

# Joel Makower in conversation with Jean Rogers of SASB

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The mission of the [Sustainability Accounting Standards Board](#) is to develop and disseminate industry-specific accounting standards for material sustainability issues for use by U.S. publicly-listed corporations and their investors, such that sustainability performance can be evaluated alongside financial performance. GreenBiz.com Executive Editor Joel Makower talked with the organization's executive director, Jean Rogers. Following is an edited version of their conversation.

**Joel Makower:** When you talk to big companies about SASB and they ask, in effect, "What's in it for me?" What do you tell them?

**Jean Rogers:** There are two primary groups of stakeholders and we're working at the intersection of the value proposition for both of those groups. Our standards and the information that derives from them on material sustainability issues needs to be useful to both stakeholders and to investors and companies. I think that's where the value proposition comes from.

It is actually that intersection of information that is relevant to companies for management of key issues, and for investors because it's decision-useful. That is, they can discern differences and incorporate them into their decision-making process if they're looking at securities. So, that is the nexus that we're playing within: information that is useful to both.

When we talk to big companies about what's in it for them, they like that we're playing at that intersection because they are now in a position of responding to multiple requests from investors and NGOs. They describe it to us as death by a thousand cuts.



Everybody comes at them from a different direction, with different issues, wanting disclosure on different things and in different ways. All of that takes a tremendous amount of time and focus away from the core business. Many companies view responding to requests for ESG [environmental, social, and governance] information as a distraction — something that takes them away from what they're really trying to do.

So, our key value proposition to them is, we're going to streamline that. We're going to focus on the key material issues that are of interest to both you, in order to manage risk and opportunities, as well as of interest to investors. That will eliminate much of the questionnaire fatigue that companies feel and the inquiries from investors that are often overlapping but slightly different from one another.

The idea of it being very cost-effective is a key part of our value proposition — a cost-effective way to communicate on material issues to investors.

We also are giving companies a heads up on the key issues to focus on that are most likely to create short-term and long-term value and, therefore, it's probably a good idea to think about managing these key issues in addition to reporting on them.

We also talk with companies about leveling the playing field. I'm sure that you've heard companies who are leaders talk about the concern that they're out there in front. The reasons they will cite often are that they're afraid of liability. What they actually mean is liability for putting information out there that their competitors are not necessarily disclosing.

Interestingly, the question of liability is, as we speak, being turned on its head. With greater clarity on material issues, the companies that are actually at risk are the companies who are failing to disclose material information. That is the greater risk as we have more clarity and more understanding of what is actually material.

With climate change guidance, for example, the SEC has issued interpretive guidance. We now understand more about how they view materiality of climate change and that the penalties, the consequences, of non-disclosure of material information are quite significant. So, noncompliance is a much greater risk now on material issues than is the perception that putting information out there creates some liability.

Companies are not often thinking of it in that way. Once we say to them, "If you're not compliant in terms of disclosing material issues, you can lose your exchange listing, you can lose your directors and officers insurance, you can be subject to fines — sometimes multi-millions of dollars — and even imprisonment for your directors under Sarbanes-Oxley."

So these consequences of omission are actually much scarier than the perception that if you put out there some information about your ESG performance, you're somehow at risk.

There are shareholder resolutions now arising from climate change, where shareholders are calling for information, and those — no matter how they get resolved — a very costly proposition for companies to go through.

Finally, I think that we gain traction with companies when we talk to them about the framework within which we are operating — the lever that we have chosen to pull — which is the Form 10K, which already is a legally mandated document. Material issues are already required to be disclosed in the Form 10K. So we're not calling for any additional regulation. We're just supporting the SEC, saying, "We'll take this off your hands. We'll prioritize the issues across industries and work within your framework in the way that you define and describe materiality. We'll support you by doing the tests for non-financial information and looking at the evidence and being an independent, unbiased, third-party view of what issues are material."

And companies, as you might suspect, like the fact that we're not calling for regulation and that it's essentially a market-based initiative.

### ***Next page: How companies are responding***

**Makower:** Who are you talking to in companies? Are they investor relations people? Are they sustainability people?

**Rogers:** We are mostly talking with people on the IR side of things, although some connections are going through the sustainability area and some of them are going through the CFO area. It's a little bit all over the place, but mostly the folks who understand disclosure from a materiality perspective.

**Makower:** So, what's the response been?

**Rogers:** It's been good. It's been very promising. We've even spoken with the U.S. Chamber of Commerce because they're a key stakeholder and they represent a very powerful group of companies. They told us that they believe that integrated reporting or reporting on ESG issues is inevitable. That's their word — inevitable. They want to be a part of shaping that future in a way that is cost-effective and does level the playing field. Anything that positions their member organizations as competitive in the eyes of investors is very positive.

**Makower:** I've talked to several companies about SASB. One of the first questions they have is how SASB differs from the Global Reporting Initiative.

**Rogers:** We get that question a lot from companies who are leaders and who have invested a lot of time and money in GRI reporting over the years.

The answer is no, we're not competing in any way with GRI. We are designing for a very specific mechanism, which is the Form 10K. We consider ourselves the floor and GRI more of the ceiling. In other words, we're the minimum set of things that are highly material and would be recognized as such by the SEC. Beyond that, it is absolutely appropriate for a company to take a leadership position and to report more broadly and in the way that GRI advocates. So they're not at all at odds.

Also, we're covering key performance indicators at the industry level. We're planning on doing that for 89 industries over the next two and a half years; each industry will have its own set of key performance indicators. That is not something that GRI has attempted or is doing at that level. So that is something that complements GRI reporting.

There are approximately 200 companies in the U.S. that are GRI reporters and there are 35,000 publicly listed companies in the U.S. We're going after the 34,800 other potential issuers that are not GRI reporters to get everyone reporting on a minimum set of things. That's our target market. For companies that are GRI reporters, SASB will be a piece of cake.

**Makower:** Are you working with GRI in any way?

**Rogers:** We are absolutely in dialogue with them and they are well aware of what we're doing. We're looking for ways to collaborate such that our standards could become a part of the set or something that GRI points to.

We're in very early discussions with GRI in that regard, although GRI and the people at SASB have known each other for a long time and have great respect for each other. So we're looking for more formal ways that we can move forward.

**Next page: *Is SASB really needed?***

**Makower:** One of the other comments I've heard is that SASB isn't really needed because materiality is already required. So materiality is materiality, whether it's sustainability related or not.

**Rogers:** I completely agree with you that materiality is materiality. That's exactly why better guidelines are needed, because even for climate change — which the SEC has acknowledged as being material in

certain ways in certain industries and issued their guidance on that — the disclosure on climate change is appalling, even on an issue that's been singled out and discussed by the SEC.

We've done a review of disclosure since that guidance came out. About 88 percent of companies that we looked at in carbon-intensive industries either had no disclosure or boilerplate disclosure on climate change, which is not useful for anyone. It's not useful for management. It's not decision useful for investors. It's just adding noise to the market to the information that's out there.

What's needed is, again, better guidance. It's clear that the SEC's guidance is not equipped to give the markets what they need. We want to know what your risks and opportunities are associated with either adaptation or mitigation, and we want to understand how that might play out in your industry. We need industry-specific guidance for that because the effects of climate change look very different whether you're in real estate or airlines or banking.

So that's exactly what SASB's going to do: break down those issues by industry and give guidance on how the highly material issues should be disclosed to make it decision-useful. Boilerplate information is just not decision-useful.

**Makower:** You mentioned that this is a non-regulatory approach or that no new regulations were needed. Explain to me what it would take to require the SASB work product to be required for 10Ks, if not new regulations?

**Rogers:** I see exactly what you're getting at. So, no new regulations are required and, as long as we develop the standards with a generally accepted consensus on that these issues are material and that there's an evidence basis to it — once we have the full set, we'll be in a position for companies to begin piloting them.

I think the question is still open of whether they'll pilot them outside of the 10K or go ahead and pilot them inside the 10K. We'd need to work with the SEC on some sort of grace period. I'm forgetting the technical term for that, but basically it's where you can't be prosecuted for disclosing something this year that is material that you didn't disclose last year and it also obviously was an issue and was material.

So, there needs to be some grace period whereby the SEC would actually agree not to enforce and to get people reporting. They've done that before for other kinds of disclosure initiatives as they phase them in.

We are currently proposing that this information be included in the MD&A [Management Discussion & Analysis] section of the 10K, which is where you can put anything. It's basically management views of trends affecting the industry and the business, and how well you're positioned to deal with those trends. So this is a perfect place to discuss sustainability risks and opportunities.

***Next page: How companies are partnering with SASB***

**Makower:** You said before that SASB is cost-effective. What does that refer to? Where are there costs?

**Rogers:** Costs come in whenever any company needs to disclose new or additional information. They need the business reporting systems in place and the auditing systems to make sure that that data is reliable and rigorous. Those are real costs.

However, if a company is already tracking or disclosing that data, just not in either a standard format or in the Form 10K, the additional costs are incremental. So SASB will essentially point to indicators or data that companies are already using to measure and manage these issues.

For example, the Carbon Disclosure Project. It's a great example. Three thousand companies in the U.S. already reporting on their carbon emissions to CDP. We will point to that for industries where carbon emissions are highly material. Companies are already doing it. There's very little added costs, then, of putting that same data into the 10K in a comparable format.

Where no standard exists, we'll need to identify one or create one, but our bias is towards existing KPIs [key performance indicators] that are highly useful for companies from a management perspective. That also reduces the cost burden.

The third cost factor is shareholder resolutions. Shareholder resolutions are very costly to deal with for companies. Those are proliferating now for climate change because of the SEC guidance. Dealing with the issue by fighting shareholder resolutions is just not the way to go about it.

A better way to deal with it is to put the systems in place, manage the issue and not have the legal cost. So that's also just part of our value proposition.

**Makower:** What are the different ways companies are playing with SASB?

**Rogers:** We love all kinds of companies, leaders, laggards, skeptics, apostles — all kinds of companies that are publicly listed and in some way face sustainability issues. Those pretty much are all companies.

We welcome participation. The best way to do that is by either joining our advisory council, which basically is the external advisory body of experts that help us keep on track with our mission and our goals. We have quarterly webinars and will be engaging regularly with the advisory council. That's a really great way to just voice the views of those constituencies and help us keep on track.

The other way is a more technical engagement, which is to join the industry working groups. So if you're a technology company, we'll have industry working groups for you, or for financials, utilities, healthcare, so forth.

We are putting the call out now for healthcare. That's the first sector that we're looking at starting in November, but companies are signing up now for other industry working groups. Engaging with us in that regard is really looking at the material issues and the ways to disclose them and evaluating the research and the evidence that SASB has amassed. And hopefully adding to it whereby investors or companies have seen evidence either of economic impacts or material issues.

We come into it with our research and homework done, but then we come out of it with a set of issues and KPIs that have been vetted by both companies and investors to say "These are useful to us and wouldn't be too expensive to disclose or wouldn't be too great an additional burden to disclose."

So those are the two most valuable ways to engage with us. We're looking for long-term relationships with companies in both regards.

**Makower:** Are you taking corporate money?

**Rogers:** We are not taking corporate money. We are focused on foundation money to support our operating expenses. We keep our industry working groups completely free of charge to anyone who wants to participate. There's no play-to-pay with SASB; anyone can join.

On the funding side, we have just started a fund for market beneficiaries and education, whereby companies or corporate foundations can support us. But it's not a membership; it's basically a capital

campaign to support our operating expenses and to keep the working groups completely free of charge for anyone who wants to join.

**Makower:** Give me a vision of what this will all look like in five years.

**Rogers:** In five years, the full set of standards will be developed. The leaders will be piloting them. We'll be in serious discussions with the SEC about how to best promote uptake in order to reduce the information asymmetries that will be created by leading companies disclosing material issues.

That creates a condition that the SEC will need to address and we'll work closely with them to find ways to address that. Hopefully, that will start somewhere between three to five years from now.

So: a full set of standards, companies piloting, investors starting to use the data, and working with the SEC on uptake.

**Makower:** Sounds like a plan.