IFRS Sustainability

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IFRS S2

IFRS® Sustainability Disclosure Standard

Industry-based Guidance on implementing Climate-related Disclosures

Volume 16—Commercial Banks

International Sustainability Standards Board

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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 16—Commercial Banks

Industry Description

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

Note: This standard addresses 'pure play' commercial banking services, which may not include all the activities of integrated financial institutions, such as investment banking and brokerage services, mortgage finance, consumer finance, asset management and custody services, and insurance. Separate standards address the sustainability issues for activities in those industries.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

TOPIC	METRIC	CATEGORY	UNIT OF MEASURE	CODE
Incorporation of Environmental, Social, and Governance Factors in Credit Analysis	Description of approach to incorporation of environmental, social and governance (ESG) factors in credit analysis	Discussion and Analysis	n/a	FN-CB-410a.2

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
(1) Number and (2) value of checking and savings accounts by segment: (a) personal and (b) small business	Quantitative	Number, Presentation currency	FN-CB-000.A
(1) Number and (2) value of loans by segment: (a) personal, (b) small business, and (c) corporate [18]	Quantitative	Number, Presentation currency	FN-CB-000.B

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

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

Topic Summary

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

Metrics

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

1 The entity shall describe its approach to the incorporation of environmental, social and governance (ESG) factors in its credit analysis.

1.1 The definition of incorporation of ESG factors is aligned with that of the Global Sustainable Investment Alliance (GSIA) and includes the use of ESG information in the investment decision-making processes.

1.2 Examples of ESG factors and issues are provided in the *PRI Reporting Framework—Main definitions 2018*, section 'ESG issues'.

1.3 Credit analysis is defined as a method to calculate the creditworthiness of a business or organisation to honour debt obligations. This method seeks to identify the appropriate level of default risk associated with financing such business, organisation or project.

2 The scope of disclosure shall include commercial and industrial lending as well as project finance.

3 The entity shall describe the policies that determine its approach to the incorporation of ESG factors in its credit analysis.

4 The entity shall discuss how it incorporates ESG factors when estimating credit losses over the contractual term of the entity's financial assets.

5 The entity shall describe its approach to implementation of the aspects of the entity's ESG incorporation practices.

5.1 The description shall include:

5.1.1 Parties responsible for the day-to-day incorporation of ESG factors

5.1.2 Roles and responsibilities of employees involved

5.1.3 Approach to ESG-related research

5.1.4 Approach to incorporating ESG factors into assessing creditworthiness of borrowers

6 The entity shall describe its oversight and accountability approach to the incorporation of ESG factors.

6.1 The description shall include:

6.1.1 Formal oversight individuals or bodies involved

6.1.2 Roles and responsibilities of employees involved

6.1.3 Criteria used in assessing the quality of ESG incorporation

7 The entity shall discuss whether it conducts scenario analysis or modelling in which the risk profile of future ESG trends is calculated at the portfolio level of commercial and industrial credit exposure.

7.1 ESG trends may include climate change, natural resource constraints, human capital risks and opportunities, and cybersecurity risks.

8 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.

8.1 The entity may further provide the discussion in the context of geographical exposure of its commercial and industrial credit portfolio.

9 The entity shall describe significant concentrations of credit exposure to ESG factors, which may include carbon-related assets, water-stressed regions and cybersecurity risks.

10 The entity shall describe how ESG factors are incorporated in the assessment of and influence the entity's views on:

10.1 Traditional macroeconomic factors such as the economic conditions, central bank monetary policy, industry trends, and geopolitical risks that affect creditworthiness of borrowers

10.2 Traditional microeconomic factors such as supply and demand for products or services that affect financial conditions and operational results of borrowers as well as their creditworthiness

10.3 Overall creditworthiness of a borrower

10.4 Maturity or tenor of a loan

10.5 Expected loss, including probability of default, exposure at default and loss given default

10.6 Value of posted collateral

11 The entity may disclose additional quantitative measures related to its approach to the incorporation of ESG factors in credit analysis, such as:

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

11.2 Number of loans for which a review of environmental or social risks was performed, for example, by the entity's Environmental and Social Risk Management (ESRM) group

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