



SUSTAINABILITY ACCOUNTING STANDARD | FINANCIALS SECTOR

INVESTMENT BANKING & BROKERAGE

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FN0102

Prepared by the
Sustainability Accounting Standards Board®

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INVESTMENT BANKING & BROKERAGE

Sustainability Accounting Standard

About SASB

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.

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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for Investment Banking & Brokerage.

SASB Standards are comprised of (1) disclosure guidance and (2) accounting standards on sustainability topics for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB's disclosure guidance identifies sustainability topics at an industry level, which may be material— depending on a company's specific operating context— to a company within that industry.

Each company is ultimately responsible for determining which information is material and is therefore required to be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB's accounting standards provide companies with standardized accounting metrics to account for performance on industry-level sustainability topics. When making disclosure on sustainability topics, companies adopting SASB's accounting standards will help to ensure that disclosure is standardized and therefore useful, relevant, comparable, and auditable.

Industry Description

Companies in the Investment Banking & Brokerage Industry underwrite, originate, and maintain markets for clients issuing securities. Firms may also offer advisory services, act as principals in buying or selling securities, and help in facilitating corporate mergers and acquisitions.

Note: The SASB Investment Banking & Brokerage (FN0102) Standard addresses “pure play” investment banking and brokerage services, which SASB recognizes may not include all the activities of integrated financial institutions, such as mortgage finance, commercial banking, consumer finance, asset management & custody services, and insurance. Separate SASB accounting standards are available that address the sustainability issues for activities in those industries.

Guidance for Disclosure of Material Sustainability Topics in SEC filings

1. Industry-Level Material Sustainability Topics

For the Investment Banking & Brokerage Industry, SASB has identified the following material sustainability topics:

- **Employee Incentives & Risk Taking**
- **Employee Inclusion**
- **Management of the Legal & Regulatory Environment**
- **Systemic Risk Management**
- **Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Brokerage Activities**

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.”¹

SASB has attempted to identify those sustainability topics that evidence suggests may be material for all companies within each SIC industry. SASB recognizes, however, that each company is ultimately responsible for determining what is material to it.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K “any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.”²

Furthermore, Instructions to Item 303 state that the MD&A “shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition.”

In determining whether a trend or uncertainty should be disclosed, the SEC has stated that management should use a two-part assessment based on probability and magnitude:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- If a company’s management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant’s financial condition or results of operation is not reasonably likely to occur.

¹ TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

² C.F.R. 229.303(Item 3030)(a)(3)(ii).

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

Companies should consider making disclosure on sustainability topics as a complete set in the MD&A, in a sub-section titled **"Sustainability Accounting Standards Disclosures."**³

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, companies should consider disclosing sustainability information in other sections of Form 10-K, as relevant, including:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Specifically Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State, and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations targeting discharge of materials into the environment or primarily for the purpose of protecting the environment.
- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via <http://www.sasb.org/approach/conceptual-framework/>.

³ SEC [Release Nos. 33-8056; 34-45321; FR-61] [Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations](#): "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

Guidance on Accounting of Material Sustainability Topics

For sustainability topics in the Investment Banking & Brokerage Industry, SASB identifies two categories of accounting metrics: 1) Quantitative and 2) Discussion and Analysis.

SASB recommends that each company consider using these sustainability accounting metrics when disclosing its performance with respect to each of the sustainability topics it has identified as material.

As appropriate—and consistent with Rule 12b-20⁴—for each sustainability topic, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy and comparability of the data reported. Where not addressed by the specific accounting metrics, but relevant, the registrant should discuss the following related to the topic:

- the registrant's **strategic approach** to managing performance on material sustainability issues;
- the registrant's **competitive positioning**;
- the **degree of control** the registrant has;
- any **measures the registrant has undertaken or plans to undertake** to improve performance; and
- data for registrant's **last three completed fiscal years** (when available).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the [Sustainability Industry Classification System \(SICS™\)](#). If a registrant generates significant revenue from multiple industries, SASB recommends that it consider the materiality of the sustainability issues that SASB has identified for those industries and disclose the associated SASB accounting metrics.

Users of the SASB Standards

The SASB Standards are intended for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act)⁵, for use in SEC filings, including, without limitation, annual reports on Form 10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Nevertheless, disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

⁴ SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading."

⁵ Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than \$10 million in assets.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities in which the registrant has a controlling interest and therefore are consolidated for financial reporting purposes (controlling interest is generally defined as ownership of 50% or more of voting shares);⁶
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that such registrant considers the information necessary for investors to understand its performance with respect to sustainability issues (typically this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparison of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed “activity metrics” —may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for users of SASB accounting metrics (e.g., investors) in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant – however, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.

⁶ See US GAAP consolidation rules (Section 810).

Where relevant, SASB recommends specific activity metrics that – at a minimum – should accompany SASB Sustainability Accounting Metric disclosures to aid investors in interpretation, analysis, and benchmarking.

For the Financials Sector, metrics measuring revenue, returns, margins, and regulatory capital are relevant for normalizing and analyzing SASB disclosures. Because these and other relevant financial metrics are readily available in financial statements and from financial data vendors, SASB does not specify activity metrics for the industries within the Financials Sector.

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables like the imperfectness of third-party reporting systems or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may be necessary for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company and, therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward Looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as forward looking and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

Assurance

In reporting on SASB Standards, it is expected that registrants report with the same level of rigor, accuracy, and responsibility as all other information contained in their SEC filings.

SASB encourages registrants to use independent assurance (attestation), for example, an Examination Engagement as described in AT Section 701.

The following sections contain the technical protocols associated with each accounting metric such as guidance on definitions, scope, accounting guidance, compilation, and presentation.

The term "shall" is used throughout this Standard to indicate those elements that reflect SASB's mandatory disclosure requirements. The terms "should" and "may" are used to indicate guidance, which, although not mandatory, provides a recommended means of disclosure.

Table 1. Material Sustainability Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Employee Incentives & Risk Taking	Discussion of variable compensation policies and practices	Discussion and Analysis	n/a	FN0102-01
	Percentage of total compensation that is variable for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-02
	Percentage of variable compensation that is equity for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-03
	Percentage of employee compensation which includes ex post adjustments for: (1) executives and (2) all others	Quantitative	Percentage (%) in U.S. dollars	FN0102-04
	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	Quantitative	Number (#), percentage (%)	FN0102-05
Employee Inclusion	Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others	Quantitative	Percentage (%)	FN0102-06
Management of the Legal & Regulatory Environment	Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions ⁷	Quantitative	U.S. dollars (\$), percentage (%)	FN0102-07
	Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated ⁸	Quantitative	Number (#), percentage (%)	FN0102-08
	Number of conflicts of interest disclosed to clients, customers, and/or counterparties	Quantitative	Number (#)	FN0102-09

⁷ Note to **FN0102-07** – Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

⁸ Note to **FN0102-08** – Disclosure shall include a description of the nature of the inquiries, complaints, or issues and of any corrective actions taken by the registrant in response to information received by its legal and compliance office through an internal monitoring and/or reporting system.

Table 1. Material Sustainability Topics & Accounting Metrics (cont.)

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Systemic Risk Management	Results of stress tests under adverse economic scenarios, ⁹ including the 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	Quantitative	U.S. dollars (\$), ratio in U.S. dollars (\$)	FN0102-10
	Basel III Liquidity Coverage Ratio (LCR)	Quantitative	Ratio in U.S. dollars (\$)	FN0102-11
	Net exposure to written credit derivatives	Quantitative	U.S. dollars (\$)	FN0102-12
	Level 3 assets: (1) total value and (2) percentage of total assets	Quantitative	U.S. dollars (\$), percentage (%)	FN0102-13
	Skewness and kurtosis of trading revenue	Quantitative	n/a	FN0102-14
Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Brokerage Activities	Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services	Discussion and Analysis	n/a	FN0102-15
	Amount of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting ¹⁰	Quantitative	U.S. dollars (\$)	FN0102-16
	Deal size of advisory and underwriting transactions for companies in the following sectors/industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities	Quantitative	U.S. dollars (\$)	FN0102-17

⁹ Note to **FN0102-10** – Disclosure shall include a description of the most significant drivers of changes in regulatory capital ratios.

¹⁰ Note to **FN0102-16** – Disclosure shall include a description of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting.

Employee Incentives & Risk Taking

Description

Employee compensation in the investment banking and brokerage industry can incentivize short-term or long-term performance. Structures that focus on the short term are likely to encourage risk-taking and present adverse implications for long-term corporate value. Concern over this issue has led to increased regulatory and shareholder scrutiny since the financial crisis. Subsequently, improved disclosure of employee compensation, focusing on the use of performance metrics and variable remuneration, will provide shareholders with a clear understanding of how investment banking companies are protecting corporate value.

Accounting Metrics

FN0102-01. Discussion of variable compensation policies and practices

- .01 The registrant shall describe how it determines the variable portion of employees' compensation, including how performance is measured qualitatively, what quantitative variables are used, and how risk is taken into consideration.
- .02 For the purposes of this disclosure, variable compensation shall consist of both cash awards and short- and long-term equity compensation. It includes bonus, incentive payments, commissions, overtime, retirement matches (e.g., 401K), and associated payroll tax. Pensions, insurance, perquisites, and payroll taxes shall be excluded.
- .03 Where underlying processes and performance factors differ significantly across employee categories (e.g., Executives/Sr. Managers, Mid-level Managers, etc.), regions (e.g., Americas, Europe/Middle East/Africa, etc.), or job functions (e.g., sales & marketing, investment management, corporate, technology), the registrant should identify separate groups of employees and describe variable compensation structures for each group.
- .04 The registrant should use employee categories defined by the U.S. Equal Employment Opportunity Commission in its [EEO-1 Job Classification Guide](#).
- .05 The registrant shall discuss key factors in its determination of variable compensation for employees, such as the following: the level of decision making required by employees, qualitative performance (e.g., those relating to skill, knowledge, or ability), financial variables, external variables (e.g., share price), relative measures of performance (i.e., peer-to-peer comparison as opposed to absolute value generation), or the use of discretion or qualitative assessments of risk and performance.
- .06 The registrant shall discuss how it factors risks taken by employees into its variable compensation determinations, such as the use of performance measures that include risk considerations or the use of risk adjustments (e.g., risks weightings, such as ex ante adjustments, which are risk adjustments to compensation made as compensation is accrued and awarded, to take into account potential adverse developments in the future).
- .07 The registrant shall provide a description of the length of deferral (e.g., in years) of variable compensation and the vesting schedule (e.g., annual intervals).

- .08 The registrant shall disclose if there a provision where vesting of the variable portion of compensation accelerates during retirement.

FN0102-02. Percentage of total compensation that is variable for: (1) executives and (2) all others

- .09 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .10 For the purposes of this disclosure, variable compensation shall consist of both cash awards and short- and long-term equity compensation. It includes bonuses, incentive payments, commissions, overtime, retirement matches (e.g., 401K), and associated payroll taxes. Pensions, insurance, perquisites, and payroll taxes shall be excluded from the calculation of variable and total compensation.
- .11 For both employee categories, the registrant shall calculate the percentage as variable compensation aggregated for all employees in that category divided by total compensation aggregated for all employees in that category.
- .12 Total compensation is defined as the sum of fixed, base pay (i.e., salary) and any variable, bonus, or performance-based pay.

FN0102-03. Percentage of variable compensation that is equity for: (1) executives and (2) all others

- .13 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .14 For the purposes of this disclosure, variable compensation shall consist of both cash awards and short-and long-term equity compensation. It includes bonus, incentive payments, commissions, overtime, retirement matches (e.g., 401K), and associated payroll tax. Pensions, insurance, perquisites, and payroll taxes shall be excluded from the calculation of variable and total compensation.
- .15 Equity compensation is defined as compensation in the form of the registrant's stock, including stock options, restricted stock units (RSUs), or performance share units (PSUs).
- .16 The registrant shall calculate the value of equity compensation according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718.
- .17 For both employee categories, the registrant shall calculate the percentage as variable equity compensation aggregated for all employees in that category divided by total variable compensation (i.e., cash and equity) aggregated for all employees in that category.

FN0102-04. Percentage of employee compensation which includes ex post adjustments for: (1) executives and (2) all others

- .18 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).

- .19 An ex post adjustment is defined as adjusting accrued remuneration during (e.g., through a malus clause) or after (e.g., through a clawback clause) a deferral period in light observations of risk and performance during that period.
- .20 A malus clause is defined as a contractual term that permits the registrant to adjust accrual of all or part of the amount of deferred compensation as it accrues.
- .21 A clawback clause is defined as a contractual term that permits the registrant to retroactively adjust compensation that has already accrued and awarded in light of observed risk and performance outcomes.
- .22 For both employee categories, the registrant shall calculate the percentage as the amount of total compensation that is subject to a malus clause, a clawback clause, or another *ex post* adjustment.

FN0102-05. 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

- .23 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.
- .24 Relevant risk limits include those for individuals, desks, divisions, and/or aggregate risk limits.
- .25 The registrant shall disclose its response when risk limits were approached or 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.
- .26 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.
- .27 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.

Employee Inclusion

Description

Investment banking and brokerage companies face a high degree of 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

FN0102-06. Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others

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

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	Female	NA*	White	Black or African American	Hispanic or Latino	Asian	Other^	NA*
Executives/Sr. Managers									
All others									

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classification

- .29 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#) into the following two categories: Executives/Sr. Managers and All others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .30 The registrant shall categorize the gender of its employees as: male, female, not disclosed/available.
- .31 The registrant shall classify the racial/ethnic group of its employees 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.
- .32 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.
 - Where relevant the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

Management of the Legal & Regulatory Environment

Description

The regulatory environment surrounding the investment banking and brokerage industry continues to evolve both nationally and internationally. Companies are subsequently required to 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, investment banking and brokerage companies are subject to rules against tax evasion, fraud, money laundering, and corrupt practices. Finally, enhanced rewards for whistle blowers established under the Dodd-Frank act may lead to an increase in the number of complaints brought to regulators. Firms that are able to manage these regulatory concerns and ensure compliance will be better positioned to protect shareholder value and limit future liabilities.

Accounting Metrics

FN0102-07. Amount of legal and regulatory fines and settlements associated with financial industry regulation and percentage that resulted from whistleblowing actions

- .33 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, 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.
- .34 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), and Foreign Account Tax Compliance Act violations (enforced by the U.S. Internal Revenue Service).
- .35 Disclosure shall include civil actions (e.g., civil judgments, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).
- .36 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.

.37 Disclosure shall exclude fines and settlements reported above in FN0102-08 that are associated with failure to provide adequate, clear, and transparent information about products and services.

NOTE TO FN0102-07

.38 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.

.39 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.

FN0102-08. Number of inquiries, complaints, or issues received by the legal and compliance office through an internal monitoring or reporting system, and percentage that were substantiated

.40 The registrant shall report 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.

.41 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.

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

.43 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.

NOTE TO FN0102-08

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

.45 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.

FN0102-09. Number of conflicts of interest disclosed to clients, customers, and/or counterparties

.46 The registrant shall disclose the number of instances of conflict of interest in which it provided disclosure, described below in 0.47a.

.47 A conflict of interest is defined according to the rule (the "Volcker Rule") implementing section 13 of the Bank Holding Company Act of 1956, which was added by section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

.48 A material conflict of interest between a banking entity and its clients, customers, or counterparties exists if the registrant engages in any transaction, class of transactions, or activity that would involve or result in the banking entity's interests being materially adverse to the interests of its client, customer, or counterparty with

respect to such transaction, class of transactions, or activity, and the banking entity has not taken at least one of the [following] actions:

- Prior to effecting specific transactions or class or type of transactions, or engaging in a specific activity with clients, customers, or counterparties, it has made clear, timely, and effective disclosure of the conflict of interest, together with other necessary information, in reasonable detail and in a manner sufficient to permit a reasonable client, customer, or counterparty to meaningfully understand the conflict of interest; and such disclosure was made in a manner that provided the client, customer, or counterparty the opportunity to negate, or substantially mitigate, any materially adverse effect on the client, customer, or counterparty created by the conflict of interest.
- Has established, maintained, and enforced information barriers that are memorialized in written policies and procedures, such as physical separation of personnel, or functions, or limitations on types of activity, that are reasonably designed, taking into consideration the nature of the banking entity's business, to prevent the conflict of interest from involving or resulting in a materially adverse effect on a client, customer, or counterparty. A banking entity may not rely on such information barriers if, in the case of any specific transaction, class or type of transactions or activity, the banking entity knows or should reasonably know that, notwithstanding the banking entity's establishment of information barriers, the conflict of interest may involve or result in a materially adverse effect on a client, customer, or counterparty.

.49 Conflicts of interest that meet the requirements of 0.47 a. or b. are not considered "material" conflicts of interest.

Systemic Risk Management

Description

The recent financial crisis articulated the importance of managing risks to capital in the investment banking and brokerage 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, investment banking and brokerage companies 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

FN0102-10. Results of stress tests under adverse economic scenarios, including the 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**

- .50 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.
- .51 “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.
- .52 If the registrant is not a “covered institution,” it shall report the results of its voluntary stress test administered following [guidance](#) recommended by the Office of the Comptroller of Currency.
- .53 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⁾

Loan Category	FY End	Stress Period Loss Rate	Stress Period Losses
First lien mortgages, domestic			
Junior liens and home equity lines of credit, domestic			
Commercial and industrial			
Commercial real estate, domestic			
Credit card			
Other consumer			
Total (aggregate)			

⁽¹⁾ Projected loan losses should exclude held-for-sale loans and loans measured at fair value.

.54 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

	Billions (\$)	Percent of Average Assets
Pre-provision net revenue ⁽¹⁾		
Other revenue ⁽²⁾		
Less:		
Provision for loan and lease losses		
Realized gains/losses on securities (AFS/HTM) ⁽³⁾		
Trading and counterparty losses ⁽⁴⁾		
Other losses/gains ⁽⁵⁾		
Total losses		
Net income before taxes		

⁽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 include 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.

.55 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

	Actual	Stressed	
	FY End	End of period	Minimum
Tier 1 common capital ratio (%)			
Tier 1 capital ratio (%)			
Total risk-based capital ratio (%)			
Tier 1 leverage ratio (%)			

.56 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).

NOTE TO FN0102-10

.57 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.)

FN0102-11. Basel III Liquidity Coverage Ratio (LCR)

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

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

.60 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).

FN0102-12. Net exposure to written credit derivatives

- .61 The registrant shall calculate its net exposure to written credit derivatives as the maximum notional payout of written credit derivatives less the maximum notional payout of purchased credit derivatives on the same reference names, provided:
- the credit protection purchased is on a reference obligation which ranks pari passu with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives;
 - the remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative
- .62 For additional guidance the registrant shall refer to paragraph 30 and its accompanying notes in the [Basel Committee on Bank Supervision, Basel III leverage ratio framework and disclosure requirements](#) (Basel: Bank for International Settlements, January 2014).

FN0102-13. Level 3 assets: (1) total value and (2) percentage of total assets

- .63 Level 3 assets are defined as those whose fair value cannot be determined using observable measures, such as market prices or models; they tend to be illiquid, and fair values can only be calculated using estimates or risk-adjusted value ranges.
- .64 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.”
- .65 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.

FN0102-14. Skewness and kurtosis of trading revenue

- .66 The registrant shall calculate the skewness and kurtosis of its trading profits and losses using standard statistical methods, excluding spread profits and losses.
- .67 Spread profits and losses are defined 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).
- .68 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.
- .69 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).

- .70 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.
- .71 The calculation period for skewness and kurtosis shall be 30 days, 60 days, and 90 days.

GENERAL NOTE TO FN0102-12

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

Federal Insurance Deposit Insurance Corporation (FDIC), [Stress Testing Requirements for Certain Banks Final Rules](#), October 9, 2012.

[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 adopted jointly by the OCC, Federal Reserve Board, FDIC, and SEC.

Integration of Environmental, Social, and Governance Risk Factors in Advisory, Underwriting, and Brokerage Activities

Description

Environmental, social, and governance (ESG) risk factors are increasingly contributing to the financial performance of specific projects and companies at large. Investment banking and brokerage companies 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 their core products and services. In particular, investor and regulatory pressure is mounting for banks to disclose how they address climate change related risks. Relatedly, banks must monitor and manage “financed emissions” – or the greenhouse gas emissions of firms in which banks are invested or to whom they provide lending.

Accounting Metrics

FN0102-15. Discussion of how environmental, social, and governance (ESG) factors are incorporated into core products and services

- .72 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 investment banking activities, including research, advisory services, origination, underwriting activities, sales and trading, and principal transaction.
- .73 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.”
- .74 Key ESG factors include, but are not limited to, 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.

- .75 The registrant shall discuss how ESG integration aligns with the registrant's understanding of its transaction-based and/or trust-based relationships with counterparties. Where relevant, the registrant should:
- Identify situations in which it considers ESG integration to be its responsibility in transactions and/or relationships with its counterparties.
 - Discuss whether or not ESG integration intersects with the registrant's understanding of its contractual obligations, such as with respect to the implied covenant of good faith and fair dealing.
- .76 The registrant shall discuss how it integrates ESG factors into its products or services, including – but not limited to – during the following activities or aspects:
- Advisory services – evaluating ESG risks, opportunities, or liabilities on behalf of clients during transactions such as mergers and acquisitions.
 - Origination – incorporating ESG risks into the origination, structuring, and execution of structured financial products, derivative hedging strategies, and other financial services.
 - Underwriting (private placement) – assessing ESG risks of counterparties and disclosing them while raising debt or equity.
 - Underwriting (public offering) – incorporating ESG factors into the valuation, pricing, and potential risks and returns of offerings, including an indication of if this is disclosed.
 - Research – incorporating ESG risks and opportunities into sell-side equity research
- .77 The registrant shall discuss how it incorporates ESG metrics into its quantitative financial analysis and modeling, including what metrics, standards, benchmarks, or datasets are used and how they are weighed alongside traditional financial metrics in valuation and pricing.
- .78 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.
- .79 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, as well as staff training to ensure that bank staff are fully informed of the standards.
- .80 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.

FN0102-16. Amount of sustainability-focused services, activities, and products, broken down by: (1) origination, (2) market making, and (3) advisory and underwriting

- .81 For each category of products and services (origination, market making, and advisory and underwriting services), the registrant shall disclose the value (in U.S. dollars) of securities traded by the registrant during the fiscal year.

- .82 The scope of origination activities shall include origination of securities (debt, equity, or derivatives) that offset environmental risk or promote the development of ESG markets, including:
- Catastrophe (CAT) bonds, defined broadly as a debt instrument to raise money in case of a natural catastrophe.
 - Green bonds, defined broadly as a debt instrument to finance projects related to clean energy, recycling, sustainable agriculture, or green building, including those that meet the requirements of “Climate Bond Certified.”
 - Social impact bonds, defined broadly as a debt instrument to finance public sector services or social enterprises that seek to generate measureable, positive social impact alongside financial returns, where the bond is repaid through cost savings (e.g., decreased recidivism, reduced dropout rate) associated with the investment.
- .83 The scope of market-making activities disclosed shall include those for emissions trading or other environmental commodities, such as:
- Emissions trading includes credits or permits associated with the EU Emissions Trading System, such as EUAs (European Union Allowances), CERs (Certified Emission Reductions), and ERUs (Emissions Reduction Units).
 - Emissions trading includes credits or permits associated with other carbon markets (e.g., California Cap-and-Trade).
 - Other environmental commodities, which may include renewable energy credits (REC) or water credits.
- .84 The scope of advisory services shall include advisory and underwriting activities (public or private) for companies that address key sustainability trends (e.g., such as climate change or sustainable agriculture), such as clean technology corporations, energy efficiency-focused corporations, or sustainable agriculture-focused companies.

NOTE TO FN0102-16

- .85 The registrant shall describe its activities and products that are focused on environmental and/or social sustainability in the following categories: origination, market making, and advisory and underwriting services.

FN0102-17. Deal size of advisory and underwriting transactions for companies in the following sectors/ industries: Energy/Oil&Gas, Materials/Basic Materials, Industrials, and Utilities

- .86 The registrant shall calculate the deal size for each of the following:
- Debt Capital Markets, based on bookrunner-apportioned deal proceeds. Included are all Corporate and Financial Bonds, SSA Issuance (Sovereign, Supranational and Agency) and Securitizations. Figures exclude Money Market instruments (CDs, Bank Notes) and Short Term Debt (securities with tenor less than 18 months).
 - Equity Capital Markets, based on bookrunner-apportioned deal value (including over-allotment). Included are all equity capital markets transactions (IPO, Follow-On & Convertible). Figures exclude Closed End Funds, Chinese A-Shares and Saudi Domestic Issues.

- Mergers & Acquisitions, based on deal value at announcement, including assumption of debt. Included are deals announced but not withdrawn. Regional rankings are based on the target, acquiror, acquiror subsidiary or divestor being from the specified region and full credit is allocated to each advisor unless representing a minority divestor.
- Syndicated Loans, based on Mandated Lead Arranger apportioned deal value. Included are loans made available by two or more providers under the same credit agreement. Ranking credit is assigned on the date the loan agreement is signed.

.87 The registrant shall disclose the aggregate deal size in each of the following Global Industry Classification Standard (GICS®) sectors or Industry Classification Benchmark (ICB) industries:

Table 1. Deal size by sector/industry

GICS Sector	ICB Industry	Deal size (U.S. dollars)
Energy (10)	Oil and Gas (0001)	
Materials (15)	Basic Materials (1000)	
Industrials (20)	Industrials (2000)	
Utilities (55)	Utilities (7000)	

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