SASB Press Kit

Top Clips
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THE WALL STREET JOURNAL.

Pilot Program: Sustainability Reporting Guidelines

By Emily Chasan
July 31, 2013

Source: http://blogs.wsj.com/cfo/2013/07/31/pilot-program-sustainability-reporting-guidelines/ (Retrieved 7/2/2013)

The Sustainability Accounting Standards Board on Wednesday offered guidelines for the health-care industry to set consistent metrics for reporting environmental, social and governance data in their annual reports.

The standards, which are voluntary, will be tested over the next few years in a pilot program to see whether the costs of reporting such information matches the benefits, according to Dr. Jean Rogers, executive director and founder of the SASB, a nonprofit organization based in San Francisco.

The group targeted the health-care sector, which includes everything from biotechnology and pharmaceutical companies to managed-care providers, because it represents almost one-fifth of U.S. gross domestic product and is one of the biggest users of energy.

“Investors really need to be able to benchmark peer-to-peer performance and that’s what’s been missing from this whole sustainability conversation,” Ms. Rogers told CFO Journal.

The aim is to get companies to disclose specific metrics on issues including employee turnover, ethical marketing, energy usage, supply chain quality management, and pricing fairness. For example, one metric would encourage companies to disclose the ratio of their net price increases to the U.S. Consumer Price Index.

The U.S. Securities and Exchange Commission already requires public companies to disclose material risks in the management discussion and analysis section of annual reports, but the way those metrics are disclosed is entirely up to the company.

For example, last year, Bristol-Myers Squibb Co. warned in its annual report that counterfeit versions of its products could have a “negative impact” on its business and reputation. GlaxoSmithKline PLC also discussed counterfeit medicines in its annual 20-F report filed with the SEC, but was more specific, noting that in China it had added serial number to 31 products, resulting in a “significant” reduction of reports of counterfeit medicine.

“Different types of investors seek their own types of disclosures,” said Laura Francis, chief financial officer at Auxogyn Inc., a reproductive medical technology startup.

“For a company like ours sustainability is survival,” said Ms. Francis, who said she regularly discusses supply management issues with investors, “but life sciences investors often do think closely about a company’s mission.”

COMPLIANCE WEEK
THE LEADING INFORMATION SERVICE ON CORPORATE GOVERNANCE, RISK AND COMPLIANCE

Sustainability Reporting Gets Standard

By Jaclyn Jaeger
August 13, 2013

Source: http://www.complianceweek.com/pages/login.aspx?returl=/sustainability-reporting-gets-standard/article/306729/&pagetypeid=28&articleid=306729&accesslevel=2&expireddays=0&accessAndPrice=0 (Retrieved 9/12/13)

Some revolutionary changes are happening in the world of sustainability reporting that—for better or worse—demand the attention of companies.

The Sustainability Accounting Standards Board, a non-profit standard-setting body established in 2011, has issued its first set in a planned series of industry-specific reporting standards, designed to bring uniformity to how companies account for the environmental, social, and corporate governance risks that matter most to their operational and financial performance. First industry up at bat: healthcare. The inspiration for SASB and its standards sprung from investor activists clamoring in recent years for greater disclosure of "ESG" performance. Companies responded by publishing annual reports of their corporate social responsibility efforts, but a lack of standard disclosure metrics left investors unhappy since they couldn't compare one company's CSR efforts against another's. Enter SASB.

Accredited by the American National Standards Institute to set standards for disclosure of sustainability issues by U.S. publicly listed companies, SASB set out to identify material ESG issues and develop standardized performance metrics for 88 specific industries across 10 sectors. By following the same definition of materiality as defined by the Securities and Exchange Commission, the hope is that companies will use the ESG standards in their annual Form 10-K reports.


Rogers

Jean Rogers, founder and executive director of SASB, says the intent of the group is to become for ESG reporting what the Financial Accounting Standards Board has been for financial reporting. "Our goal is to standardize the disclosure of these material sustainability issues," she says.

The SEC requires public companies to disclose material information in the Management Discussion and Analysis section of their annual reports—but how ESG risks fit into the mix of material data has always been an elusive practice at best. For that reason, some sustainability executives say the standards are a welcome development.


Tew

"Until SASB came along, it's been extremely difficult to compare apples-to-apples," says Scott Tew, executive director for the Center for Energy Efficiency and Sustainability at Ingersoll-Rand. "The only way you can compare apples-to-apples is for everyone to agree on what is most material for a particular industry."

SASB developed its standards by establishing working groups for each industry composed of stakeholders, including companies, investors, analysts, auditors, and consultants.

Ingersoll-Rand is one of several companies that sit on SASB's advisory council. Other companies include Hershey Co., McDonald's, JP Morgan, Johnson & Johnson, UPS, Con Edison, and several more.

Rogers says that SASB has had “no problem getting companies to participate”—because of, rather than in spite of, ESG reporting fatigue. “They're tired of spending a lot of time and money doing so many different initiatives that aren't necessarily looked at by investors,” she says.

What's more, “investors tell us the same thing,” Rogers adds. “They're inundated with so much information that it makes it difficult for them to ascertain what's material. There is angst on both sides.”

Carrots and Sticks

For many other companies that may (quite understandably) groan over the idea of another ESG reporting initiative, be warned that investors and regulators alike are following these developments closely.


Nieland

“It's surprising how quickly SASB has established a level of prominence and impact in this space,” says Kathy Nieland, U.S. sustainable business solutions leader at PwC. “Investors are absolutely taking note of what standards they're developing.”

Even though the use of SASB-developed metrics in SEC reports is voluntary, SASB is hoping to change that. “It's really up to the SEC to enforce the inclusion of this information in the Form 10-K,” Rogers says.

Anne Sheehan, director of corporate governance at pension giant CalSTRS, which has more than $170 billion under management, says the SEC likely will be a “very active observer” in SASB's efforts, given that the agency's role is to ensure investors have material information. “I don't know in terms of formal rulemaking that the SEC is there yet.”


Aguilar

SASB briefs the SEC on its progress with quarterly updates and the evidence it gathers through research. Whether the SEC will actually enforce the standards on public companies is still an open question. Commissioner Luis Aguilar, for example, has long supported the idea of more disclosure about risks around climate change. On the other hand, the agency has a full plate struggling to implement rules for the Dodd-Frank Act.

“Whether or not they're successful will be the proof as to whether they're legitimate or not,” says Cary Krosinsky, executive director for the Network for Sustainable Financial Markets.


Krosinsky

The value proposition for companies is that the standards focus on issues that matter most to U.S. companies. In comparison, efforts such as the Global Reporting Initiative and the International Integrated Reporting Committee are guidelines focused on a global scale—and European views on CSR, for example, can be quite different from material disclosures under U.S. securities law.

At the very least, SASB's efforts have sparked some companies to think of sustainability practices in new and innovative ways. “Our strategy has been to integrate sustainability thinking into how the company operates its business,” Tew says. “We're really working on changing some of our already-existing processes.”

“Until recently we weren't formally asking our design engineers to think about the materials they choose for future products, or to evaluate what happens at the end of a product's lifecycle,” Tew says. “All that has changed now, because we've changed the process of how we develop products.”

What's Next

SASB issued its first set of standards on July 31, beginning with the healthcare sector and focusing on pharmaceuticals, biotechnology, medical equipment and supplies, healthcare delivery, healthcare distributors, and managed care.

For pharmaceutical companies, for example, SASB has developed standards on how to report on access to medicines, drug safety and side effects, safety of clinical trial participants, affordability and fair pricing, ethical marketing, counterfeit drugs, and efficiency in energy, water, and waste.

The standards were developed using a rigorous process that included industry working groups, a public comment period, and review by an independent standards council. The working groups for the healthcare sector, which included 127 survey responses, represented publicly traded companies with more than $800 billion in market capital and investment firms with more than $952 billion in assets under management.

SASB plans to release standards for the financial sector this fall, followed by technology and communications. Standards for the non-renewables sector are also in development.

As with any new undertaking, kinks will need to be kneaded out along the way, Sheehan says. “It's going to be an ongoing, iterative educational process to perfect this effort as they address various industry sectors.”

“The only burden is that it takes a long time to get it right,” Tew says. “It's time consuming. It's intense. It's detailed, but it's also being done right.”

Bloomberg

New Guidelines to Help Companies Report on Sustainability Issues

By Robert G. Eccles & George Serafeim
April 16, 2013

Source: http://www.bloomberg.com/news/2013-04-16/companies-that-love-sustainability-get-help-explaining-why-to-investors.html (Retrieved 4/17/2013)

Sustainability initiatives assuage the conscience of executives and honor the appeals of NGOs. It's no wonder that feel-good business improvements are plentiful in most large companies.

The trouble is, as these programs mature, managers are finding that the easiest projects have already been identified. What's more, first-generation initiatives might not address unsustainable practices at the core of a business. A financial institution can reduce its carbon emissions by renting space in a green building, for example, or encourage employees to recycle, or compost cafeteria leftovers, but it's all still irrelevant to the managing market risk faced by investors.

Improving performance on so-called non-financial metrics (think environmental and social issues) increasingly involves tradeoffs to financial performance, sometimes very large ones. In a new *Harvard Business Review* "Big Idea" essay published yesterday, we argue that, however difficult, it's possible to simultaneously improve all-around performance. We lay out a four-step process in the article.

Institutional help is on the way for executives struggling with how environmental, social, and governance (ESG) risks and opportunities apply to their companies. In fact, yesterday was a very exciting day in the world of corporate reporting (though we recognize that such a thing might strike non-specialists as an oxymoron).

First, companies will soon have available a kind of paint-by-numbers framework to help them produce reports that enmesh financial and non-financial performance metrics. A draft of the framework was released yesterday by the International Integrated Reporting Council (IIRC), which is a coalition of companies, investors, accountants and NGOs.

"Integrated reports" are designed to provide investors, governments, NGOs and communities with a deeper understanding of how things that financial executives know how to count -- such as revenue, and profits and losses -- are helped or hindered by things whose monetary value isn't immediately obvious -- such as annual employee turnover, water efficiency, or community relations.

The IIRC introduces a more nuanced notion of value than you'll find in traditional corporate reports. Financial data remains a main pillar, naturally. But joining it are:

• Manufactured value, or physical capital, such as buildings, equipment and infrastructure.
• Natural value, which includes air, water, land, minerals, forests, biodiversity and ecosystem health.

• Intellectual value, such as intellectual property, branding and reputation.
• Human value, or people, and how well their own goals and behavior align with the organization.
• Social and relationship value, or the company's relationships with communities, NGOs, and other interest groups.

This information can be material to investors who are assessing a company's prospects, but they'll vary quite a bit by industry. (In a related announcement yesterday, we are working with NASDAQ OMX Group Inc. to develop an online training program in integrated reporting)

The second news item concerns ongoing efforts to help industries figure out which non-financial metrics they should pay the most attention to. The Sustainability Accounting Standards Board (SASB), a nonprofit, is developing industry-specific standards for publicly held corporations to include sustainability issues in their annual filings. This guidance is designed to help executives disclose the metrics most likely to affect their companies' performance and long-term outlook.

The organization just finished its first cut of guidelines for the financial sector, yesterday releasing a list of material issues and key performance indicators (KPIs) most relevant to seven industries: commercial banks, investment banking and brokerage, asset management and custody activities, consumer finance mortgage finance security and commodity exchanges, and insurance.

The public comment period for the IIRC's draft framework for integrated reporting will be open to commentators for three months from April 16 to July 15. SASB's results for the financial sector will be open for public comment from May 1 – May 30. The standards will then be revised, finalized, and released in August.

In an economy where intangible assets and sustainability performance are of increasing importance, both the IIRC and SASB are probing ways to make corporate reporting more relevant to companies and investors.

Serafeim is assistant professor of business administration at Harvard Business School and a member of the Standards Council of SASB. Eccles, professor of management practice at Harvard Business School, is a member of the International Integrated Reporting Council and is the chairman of SASB.

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Analysis and commentary on The Grid are the views of the author and don't necessarily reflect the views of Bloomberg News.

Sustainability in Financial Services Is Not About Being Green

By Robert G. Eccles and George Serafeim
May 15, 2013

Source:
http://blogs.hbr.org/cs/2013/05/sustainability_in_financial_services_is_not_about_being_green.html
(Retrieved on 5/16/13)

The next time we hear about a bank or insurance company's "green program" — like using energy efficient light bulbs or operating out of a LEED Platinum building — we'll either scream or throw up. Don't get us wrong. We aren't "climate change deniers" and we believe that every individual and organization should use energy and other natural resources responsibly.

Our problem with banks, insurance companies, and other financial institutions that tout their commitment to sustainability by focusing on energy and water in their sustainability reporting is that these issues are simply not material to the sustainability of the institution itself. Thus this focus is not material to shareholders and a vast range of other stakeholders including employees, customers, counterparties, and society itself which depend upon a stable financial services sector to create jobs and responsible economic growth.

What, then, is material to these institutions' sustainability? Their performance on social and governance issues.

Unfortunately, the financial services sector hasn't been doing a very good job in these realms as they lurch from one major financial crisis to another. Not surprisingly, as Jean Rogers, the Executive Director of the Sustainability Accounting Standards Board (SASB), points out in a Greenbiz blog, "It's no surprise that banks and financial sectors are the institutions least trusted by U.S. society. Trust reached an all-time low of 24 percent in 2011, down from 69 percent in 2008."

As a result, institutions in the financial services sector risk losing their license to operate — the permission to conduct business granted by customers, partners, and government. These institutions are already feeling their license come under threat from increasing regulations as the government attempts to address the causes of the latest crisis. This is like closing the barn door after the horses have fled. Since no one can know what the source of the next systemic financial crisis will be, regulation can only do so much.

What these institutions' stakeholders need is transparent information about their true source of sustainability: their social and governance performance, and how it relates to financial performance. Examples of social performance include talent recruitment, employee compensation, customer security and privacy, customer transparency, responsible products, and financial inclusion. Examples of governance performance include management of the legal and regulatory environment, systemic risk management, and managing conflicts.

In our recent HBR article "The Performance Frontier: Innovating for a Sustainable Strategy," we argue that typically there are tradeoffs between financial and nonfinancial (e.g., environmental, social, and governance — or ESG) performance. These tradeoffs can be particularly consequential in large financial institutions, such as huge employee incentives for financial performance combined with poor risk management practices. The result is a "heads the bank wins, tails society loses" set of outcomes. Taxpayers are getting tired of bailing out financial institutions considered "too big to fail." No wonder the public has lost trust in them and is questioning their license to operate when the institution captures the majority of the upside of financial performance with the rest of us bearing the brunt of the downside.

With better information, shareholders and other stakeholders will have a clearer understanding of exactly how a financial institution is trying to deliver on financial performance and the potential negative effects it is creating in doing so. This will put pressure on financial institutions to better manage nonfinancial ESG performance through innovation in new products, processes, and business models that will enable them to do this and improve on financial performance at the same time. This is in direct contrast to "financial innovation" that focuses on only one dimension of performance, putting the others at risk.

Here is where the work of SASB becomes important. The mission of this non-profit organization (for which Bob is the Chairman and George is on the Standards Council) is to identify the material ESG issues by sector and the key performance indicators for reporting on them. SASB recently released the results of its Industry Working Group on Financial Institutions comprised of the Asset Management & Custody Activities, Investment Banking & Brokerage, Commercial Banking, Consumer Finance, Mortgage Finance, Security & Commodity Exchanges, and Insurance industries. The draft standards are now open for a 45-day period of public comment period until June 14 and we encourage you to weigh in.

We should emphasize that we don't think environmental issues are irrelevant to financial institutions. We actually they think they can play an important role in environmental stewardship but with a focus on enabling more environmentally responsible practices on the part of their customers — rather than the institution itself — such as creating products like green credit cards (which encourage customers to buy environmentally-friendly products), green securitization products (such as climate bonds), and energy efficient mortgages (which create incentives to reduce energy consumption in buildings, which alone account for 40% of energy consumed in the U.S.).

Yes, financial institutions should be environmentally responsible in their own operations. But they and we shouldn't be confused that this is the key to sustainability in the financial services sector. Mistaking financial institutions' green gestures for a true commitment to sustainability will be costly. Investors and other stakeholders should be a lot less concerned about the energy efficiency of some banker's building than the irresponsible products the company is developing that create great returns at unacceptable risk.

COMPLIANCE WEEK

Meet the New Standard Setter for Sustainability

Robert Herz
April 30, 2013

Source: http://www.complianceweek.com/pages/login.aspx?returl=/meet-the-new-standard-setter-for-sustainability/article/290184/&pagetypeid=28&articleid=290184&accesslevel=2&expireddays=0&accessAndPrice=0 (Retrieved 9/12/13)

Most people involved in the reporting process are probably familiar with the Financial Accounting Standards Board, the International Accounting Standards Board, and, perhaps, the Governmental Accounting Standards Board. But do you know about the Sustainability Accounting Standards Board (SASB)? If not, you'll probably be hearing more about this organization and its work in the near future.

SASB, based in San Francisco, is an independent, not-for-profit standard- setting body that was established in 2011 to develop industry-specific standards for use by companies to report on material environmental, social, and governance (ESG) issues in standard filings such as the Form 10-K.

Many investors and other stakeholders have become increasingly interested in the effect of ESG issues on the sustainability of companies' business models and their ability to generate value over the long term. The growth in “sustainable and responsible investing” by investment managers, studies showing a correlation between long-term performance and an ESG focus, and the numerous, well-documented examples of value destruction by specific companies stemming from their mis-management of such issues, as well as value creation from the proper management of ESG, attest to the growing importance of sustainability reporting.

Many companies have responded to the call for greater transparency in this area by publishing annual sustainability or corporate social responsibility (CSR) reports. The information in these documents, however, does not provide standardized metrics that enable investors and others to properly assess trends, benchmark peers, and compare the performance of companies on ESG issues over time and across industries and sectors of the economy. Accordingly, SASB plans to develop reporting standards that identify the material ESG issues and standardized performance metrics, including key performance indicators (KPIs), for 88 specific industries across 10 sectors.

How does SASB go about developing these standards? While the process is somewhat different than that followed by FASB, IASB, and other bodies that set financial accounting standards, it is nevertheless systematic and robust. Like FASB and IASB, SASB includes significant stakeholder engagement and consultation, and publishes proposed standards for public comment. SASB is accredited by the American National Standards Institute (ANSI) to set standards for disclosure of sustainability issues by publicly listed companies, and follows best practices in standards setting, including transparency and maintaining a balance of participation in the standards setting process between affected interest groups (corporations, investors, and intermediaries).

During the first step, SASB's research staff develops a “SASB Materiality Map” which enables them to identify the relative materiality of specific ESG issues in each industry. The map provides a unique sustainability profile for each industry, illuminating the high-priority ESG issues. Creating the map for each industry involves extensive review of relevant data, including evidence of stakeholder interest and of the financial impact of particular ESG issues. Source documents that are reviewed include Form 10-Ks, SEC comment letters, CSR reports, and media reports. The issues are then ranked according to their relative significance in order to determine those issues that are likely to be material within a particular industry. Issues identified as material in the process often sit at intersection of business models and sustainability factors. The broader societal impacts arising from the use of particular resources by companies in an industry, for example, are often on the list.

Developing Performance Indicators

In the next phase, the SASB staff develops a set of “straw man” performance indicators for a particular industry and convenes an industry working group composed of a cross-section of stakeholders for that industry. The working groups generally include investors and financial analysts, corporate representatives, accountants, consultants, academics, and public interest officials with specific industry expertise to review and help refine the straw man indicators. Industry working group participants debate the materiality of the issues and evaluate the relevance, usefulness, and cost-effectiveness of the performance indicators. SASB then publishes the performance indicators on its Website, and solicits public comment on them over a 30-day period. Comments are then reviewed and, as appropriate, revisions are made to the proposed performance indicators.

The use of SASB metrics can enhance the specificity, consistency, and comparability of information contained in CSR reports.

The draft standards are then reviewed by the SASB Standards Council to ensure consistency, completeness, and accuracy. The council is comprised of 17 individuals with extensive backgrounds in standards setting, investing, financial analysis, and sustainability issues across various industries. For example, two of my former FASB colleagues, Katherine Schipper and Jeffrey Hales, are members of the SASB Standards Council, which also includes several experts from major investment management firms. Once the industry standard has been approved by the Standards Council it is published by SASB. A 12-member board of directors is responsible for overseeing, articulating, and upholding the vision, values, and mission of SASB.

The SASB consensus-driven process is designed to identify and develop standardized KPIs for material ESG issues. SASB follows the concepts and definitions of materiality found in the U.S. federal securities laws and related court decisions. For example, SEC Regulation S-X states material information as that “about which an average prudent investor ought to be reasonably informed.” Similarly, the U.S. Supreme Court has defined material information in terms of there being a substantial likelihood that the disclosure of such information would be viewed by the “reasonable investor” as having significantly altered the “total mix” of information made available. Thus, while use of SASB-developed metrics in SEC reports is voluntary, because they provide information on material issues, they will presumably assist companies to better fulfill their disclosure obligations under the federal securities laws.

In recent years the SEC has expanded the realm of information required to be provided on specific ESG issues, such as climate change, use of conflict minerals and on certain payments by oil, gas, and mining companies to foreign and U.S. governments.

The use of SASB metrics can enhance the specificity, consistency, and comparability of information contained in CSR reports. SASB is also designing its standards to be compatible with the integrated reporting framework being developed by the International Integrated Reporting Council (IIRC). The goal of integrated reporting is to bring together, in a cohesive and concise way, material information on an organization's strategy, risks and opportunities, governance, and performance in terms of financial results and key non-financial areas, including ESG matters. The IIRC is currently conducting a major pilot program with over 80 companies from around the world, including Microsoft, Coca Cola, HSBC, and Unilever. The IIRC has just issued for public comment a proposed framework for integrated reporting. The use of SASB metrics can help improve the comparability and overall usefulness of the information in integrated reports.

While SASB is a very new organization, it has already attracted significant interest and support from a diverse and broad range of stakeholders. More than 170 people participated in the SASB healthcare working groups, for example, and the financial services working groups counted nearly 300 members. (Healthcare and financial services are the first two sectors SASB has addressed.) For both sectors combined, participants represented companies with approximately $2.1 trillion in total market capitalization and almost $6 trillion in assets under management by investor participants.

Participation in SASB industry groups provides interested and knowledgeable stakeholders the opportunity to share their expertise, learn from industry peers, and help shape the SASB standard for their industry. SASB has also established an advisory council comprised of more than 100 individuals from the investor, finance, corporate, accounting, academic, and NGO communities.
Additional information regarding SASB, its ongoing program to develop industry-specific standards for reporting on material ESG issues, and how to participate in SASB industry working groups can be found at www.sasb.org.

Sustainability Accounting Standards Board Develops Industry Standards of Sustainability Disclosure for SEC Filings

Davis Polk & Wardwell LLP
Betty Moy Huber and Ning Chiu

April 22, 2013

Source: http://www.lexology.com/library/detail.aspx?g=ebd02dfa-c170-4099-8c44-60c0eea32d84 (retrieved 4/24/2013)

Following up on our earlier report, yet another group is determined to require public companies to disclose sustainability issues in SEC filings. The Sustainability Accounting Standards Board (SASB) held a conference recently to discuss its standard-setting process. While its name invokes an immediate similarity to FASB, SASB has no official designation, although its advisory council includes an impressive list of industry, sustainability and financial professionals affiliated with Deutsche Bank, ISS, J.P. Morgan, Goldman Sachs, Morgan Stanley, BlackRock, AllianceBernstein, CalPERS, Ernst & Young, PwC and McKinsey, among others.

After being informed by the SEC of its reluctance to consider a separate line item requirement for environmental, social and governance (ESG) disclosure because of differences among industry sectors, SASB has begun drafting, and plans to adopt by the second quarter of 2015, ESG disclosure standards for 88 different industries in 10 sectors: (i) health care; (ii) financials; (iii) technology & communications; (iv) non-renewable resources; (v) transportation; (vi) services; (vii) resource transformation; (viii) consumption; (ix) renewable resources & alternative energy; and (x) infrastructure. Once released, SASB will request that the SEC adopt these standards, with the goal of requiring this disclosure in MD&As for Form 10-Ks and Form 20-Fs.

Conference panelists included Sandy Frucher, Vice Chairman of the NASDAQ OMX Group, and Bob Herz, FASB Chairman. NASDAQ is also involved with similar attempts by the Ceres-led investor group working to effect listing standards. Mr. Frucher stressed that “nonfinancial [ESG disclosure] is essential for investors to make a decision” and that there is a need for a “uniform standard.”

SASB reportedly meets with the SEC quarterly, and is also working with the PCAOB to devise standards to develop external auditing of sustainability disclosure. Lest companies think that these efforts will not have any impact, companies may recall that the 2010 SEC interpretive guidance on climate change disclosure was largely driven by Ceres.

SASB invites interested companies to join their industry standards working groups, and has published a **timeline** of its plans for releasing exposure drafts by industry for public comment. The current financials industry working group represent companies with more than $1.3 trillion market cap, including Morgan Stanley, Bank of America and Citigroup, and investors with more than $5 trillion in assets under management.

THE WALL STREET JOURNAL.

Investors Can't Ignore Environmental Risks

March 25, 2013

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http://online.wsj.com/article/SB10001424127887324557804578376503375622318.html?KEYWORDS=Sustainability+accounting+standards+board#articleTabs%3Darticle (retrieved 3/26/13)

Anne Simpson is senior portfolio manager and director of global governance at the California Public Employees' Retirement System.

On the importance of environmental issues to Calpers

We're not just investing for this generation. Even if you shut the doors at Calpers in the morning, we would still have to be paying pensions in cash to our beneficiaries in 80, 85 years' time. So, that gives you a very different perspective on sustainability.

Our role as fiduciaries is really to make sure that those to whom we delegate responsibility are good stewards of that capital, preserving it, making it grow, ensuring that it's safe. And that really sets an agenda for us looking at environmental issues.

On the importance of environmental-risk reporting by companies

If you read the financials companies have to produce under accounting standards, there's precious little that will help you understand the company's strategy, and even less if you look at strategy from the point of view of sustainability. What we want is reporting which not only gives us the financial part of the reporting that we need but also is going to contain material information on environmental, social and governance issues. Because that's how we're going to get a grip on this sustainability agenda.

Calpers has joined a group called the Sustainability Accounting Standards Board. That group has set itself the task of working with groups of companies and investors, sector by sector, to identify a number of material standards for reporting.

On corporate resistance to the costs of governance reforms

The financial crisis we've just crawled out of cost Calpers something in the order of $70 billion. That's the cost of getting it wrong. So companies, whether it's a high-quality audit or its environmental reporting or good internal controls, we'd prefer that you think about this as an investment. Do not be penny-wise and pound-foolish. For the long-term owners, we really want companies to invest the time and the effort in getting these material environmental issues identified, properly reported and then managed.

GreenBiz.com

Why SASB is a Game Changer for Sustainable Business

Joel Mackower
October 01, 2012

Source: http://www.greenbiz.com/blog/2012/10/01/why-sasb-game-changer-sustainable-business?page=full (Retrived 9/11/13)

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."

Next page: The value proposition for business

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.”

Next page: One sector per quarter

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 tell 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.

responsible investor

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 12, 2012

Source: http://www.responsible-investor.com/home/article/sasb/ (Retrieved 9/12/13)

Peter Drucker, the feted 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.

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 nonfinancial 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."

FT
FINANCIAL TIMES

US Companies Urged to Put Natural Capital in Accounts

By Mike Scott
June 24, 2012

Source: http://www.ft.com/intl/cms/s/0/78e36030-b93f-11e1-b4d6-00144feabdc0.html#axzz2ed9wW6Ed (Retrieved 9/11/13)

Last week's Rio+20 summit was, essentially, all about the importance of environmental, social and governance (ESG) issues to governments, businesses, investors and consumers.

But for investors, one of the main problems about these issues is that there is not enough information about them and what there is varies so much from one company to another that meaningful comparison is difficult. At the same time, businesses often provide too much information that is irrelevant to the main challenges that they face.

A new organisation aims to change this – in the US at least. The Sustainability Accounting Standards Board has been set up, and named, to stand as a companion to the Financial Accounting Standards Board, the body that 40 years ago established the Generally Accepted Accounting Principles on behalf of the Securities and Exchange Commission.

"FASB has created very robust, trustworthy markets in the US, but a lot has changed in the last 40 years," says Jean Rogers, chief executive of the new body. "There is an entire class of information that is increasingly relevant to businesses and investors and that information is not flowing freely. It's in totally different formats, it's not standardised, it's not in a digestible format and investors cannot compare and they cannot benchmark."

Corporate growth and success are no longer constrained solely by the availability of financial capital, SASB believes.

Rather, global resource constraints and management of environmental and social issues are integral to the long-term success and sustainable value creation of companies.

Issues such as climate change, population growth, urbanisation and shortage of raw materials will have a growing impact on company performance, but because these externalities are inadequately priced, the view that investors have of the performance of resource intensive companies is skewed.

"Forty years ago, companies competed on how well they used financial capital. Now other forms of capital are recognised as important too," Ms Rogers says. "We cannot have companies that maximise one form of capital at the expense of other assets such as natural capital. Value creation cannot be sustainable if the underlying capital is being depleted."

ESG information is reported to some degree, but it is not comprehensive and it is not comparable, she adds. And while initiatives such as the Global Reporting Initiative have started to raise awareness about the importance of ESG issues, uptake in the US has been extremely slow. Out of 35,000 listed companies, in 2010 just 183 US groups reported to GRI standards.

“There are very few GRI reporters – and they are the leaders in their fields. Far fewer US companies consider sustainability risks and opportunities than in the rest of the world,” Ms Rogers states. “We want to set a floor, a minimum set of standards for everyone that creates a level playing field.”

In contrast to the GRI, which is an independent body outside of the financial regulatory system, SASB aims to create a new standard for companies that sits inside the existing system.

At the heart of the filing requirements for US listed companies is Form 10-k, a mandatory disclosure form that companies must file with the SEC. Among the issues that must be included is one on risk factors and it is here that SASB hopes to make its mark.

“We are designing standards that should fit right into Form 10-k,” says Ms Rogers. “We hope that every company in a particular industry will know what to disclose so that analysts have enough information to be able to start benchmarking sectors.”

To do this, SASB, which like FASB is a private sector not-for-profit body, is looking at 102 industries, starting with a review of the importance of various ESG issues to different sectors to create a “materiality map”.

“This deliberately narrows our field of vision to the most indisputable issues, so that no one can argue that these factors should not be in Form 10-k,” Ms Rogers adds. “Materiality comes from the perspective of the ‘reasonable investor’. We believe that the reasonable investor wants to know about these things.”

Once these issues have been identified, SASB will work out how to measure, recognise and account for them. The organisation will also look at the links between the factors and value drivers such as growth, return on capital and management quality.

One of SASB’s main aims is to democratise access to ESG information. “There is an information asymmetry out there, some investors can afford it and some cannot,” says Ms Rogers. “We believe that material information is the right of every investor. Your ability to be a market participant should not depend on your ability to access that information.

“The effective functioning of capital markets is based on the idea that relevant information is available to all market participants, and yet there is relevant information that is not available in a useful form. Once it is out there it will drive all sorts of different investment strategies,” she continues.

“This is not just something for institutional investors signed up to the UN’s Principles for Responsible Investment – it’s for any investor that wants to understand the risks and opportunities in our system.”

Once the information is available, organisations such as Bloomberg will back-test it, opening a new window into materiality and creating a new understanding of the magnitude of sustainability impacts.

With investors better able to discern how well companies are positioned in relation to sustainability challenges, the hope is that capital will flow towards more sustainable outcomes.

“Another huge benefit will be that once the information is available, companies will compete to make sure they are not the worst of the lot, creating a race to the top,” the SASB chief argues. “So there is potential to drive behaviour on the corporate side as well, which should mean that the whole pool of investment should improve.”

To ensure rigour, SASB will be working with accounting firms to ensure that there is an auditing and assessment protocol in place so that sustainability information can be audited in line with the way current 10-k forms are audited.

Until the advent of the Sarbanes-Oxley law, FASB was funded by the accounting firms, but now it is financed by taking a small percentage of companies’ filing fees. SASB is not in a position to do that until it can demonstrate that it is creating value for companies and the capital markets, so at the moment it is funded by private foundations including the Rockefeller Foundation, the Metanoia Foundation and Bloomberg Philanthropies. Eventually it will rely on revenue from licensing, education and training fees to fund work on the industry key performance indicators, which will be updated and published annually.

SASB is timely because it is not just the wider world that has changed: the methodology for valuing companies has also changed dramatically in the last 25 years, Ms Rogers believes.

“Company valuations used to be based on 80 per cent tangible assets and 20 per cent intangible. Now it is the other way round. Intangible assets are recognised as affecting valuations, but they are not easy to quantify. We need next-generation systems that can account for non-financial information, even if you are only interested in financial performance.”

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