would not compromise the registrant’s ability to maintain data privacy and security.

.63 The registrant’s disclosure should include a discussion of data and system security efforts that relate to new and emerging attack vectors facing the financial services industry, such as mobile devices (e.g., though mobile banking applications and/or the device itself).

Notes

FN0101-12

Definitions

NIST-defined attack vectors:

• External/Removable Media – an attack executed from removable media or a peripheral device—for example, malicious code spreading onto a system from an infected USB flash drive.
• Attrition – an attack that employs brute force methods to compromise, degrade, or destroy systems, networks, or services (e.g., a DDoS intended to impair or deny access to a service or application; a brute force attack against an authentication mechanism, such as passwords, captchas, or digital signatures).
• Web – an attack executed from a website or web-based application—for example, a cross-site scripting attack used to steal credentials or a redirect to a site that exploits browser vulnerability and installs malware.
• Email – an attack executed via an email message or attachment—for example, exploit code disguised as an attached document or a link to a malicious website in the body of an email message.
• Improper Usage – any incident resulting from violation of an organization’s acceptable usage policies by an authorized user, excluding the above categories, for example; a user installs file sharing software, leading to the loss of sensitive data; or a user performs illegal activities on a system.
• Loss or Theft of Equipment – the loss or theft of a computing device or media used by the organization, such as a laptop or smartphone.
• Other – an attack that does not fit into any of the other categories.

Additional references

National Institute of Standards and Technology (NIST) 800-30 Rev 1, September 2012.
Management of the Legal and Regulatory Environment

Description

The regulatory environment surrounding the commercial banking industry continues to evolve both nationally and internationally. Companies must now adhere to a complex and inconsistent set of rules relating to both performance and disclosure on issues including insider trading, anti-trust, price fixing, and market manipulation. In addition, commercial banks are subject to rules against tax evasion, fraud, money laundering, and corrupt practices. Finally, enhanced rewards for whistleblowers established under the Dodd-Frank Act may increase the number of complaints brought to regulators. Firms that can manage these regulatory concerns and ensure compliance will be better positioned to protect shareholder value, and limit future liabilities.

Accounting Metrics

FN0101-13. Dollar amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions. Description of fines and settlements and corrective actions implemented in response to events.

.64 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with enforcement of financial industry regulations, including SEC rules, Federal Reserve Board requirements (e.g., capital adequacy rules), Commodities Futures Trading Commission rules, rules of the Office of Comptroller Currency, provisions of Dodd-Frank (such as those enforced by the Consumer Financial Protection Bureau), FINRA regulations, and Federal Deposit Insurance Corporation policies.

.65 Disclosure shall also include enforcements related to activities adjudicated by federal regulators with an enforcement mandate broader than the financial industry, such as Foreign Corrupt Practices Act violations (enforced by the U.S. Department of Justice), violations of the Specially Designated Nationals List (enforced by the U.S. Treasury Department through its Office of Foreign Asset Control), Foreign Account Tax Compliance Act violations (enforced by the U.S. Office of the Revenue Service).

.66 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

.67 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, non-prosecution agreement) and context (e.g., fraud, anti-trust, insider trading, etc.) of fines and settlements.

.68 The registrant shall calculate the percentage as the total dollar amount of fines or settlements that resulted from whistleblowing actions divided by the total amount of fines or settlements, where whistleblowing actions are defined as reports of insider illegal activities that have been made public by an employee, contractor, client, or other individual, such as through disclosure to the SEC Office of the Whistleblower or the IRS Whistleblower Office.

.69 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

FN0101-14. Number and nature of inquiries, complaints, or issues received by legal and compliance office through an internal monitoring or reporting system, percentage that were substantiated, and description of any corrective actions taken by registrant in response to information received.

.70 The registrant shall disclose the total number of instances when legal or regulatory issues were brought to its attention, such as through a monitoring program, reporting system (e.g., a hotline), direct employee communication (e.g. open door policy, email, etc.), or internal whistleblowing action.

.71 This total shall include issues identified by the registrant’s compliance system (e.g., internal audit function, risk and compliance software, etc.) and shall exclude whistleblowing actions reported externally such as to regulators or media.

.72 The registrant shall categorize and disclose the nature of inquiries, reports, complaints, allegations, which may include: allegations of insider trading, reports of fraud or misconduct, specific questions about registrant’s conflict of interest policy, identifications of risks to compliance, etc.

.73 The percentage shall be calculated as the total number of instances or incidents that were substantiated (fully or partially), divided by the total number of recordable inquiries, complaints, or issues.

.74 The scope of disclosure shall focus on those issues that relate to legal and regulatory compliance, excluding workplace code-of-conduct matters such as discrimination or harassment.
The registrant shall describe any corrective actions it has implemented as a result of incidents including but not necessarily limited to those that were substantiated. Disclosure may include a description of specific changes in operations, management, processes, products, business partners, training, or technology.

Notes
Systemic Risk Management

Description

The recent financial crisis articulated the importance of managing risks to capital in the commercial banks industry. Specifically, firms that failed to ensure adequate capital reserves were unable to protect shareholder value and contributed to a significant market disruption. The systemic nature of the risk results from the interconnectedness of financial institutions, and has become a central concern of federal and international regulators. As a result, many banks are required to undergo supervisory stress tests to evaluate whether the company has the capital to absorb losses, continue operations, and meet obligations in the event of adverse economic and financial conditions. In an effort to demonstrate how these risks are being managed, commercial banks should enhance disclosure on metrics, including the results of annual stress tests, Basel III liquidity coverage ratios, exposure to over-the-counter derivatives, and management of risk limits.

Accounting Metrics

FN0101-15. Results of stress tests under adverse economic scenarios and description of the most significant drivers of changes in regulatory capital ratios, including following measures (actual and projection):

1. Loan losses
2. Losses, revenue, and net income before taxes
3. Tier 1 common capital ratio
4. Tier 1 capital ratio
5. Total risk-based capital ratio
6. Tier 1 leverage ratio

.76 If the registrant is a "covered institution" it shall report the results of its internally conducted Dodd-Frank Act Stress Test (DFAST) under the severely adverse economic scenario prescribed by the Federal Reserve.

.77 "Covered Institutions" are those financial institutions with total consolidated assets above $10 billion that are required under Section 165(i)(2) of the Dodd-Frank Wall Street Reform and Consumer Protection Act to conduct self-administered stress tests.

.78 If the registrant is not a "covered institutions" it shall report the results of its voluntary stress test administered following guidance recommended by the Office of the Comptroller of Currency.

.79 The registrant shall summarize its actual loan losses, and those projected under a stressed scenario, by loan type, in the following table format:

Table 1. Projected Loan Losses by type under stressed scenario(1)

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>FY end</th>
<th>Stress Period Loss rate</th>
<th>Stress Period losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>First lien mortgages, domestic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Junior liens and home equity lines of credit, domestic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial real estate, domestic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit card</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other consumer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (aggregate)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Projected loan losses should exclude held-for-sale loans and loans measured at fair value.
The registrant shall summarize projected losses, revenue, and net income before taxes under a stressed scenario in the following table format:

### Table 2. Projected losses, revenue, and net income before taxes under stressed scenario

<table>
<thead>
<tr>
<th></th>
<th>Billions ($)</th>
<th>Percent of average assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-provision net revenue(^{(1)})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other revenue(^{(2)})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for loan and lease losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized gains/losses on securities (AFS/HTM)(^{(3)})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading and counterparty losses(^{(4)})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other losses/gains(^{(5)})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total losses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income before taxes</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{(1)}\) Pre-provision net revenue (PPNR) includes net revenues and operating expenses (including operational risk events, mortgage put-back expenses, and other real estate owned costs).

\(^{(2)}\) Other revenue includes one-time income and (expense) items not included in PPNR.

\(^{(3)}\) Gains/losses on securities represent both available-for-sale (“AFS”) and held-to-maturity (“HTM”) securities.

\(^{(4)}\) Trading and counterparty losses include mark-to-market losses, incremental default risk (“IDR”) losses and changes in credit valuation adjustments (“CVA”) associated with the global market shock, and credit IDR losses for the remainder of the planning horizon.

\(^{(5)}\) Other losses / gains primarily includes the projected change in the fair value of loans and loan commitments accounted for under the fair value option associated with the global market shock.

The registrant shall summarize its actual capital ratios for the end of the reporting period and its projected capital ratios under a stressed scenario (including the minimum ratio through the scenario planning period) in the following table format:

### Table 3. Projected Capital Ratios under stressed scenario

<table>
<thead>
<tr>
<th></th>
<th>Actual FY end</th>
<th>Stressed End of period</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 common capital ratio (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 capital ratio (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total risk-based capital ratio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 leverage ratio (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Capital ratios shall be calculated according to the “Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action; Standardized Approach for Risk-Weighted Assets; Market Discipline and Disclosure Requirements” adopted by the Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Fed), and the Office of the Comptroller of the Currency (OCC).

The registrant shall describe the most significant drivers of changes in regulatory capital ratios such as:

- Types of losses (e.g., changes to CVA, loan defaults, decreased origination of junior lien mortgages, etc.) that contributed most significantly
- Aspects of the stressed scenario that had the most significant impact (e.g., unemployment, home prices, inflation, Treasury yield, etc.)

.84 The registrant shall calculate its LCR as: Stock of high quality liquid assets (HQLA) / Total net cash outflows over the next 30 calendar days.

.85 The registrant shall disclose its average monthly LCR (%) throughout the reporting year.

.86 The registrant shall calculate its LCR, HQLA, and net cash outflows according to methodology outlined by the Bank for International Settlements’ (BIS) Basel Committee on Banking Supervision’s “Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools” (January 2013).

FN0101-17. Notional amount of over-the-counter (OTC) derivative positions.

.87 The registrant shall calculate the total notional amount of its OTC derivative positions, where “notional amount” is defined by GAAP Topic 815 as “a number of currency units, shared, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.”

.88 The total amount shall be disclosed in U.S. dollars, as a sum of all types of risk categories and instruments (i.e., sum of foreign exchange, interest rate, equity, commodities, credit default swaps (CDS), etc.).

.89 Over-the-counter derivatives are defined as instruments that are not cleared through a central counterparty (e.g., instead traded through a dealer network).

FN0101-18. Level 3 assets: (1) total value and (2) percentage of total assets.

.90 Level 3 assets are defined as those whose fair value cannot be determined using observable measures, such as market prices or model; they tend to be illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.

.91 Level 3 assets shall be identified and classified in the same manner as they are under GAAP Topic 820 Fair Value Accounting where inputs to Level 3 assets are defined as, “unobservable inputs for assets or liability.”

.92 The registrant shall report its Level 3 assets as a percentage of its total assets (i.e., the sum of Level 1, Level 2, and Level 3 assets).

- Level 1 assets are defined as assets for which quoted prices (unadjusted) exist in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 assets are defined as assets for which there is not a quoted price, but for which a price is observable, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 asset must be observable for substantially the full term of the asset or liability.

FN0101-19. Total number of instances when risk limits were breached and number and percentage by response: (1) position reduced, (2) risk limit temporarily increased, (3) risk limit permanently increased, (4) other.

.93 The registrant shall report the total number of instances when it breached any internal risk limits for following categories of risk: trading risk (e.g., exceeding daily VaR limits), counterparty risks (e.g., exceeding single counterparty exposure limits), interfinancial (e.g., exceeding limits for assets or liabilities tied to other financial institutions), concentration risks (e.g., geographic or sector exposure limits), or other risk category managed by the registrant.

.94 Relevant risk limits include those for individuals, desks, divisions, and/or aggregate risk limits.

.95 The registrant shall disclose its response when risk limits were breached, including the number of times it reduced its risk position, temporarily increased a limit (e.g., through an exception), or permanently increased a risk limit.

.96 If the registrant took other actions in response to a risk limit being breached it shall describe the response(s) and disclose the number of times it took such action.

.97 The registrant shall report the absolute number and percentage of total response for each type: position reduced, limit temporarily increased, limit permanently increased, and other.

FN0101-20. Skewness and kurtosis of portfolio revenue.

.98 The registrant shall calculate the skewness and kurtosis of its trading profits and losses using standard statistical methods, excluding spread profits and losses.

.99 Spread profits and losses are defined, as in the Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Volcker Rule), as the portion of portfolio profit and loss that generally includes revenue generated by a trading unit from charging
higher prices to buyers than the trading unit pays to sellers of comparable instruments over the same period of time (i.e., charging a “spread,” such as the bid-ask spread).

.100 Skewness is a statistical measure of asymmetry from the normal distribution in a set of data; skewness can be “negative” or “positive”, depending on whether data points are skewed to the left (negative skew) or to the right (positive skew) of the data average.

.101 Kurtosis is a statistical measure of the “peakedness” or “flatness” of a frequency distribution; it shows if data points are concentrated near the mean or towards the tails of a distribution (as compared with a normal distribution).

.102 Skewness and kurtosis measurements may help capture asymmetric, “fat tail” risks that (i) are not well captured by simple volatility measures, (ii) may not be well captured by internal risk measurement metrics, such as VaR, and (iii) can be associated with trading strategies that seek to earn short-term profits by taking exposures to these types of risks.

.103 The calculation period for skewness and kurtosis shall be 30 days, 60 days, and 90 days.

Notes

FN0101-17.

GENERAL

N.B. Notional amounts do not reflect the economic exposure in these markets, which is a small fraction of the notional value, but the growth noted here is indicative of the growth in exposure.

Additional references


Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and relationship with, hedge fund and private equity funds, commonly known as the Volcker Rule and proposed jointly by the OCC, Federal Reserve Board, FDIC, and SEC.