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IFRS[®] Sustainability Disclosure Standard

**Industry-based Guidance on implementing
Climate-related Disclosures**
Volume 19—Mortgage Finance

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 19—Mortgage Finance

Industry Description

The Mortgage Finance industry provides an essential public good by enabling consumers to purchase homes and contributing to the overall home ownership rate. Entities in the industry lend capital to individual and commercial customers using property as collateral. The primary products are residential and commercial mortgages, while other services offered include mortgage servicing, title insurance, closing and settlement services, and valuation. In addition, mortgage finance entities own, manage and finance real estate-related investments such as mortgage pass-through certificates and collateralised mortgage obligations. Recent trends in the regulatory environment indicate a significant shift towards consumer protection, disclosure and accountability. Regulatory changes made in response to the global 2008 financial crisis demonstrate the potential for further alignment between the interests of society and those of long-term investors.

Sustainability Disclosure Topics & Metrics

Table 1. Sustainability Disclosure Topics & Metrics

| TOPIC | METRIC | CATEGORY | UNIT OF MEASURE | CODE |
|--|--|-------------------------|---------------------------------------|--------------|
| Environmental Risk to Mortgaged Properties | (1) Number and (2) value of mortgage loans in 100-year flood zones | Quantitative | Number, Presentation currency | FN-MF-450a.1 |
| | (1) Total expected loss and (2) Loss Given Default (LGD) attributable to mortgage loan default and delinquency because of weather-related natural catastrophes, by geographical region | Quantitative | Presentation currency, Percentage (%) | FN-MF-450a.2 |
| | Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting | Discussion and Analysis | n/a | FN-MF-450a.3 |

Table 2. Activity Metrics

| ACTIVITY METRIC | CATEGORY | UNIT OF MEASURE | CODE |
|--|--------------|-------------------------------|-------------|
| (1) Number and (2) value of mortgages originated by category: (a) residential and (b) commercial | Quantitative | Number, Presentation currency | FN-MF-000.A |
| (1) Number and (2) value of mortgages purchased by category: (a) residential and (b) commercial | Quantitative | Number, Presentation currency | FN-MF-000.B |

Environmental Risk to Mortgaged Properties

Topic Summary

An increase in the frequency of extreme weather events associated with climate change may have an adverse impact on the Mortgage Finance industry. Specifically, hurricanes, floods and other climate change-related events have the potential to result in missed payments and loan defaults, while also decreasing the value of underlying assets. Entities which incorporate climate-related risks into lending analysis may be better positioned to create value over the long-term.

Metrics

FN-MF-450a.1. (1) Number and (2) value of mortgage loans in 100-year flood zones

- 1 The entity shall disclose the (1) number and (2) value of mortgage loans in the entity's portfolio underwritten on properties located in 100-year flood zones.
 - 1.1 100-year flood zones are defined as land areas subject to a 1% or greater chance of flooding in any given year. Such areas also may be referred to as being subject to the 1% annual chance flood, the 1% annual exceedance probability flood or the 100-year flood.
 - 1.1.1 Examples of 100-year flood zones may include coastal flood plains, flood plains along major rivers and areas subject to flooding from ponding in low-lying areas.
- 2 The scope of disclosure shall include all the entity's mortgage loans underwritten on properties located in 100-year flood zones, regardless of the country of their location.
 - 2.1 The scope of mortgage loans shall include those first mortgages (1–4 family) and junior lien (1–4 family second mortgages or home equity lines of credit) loans that the entity holds as loan assets.
 - 2.2 The scope of mortgage loans shall exclude mortgages held for sale, mortgage-backed securities and mortgages serviced by the entity.

FN-MF-450a.2. (1) Total expected loss and (2) Loss Given Default (LGD) attributable to mortgage loan default and delinquency because of weather-related natural catastrophes, by geographical region

- 1 The entity shall disclose the (1) total expected loss and (2) Loss Given Default (LGD), as a percentage, attributable to mortgage loan default and delinquency because of weather-related natural catastrophes.
 - 1.1 Expected loss is defined and calculated as the sum of the values of all the possible losses for the entity's mortgage loans, each multiplied by the probability of that loss occurring.
 - 1.2 LGD is defined as the share of an asset lost in the situation of default.
 - 1.3 Weather-related natural catastrophes include:
 - 1.3.1 Meteorological events (for example, hurricanes and storms)

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- 1.3.2 Hydrological events (floods)
- 1.3.3 Climatological events (for example, heat waves, cold waves, droughts, and wildfires)
- 1.4 Weather-related natural catastrophes exclude geophysical events (for example, earthquakes and volcanic eruptions).
- 2 The entity shall break down its disclosure by geographical region.
 - 2.1 Applicable regions are determined by the entity.

FN-MF-450a.3. Description of how climate change and other environmental risks are incorporated into mortgage origination and underwriting

- 1 The entity shall describe how it has incorporated climate change and other environmental risks into its mortgage origination and underwriting processes.
 - 1.1 The mortgage origination process is defined broadly as all the steps in a mortgage transaction between a lender and a borrower, which may include application, processing and underwriting.
 - 1.2 The scope of climate change and other environmental risks may include:
 - 1.2.1 The increased frequency and severity of weather-related natural catastrophes, including meteorological events (for example, hurricanes and storms), hydrological events (floods) and climatological events (for example, heat waves, cold waves, droughts and wildfires)
 - 1.2.2 The occurrence of geophysical events (for example, earthquakes and volcanic eruptions)
- 2 The entity shall disclose how and if these risks affect its origination models and decisions.
 - 2.1 The scope of disclosure may include:
 - 2.1.1 How the risk impacts the valuation of collateral, such as accounting for inherent risks resulting from location or assessing for the implementation of basic adaptive measures (for example, reinforcement or hurricane shutters)
 - 2.1.2 How natural disaster risks affect credit risk analysis, including if the entity assumes that increases in natural disaster frequency and severity will increase the likelihood of default because of properties being un-insured or under-insured



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