

Why SASB is a game changer for sustainable business

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For more than 20 years, the Holy Grail for sustainable business has been to engage investors. If only they could understand the competitive advantage and reduced risk afforded companies that manage their operations, people, and supply chains through the lens of environmental and social well-being — well, the theory goes, investors would vote with their dollars and companies would have no choice but to change.

Reality, of course, hasn't been so simple. Few investors — particularly the large pension funds and other institutional investments that can move financial markets — have viewed sustainability as a

relevant investment criterion. Even when shown studies that sustainability leaders outperformed their peers on key financial indicators and ratios, including stock price, most analysts and fund managers haven't been impressed. Only hardcore "socially responsible investors" hew to the theory.

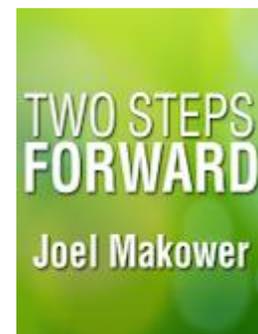
Times are changing, though. Today, in a world where extreme weather can disrupt global supply chains, and where companies' right to operate can be threatened by perceived mismanagement of environmental or social issues, sustainability is creeping into the realm of risk managers, investor relations departments, and, in some cases, chief financial officers. How well companies manage these issues and insulate themselves from such risks and negative outcomes is becoming of interest to shareholders — at least some of them.

The reason is that sustainability issues are increasingly viewed as material.

"Materiality" is a legal term, defined by the [U.S. Supreme Court](#) as "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." Or, simply put: If an investor knew about it, would it make a difference? If so, it's material.

U.S. companies are required to report material information quarterly on U.S. Securities and Exchange Commission Form 10-K, the form mandated by federal securities laws for publicly traded companies to disclose information on an ongoing basis. But materiality is subjective is best and, [as I've written previously](#), the intersection of sustainability and materiality is decidedly murky.

A new nonprofit organization plans to change that. If it succeeds, it could be a game changer.



The [Sustainability Accounting Standards Board](#), or SASB, officially launching this week after two years of development, aims to create and disseminate “industry-specific accounting standards for material sustainability issues for use by U.S. publicly listed corporations and their investors.” SASB’s goal is to have its standards incorporated into SEC rules for all publicly held companies, governing the specific kinds of sustainability information companies must disclose, how to disclose it. (Disclosure: I am one of more than 80 members of SASB’s advisory council, made up of industry, nonprofit, and academic representatives.)

As you may have guessed, the model for SASB is FASB — the [Financial Accounting Standards Board](#) set up nearly 40 years ago to establish and improve standards of financial accounting and reporting. FASB’s standards, which govern the preparation of financial reports, are officially recognized as authoritative by the SEC.

Sustainability executives may understandably groan over the idea of new required rules for disclosure. After all, as [a recent survey by the GreenBiz Intelligence Panel found](#), companies uniformly complain about the number and complexity of surveys and disclosure forms sent to them by customers, investor groups, activist groups, and others. (Among other things, they express skepticism over whether anyone at the receiving end actually reads them.) So, a new, government-mandated disclosure standard may be the last straw. Jean Rogers, SASB’s founder and executive director, says companies describe this as “death by a thousand cuts.”

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But, she says, SASB has a compelling value proposition for companies and their investors and stakeholders.

“Everybody comes at them from a different direction, with different issues, wanting disclosure on different things and in different ways,” she told me recently. “All of that takes a tremendous amount of time and focus away from the core business.”

Rogers says SASB’s value proposition to companies 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.” ([You can read my conversation with Rogers here.](#))

That’s not all SASB has to offer companies, says Rogers. “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.”

Rogers also talks 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.”

Turning Liability on Its Head

Rogers says the issue of liability is 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.”

Consider climate change, she says, for which the SEC [has issued interpretive guidance](#) to companies on what and how to report issues considered material. “We now understand more about how they view materiality of climate change and that the penalties, the consequences, of nondisclosure 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.”

One of the questions that frequently comes up when pondering SASB is whether and how it competes with the [Global Reporting Initiative](#), which pioneered a [sustainability reporting framework](#) used by companies and other entities around the world.

Rogers says she gets that question a lot, and she was ready when I asked. “We’re not competing in any way with GRI,” she responded. “We are designing for a very specific mechanism, which is the Form 10-K. 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.”

Moreover, she points out, “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.”

Finally, she notes, approximately 200 U.S. companies have reported using the GRI framework, out of 35,000 or so publicly listed U.S. companies. “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.”

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The other question I’ve heard companies ask is whether SASB is even needed in the first place. After all, if the SEC already requires companies to report on “material” issues, what role does SASB play? “Materiality is materiality, whether it’s sustainability related or not,” I point out to Rogers.

She readily agrees with the premise, but points out that in practice sustainability reporting often doesn’t call out material issues. “The disclosure on climate change is appalling,” she says, despite the fact that the SEC has singled it out as a key reporting issue and provided guidance to companies on the topic.

“We’ve done a review of disclosure since that [climate change] 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.”

A Sector a Quarter

SASB is just beginning to head down a long road that, if it succeeds, is aimed at quieting some of that noise. Over the next two and a half years, [the SASB team](#) — now numbering 11, with several more hires on the way — plans to develop standards for 89 industries in 10 sectors suitable for use in 10-K forms (along with its counterpart, 20-F, which must be submitted by all “foreign private issuers” that have listed equity shares on exchanges in the United States). First up is health care, which includes biotech, pharmaceuticals, medical equipment, hospitals, and related products and services. Following that come financial services, technology and communications, non-renewable resources, transportation, and others — one sector each quarter through early 2015.

For each of these sectors, SASB — working with a series of [Industry Working Groups](#), as well as technical advisors and others — will develop a series of key performance indicators that are considered to be material for SEC reporting purposes. Participation in the IWGs is voluntary, free, and open to any interested party. (SASB says that IWG participation should take 4 to 6 hours over a one-month period, all done online.)

SASB is actively recruiting companies to join each of its 10 IWGs. Based on my informal survey of companies at our recent GreenBiz Executive Network meetings, there will be a lot of interested parties. “This is a great opportunity to serve on a committee of peers to help determine the most material sustainability metrics for our industry,” Holly Emerson, a senior analyst at Ingersoll Rand Company’s [Center for Energy Efficiency and Sustainability](#), told me. “It also offers us the opportunity to gain insight from the financial community. We really like the operating model of SASB; modeled after FASB, it is an open and transparent process and focused on the needs of U.S. companies.”

Emerson and many others will be watching where SASB goes — if it really does get rolled into SEC reporting rules, and how much all of that standardized disclosure finally achieves the dream of elevating sustainability to the realm of CFOs and corporate boards.

Clearly, it’s going to be a process — perhaps a decade for all of this to unfold. But maybe not: I asked Jean Rogers her expectation of where SASB will be in five years. She ticked off a list of key achievements: a full set of standards, companies piloting them, investors starting to use the data coming out of them, and engagement with the SEC on making SASB’s standards part of its reporting requirements.

It’s an ambitious, even audacious agenda. But I wouldn’t bet against it.