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Industry-based Guidance on implementing Climate-related Disclosures

Volume 15—Asset Management & Custody Activities



International Sustainability Standards Board

IFRS S2 CLIMATE-RELATED DISCLOSURES–JUNE 2023

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IFRS S2 INDUSTRY-BASED GUIDANCE

Introduction

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

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

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

Volume 15—Asset Management & Custody Activities

Industry Description

Asset Management & Custody Activities industry entities manage investment portfolios on a commission or fee basis for institutional, retail and high net-worth investors. In addition, entities in this industry provide wealth management, private banking, financial planning, and investment advisory and retail securities brokerage services. Investment portfolios and strategies may be diversified across multiple asset classes, which may include equities, fixed income and hedge fund investments. Specific entities are engaged in venture capital and private equity investments. The industry provides essential services to a range of customers from individual retail investors to large, institutional asset owners to meet specified investment goals. Entities in the industry range from large multi-jurisdictional asset managers with a wide range of investable products, strategies and asset classes to small boutique entities providing services to specific market niches. While large entities generally compete based on management fees charged for their services as well as their potential to generate superior investment performance, the smaller entities generally compete on their ability to provide products and services customised to satisfy the diversification needs of individual clients. The global 2008 financial crisis and subsequent regulatory regime developments highlight the industry's importance in providing fair advice to customers and managing risks at the entity, portfolio and macroeconomic levels.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

| TOPIC | METRIC | CATEGORY | UNIT OF MEASURE | CODE |
|--|---|-------------------------|-----------------------|--------------|
| Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory | Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing and (3) screening | Quantitative | Presentation currency | FN-AC-410a.1 |
| | Description of approach to incorporation of environmental, social and governance (ESG) factors in investment or wealth management processes and strategies | Discussion and Analysis | n/a | FN-AC-410a.2 |
| | Description of proxy voting and investee engagement policies and procedures | Discussion and Analysis | n/a | FN-AC-410a.3 |

Table 2. Activity Metrics

| ACTIVITY METRIC | CATEGORY | UNIT OF MEASURE | CODE |
|--|--------------|-----------------------|-------------|
| Total assets under management (AUM) | Quantitative | Presentation currency | FN-AC-000.A |
| Total assets under custody and supervision | Quantitative | Presentation currency | FN-AC-000.B |

Incorporation of Environmental, Social, and Governance Factors in Investment Management & Advisory

Topic Summary

Asset Management & Custody Activities entities maintain a fiduciary responsibility to their clients. These entities must consider and incorporate an analysis of all material information into investment decisions, including environmental, social and governance (ESG) factors. The process of ESG investment involves consideration of ESG factors in valuation, modelling, portfolio construction, proxy voting and engagement with investees and, as a result, in investment decision-making by asset and wealth managers. As the management and use of non-financial forms of capital increasingly contribute to market value, incorporation of ESG factors in the analysis of investees has become more relevant. Research has established that an entity's management of some ESG factors may impact materially both its accounting and market returns. Therefore, deep understanding of investees' ESG performance, integration of ESG factors in valuation and modelling, as well as engagement with investees on sustainability issues allows asset managers to generate superior returns. On the other hand, asset management and custody activities industry entities that fail to consider these risks and opportunities in their investment management activities may witness diminished investment portfolio returns that may result in reduced performance fees. Over the long term, these failures could result in an outflow of assets under management (AUM), the loss of market share and lower management fees.

Metrics

FN-AC-410a.1. Amount of assets under management, by asset class, that employ (1) integration of environmental, social, and governance (ESG) issues, (2) sustainability themed investing and (3) screening

- 1 The entity shall disclose the amount of assets under management (AUM) that employ (1) integration of environmental, social and governance (ESG) issues, (2) sustainability themed investing, and (3) screening.
 - 1.1 AUM shall be defined broadly as the total market value, expressed in the entity's presentation currency, of the assets managed by a financial institution on behalf of clients.
 - 1.2 Integration of ESG issues is defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions, as aligned with the *PRI Reporting Framework – Main definitions 2018*.
 - 1.3 Sustainability themed investing is defined as investment in themes or assets specifically related to sustainability (for example, clean energy, green technology or sustainable agriculture), as aligned with the *PRI Reporting Framework—Main definitions 2018*.
 - 1.4 Screening, including (a) negative/exclusionary, (b) positive/best-in-class and (c) norms-based, is defined by the *PRI Reporting Framework—Main definitions 2018*.
 - 1.5 The scope of disclosure includes both passive and active strategies.

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- 2 The entity shall disaggregate its disclosure by asset class: (a) equities, (b) fixed income, (c) cash equivalents/money market instruments and (d) other (for example, real estate and commodities).
- 3 The entity shall identify and disclose the amount of any AUM managed using more than one ESG integration strategy (for example, screening and integration).

FN-AC-410a.2. Description of approach to incorporation of environmental, social and governance (ESG) factors in investment or wealth management processes and strategies

- 1 The entity shall describe its approach to the incorporation of environmental, social and governance (ESG) factors in its investment or wealth management processes and strategies.
 - 1.1 The definition of incorporation of ESG factors is aligned with that of the Global Sustainable Investment Alliance (GSIA) and includes the use of ESG information in investment decision-making processes.
 - 1.2 Examples of ESG factors and issues are provided in the *PRI Reporting Framework—Main definitions 2018*, section 'ESG issues'.
 - 1.3 Incorporation of ESG factors includes the following approaches, consistent with the *PRI Reporting Framework—Main definitions 2018*:
 - 1.3.1 Screening, including (a) negative/exclusionary, (b) positive/best-in-class and (c) norms-based
 - 1.3.2 Sustainability themed investment, defined as investment in themes or assets specifically related to sustainability (for example, clean energy, green technology or sustainable agriculture)
 - 1.3.3 Integration of ESG, defined as the systematic and explicit inclusion of material ESG factors into investment analysis and investment decisions
 - 1.3.4 A combination of the above
- 2 The entity shall describe the policies that determine its approach to the incorporation of ESG factors in its investment or wealth management processes and strategies.
- 3 The scope of disclosure shall exclude discussion of the entity's proxy voting and investee engagement policies and procedures, which is included in metric FN-AC-410a.3, 'Description of proxy voting and investee engagement policies and procedures'.
- 4 The entity shall describe its approach to implementation of the aspects of the entity's ESG incorporation practices.
 - 4.1 The discussion shall include, but is not limited to:
 - 4.1.1 Parties responsible for the day-to-day incorporation of ESG factors
 - 4.1.2 Roles and responsibilities of employees involved
 - 4.1.3 Approach to conducting ESG-related research

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4.1.4 Approach to incorporating ESG factors into investment strategies

- 5 The entity shall describe its oversight/accountability approach to the incorporation of ESG factors.
 - 5.1 The discussion shall include:
 - 5.1.1 Formal oversight individuals or bodies involved
 - 5.1.2 Roles and responsibilities of employees involved
 - 5.1.3 Criteria used in assessing the quality of ESG incorporation
- 6 The entity shall discuss whether it conducts scenario analysis or modelling in which the risk profile of future ESG trends is calculated at the portfolio level.
 - 6.1 ESG trends may include climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.
 - 6.2 The entity shall describe the types of portfolios or strategies in which it executes scenario analysis or modelling.
 - 6.2.1 The entity is not required to provide such disclosure at the individual portfolio or strategy level.
- 7 The entity shall discuss ESG trends it considers apply broadly in terms of their effect on sectors and industries, as well as the trends it deems as sector- or industry-specific.
- 8 The entity shall describe whether it incorporates ESG factors in strategic asset allocation or allocation of assets between sectors or geographical markets.
 - 8.1 The entity shall describe the types of portfolios or strategies in which it incorporates ESG factors in strategic asset allocation or allocation of assets between sectors or geographical markets.
 - 8.1.1 The entity is not required to provide such disclosure at the individual portfolio or strategy level.
- 9 The entity shall describe how ESG factors are incorporated in the assessment of and how it influences the entity's views on:
 - 9.1 Time horizon of investments
 - 9.2 Risk and return profiles of investments
 - 9.3 Traditional fundamental factors such as economic conditions, central bank policy, industry trends and geopolitical risks
- 10 When relevant, the entity shall discuss its approach to incorporation of ESG factors in selecting external fund managers and fiduciary managers.
 - 10.1 The entity shall describe its oversight/accountability approach to assessing the quality of incorporation of ESG factors by external fund managers and fiduciary managers, which may include:
 - 10.1.1 Formal oversight individuals or bodies involved
 - 10.1.2 Roles and responsibilities of employees involved

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10.1.3 Criteria used in assessing the quality of ESG incorporation

- 11 The scope of disclosure shall include investment or wealth management services in which the entity maintains decision-making power, regardless of strategy and asset class.
- 12 The scope of disclosure shall exclude execution or advisory services in which investment decision-making power remains with clients.
- 13 When relevant, the description of the entity's approach to incorporation of ESG factors in its investment or wealth management activities shall be broken down by asset class or by style employed.
 - 13.1 The discussion shall include the differences in the entity's approaches to incorporation of ESG factors in:
 - 13.1.1 Public equity, fixed income, private equity or alternative asset classes
 - 13.1.2 Passive versus active investment strategies
 - 13.1.3 Fundamental, quantitative and technical analyses of investments

FN-AC-410a.3. Description of proxy voting and investee engagement policies and procedures

- 1 The entity shall describe its approach to proxy voting, which may include its process for making proxy voting decisions, including its approach to defining materiality.
 - 1.1 The discussion shall include, but is not limited to, elements highlighted in *PRI Reporting Framework 2019 Direct—Listed Equity Active Ownership*:
 - 1.1.1 The scope of the entity's voting activities
 - 1.1.2 The objectives of the entity's voting activities
 - 1.1.3 How, if at all, the entity's voting approach differs among markets
 - 1.1.4 Whether the entity has a default position of voting in favour of management in particular markets or on particular issues
 - 1.1.5 Whether and how local regulatory or other requirements influence the entity's approach to voting
 - 1.1.6 Whether the entity votes by proxy or in person by attending annual general meetings (AGMs) (or a combination of both)
 - 1.2 The entity shall describe its approach to determining support for proposals, including its approach to defining materiality.
 - 1.2.1 The scope of disclosure includes proposals addressing environmental and social (ES) issues.
 - 1.3 The entity shall describe how it communicates its proxy voting policy to clients and to the public.
 - 1.3.1 The entity may provide the link to its formal proxy voting policy.

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- 2 The entity shall describe its process of making proxy voting decisions.
 - 2.1 The discussion shall include the elements highlighted in *PRI Reporting Framework 2019 Direct—Listed Equity Active Ownership*, which include:
 - 2.1.1 Use of internal research team or third-party service providers
 - 2.1.2 Review and monitoring process for service provider recommendations
- 3 The entity shall describe its approach to communicating voting decisions to entity management, including the rationale for voting for/against management's recommendations.
- 4 The entity shall describe its approach to engagement on ES issues.
 - 4.1 The discussion shall include:
 - 4.1.1 The entity's objectives for undertaking engagement activities
 - 4.1.2 Whether the entity's engagements related to ES issues are primarily proactive to ensure that ES issues are well-managed in a preventive manner or reactive to address issues that may have already occurred
 - 4.1.3 The outcomes the entity seeks from engaging with entities on ES issues (for example, influencing corporate practice; improving the quality of ES disclosure)
 - 4.1.4 The entity's staff that carries out the engagement (for example, specialised in-house engagement teams, fund managers or equity/credit analysts, more senior-level roles)
 - 4.1.5 The roles of individuals at the portfolio entities the entity seeks to engage with (for example, board members, board chair, CEO, corporate secretary, investor relations managers)
 - 4.2 The entity shall describe how it communicates its engagement policy to clients and to the public.
 - 4.2.1 The entity may provide the link to its formal engagement policy.
 - 4.3 The scope of disclosure includes all asset classes, portfolios or strategies in which the entity engages on ES issues.
- 5 The entity shall describe how the outcomes of its proxy voting and engagement activities inform its investment decision-making process.
 - 5.1 The discussion shall include:
 - 5.1.1 How the entity decides what information to pass on to investment decision-makers
 - 5.1.2 How the entity monitors the use of the information passed on in investment decision-making
- 6 The entity shall describe its escalation process for engagements when entity dialogue is failing.

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- 6.1 The escalation process may include tactics highlighted in the *International Corporate Governance Network (ICGN) Global Stewardship Principles*:
 - 6.1.1 Expressing concerns to corporate representatives or non-executive directors, either directly or in a shareholder meeting
 - 6.1.2 Expressing the entity's concerns collectively with other investors
 - 6.1.3 Making a public statement
 - 6.1.4 Submitting shareholder resolutions
 - 6.1.5 Speaking at general meetings
 - 6.1.6 Submitting one or more nominations for election to the board as appropriate and convening a shareholder meeting
 - 6.1.7 Seeking governance improvements or damages through legal remedies or arbitration
 - 6.1.8 Exit or threat to exit from the investment
- 7 The entity shall describe how its ES engagement strategy fits into its overall engagement strategy.
- 8 The entity may disclose additional quantitative measures related to its proxy voting and engagement activities, such as:
 - 8.1 Number of engagements and percentage of those in-person
 - 8.2 Number of staff involved in proxy voting and engagement activities



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