



SASB: a call to the industry to get material sustainability into US corporate 10-K reporting

Quarterly reviews of 10 industry sectors will help kick the tyres on financially relevant information.

by Hugh Wheelan | September 12th, 2012

Peter Drucker, the famed management consultant, once noted that 'what gets measured gets managed', a maxim that has often been troubling for sustainability-based finance where hard numbers can be difficult to come by. Next month, however, a new organisation, the Sustainability Accounting Standards Board (SASB) in the US – cleverly mirroring the FASB acronym of the Financial Accounting Standards Board, which sets the parameters for financial reporting – will begin attempting to change that dynamic. SASB aims to apply legally required materiality metrics to sustainability issues to become necessary disclosure in standard US accounting filings such as the Form 10-K. Taking Drucker's maxim a step further, SASB has figured that what gets measured – and gets into the regulatory pipeline – is actually what gets managed. SASB will 'crowd-source' relevant expertise from the finance industry, and notably those in responsible investment, to kick-the-tyres on all the possible materiality angles for different industry sectors. (Disclaimer: Responsible-investor.com is voluntarily promoting the call for multi-stakeholder, virtual industry working groups (IWGs) as a media partner on behalf of SASB). This month, SASB is inviting applications by professionals to join its first quarterly IWG looking at the healthcare services sector. The group will spend Q4 this year as part of a web-only think-tank refining and testing what SASB calls a "materiality map" for the sector to ensure that what is being proposed conforms to the material risk characteristics the US Securities and Exchange Commission (SEC) requires for the 10-K. Nine subsequent quarterly IWGs will complete the coverage of 10 broad industry sectors representing 102 sub-sectors. The second IWG will look at the financial sector in Q1, 2012 before ending up at infrastructure in Q1, 2015. Participation is free and there will be no travel involved and SASB says that joining an IWG is done in an individual capacity. The initiative is looking for professionals with 5-10 years experience from amongst investors, research analysts, stock exchanges, corporations, governments, NGOs, academics, accountants, auditors and consultants. Details on joining an IWG, which will be balanced out by SASB to ensure fair and expert representation across the business/finance chain, can be found here: [Link](#)

The Form 10-k is the mandatory annual reporting disclosure that about 35,000 US companies must file with the SEC: the legal equivalent of the shareholder annual report. The 10-K includes information such as company history, organizational structure, executive compensation audited financial statements, and notably 'risk factors' for the company. This is where SASB aims to push for change. Jean Rogers, Executive Director at SASB in San Francisco, says the accountancy "gatekeepers" for 10-K relevant information use a financial rule-of-thumb that legally obligatory information should be anything that could

have a 5% impact on a company's assets or revenues. She says they don't pick up so-called non-financial issues, citing the same materiality argument. However, she points out that SEC Bulletin 99 from back in 1999 says accountants should not rely on an arbitrary financial estimate: "It has no basis in law, but they still do it because nothing is better. Sustainability or intangible factors are recognised as affecting valuations, sometimes very significantly, but they are difficult to quantify. We need next-generation systems that can account for so-called non-financial information being part of the financial performance issues required by the SEC." SEC Bulletin 99 says: "The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item." [Link to SEC Bulletin 99](#)

SASB aims to challenge and widen the interpretation of the SEC's 'reasonable investor' label to cover what Rogers says should be "indisputably financially material sustainability issues", that will by definition be part of the 10-K. She says broad examples of issues a reasonable investor might want to see include the company's point of view on potentially relevant sustainability dangers, reaction to media reports on the same issues, shareholder resolutions and impending regulation. SASB's working groups will ascertain how to measure, recognise and account for these issues with a view to demonstrating influence on value drivers such as company growth, return on capital and management quality. Says Rogers: "We are not advocating a change to materiality but new tests to prioritise these issues. We believe that accountants currently have a 'rear view' idea of materiality, whereas what we are proposing with SASB is long-term, financial thinking." Prior to verification by the IWGs, SASB has been preparing existing SEC legal documentation on materiality and case law on corporate disclosure. A subsequent 'priority list' of issues will act as the focus for each IWGs work to prioritise and finally define the 'bottom-line' material issues it believes companies should legally file.

Rogers says it is this minimum level of broad disclosure that differentiates it from the Global Reporting Initiative (GRI): "I like to say that we are the floor and GRI is the ceiling of sustainability reporting. We are focused on what we believe can be clearly put into regulation and reported to all investors."

Following the materiality "reality check" from the IWGs, Rogers says SASB's findings will then be put out for public comment under the American National Standards Institute's (ANSI) best practice rules. A standards council set up by SASB will then re-evaluate the findings to iron out any technical issues before proposal to the SEC for 10-K inclusion: "Minimum approach and cost effectiveness is what the SEC looks for. They have told us what they would want to see," says Rogers: "It is up to us to make the financial case now." SASB, like FASB, is a private sector 501(c)3 non-profit organization. It has received initial funding from the Rockefeller Foundation, the Metanoia Foundation and Bloomberg Philanthropies, and Bloomberg is a listed supporter. Rogers says once the project is up and running, SASB will generate revenue from licensing, education and training around the industry key performance indicators (KPIs) it generates for 10-K assessment, which will be updated annually. Rogers concludes: "We think that SASB is timely because the methodology for valuing companies has changed dramatically in the last few decades. Our hope is that companies will pilot SASB, which we believe could create healthy competition on sustainability."

The Sustainability Accounting Standards Board (SASB) is seeking corporate, investor, analyst and public interest healthcare experts to provide input into the development of Sustainability Accounting Standards. It is free and will require no more than 4 – 8 hours of your time over a one-month period. To learn more: [click here](#):