



SASB Standards Council

Outcome Review

Financial Industry

July 16, 2014

To the Director of Standards Development of SASB,

This Outcome Review Report summarizes the opinion of the members of the Standards Council, an independent advisory body formed by qualified professionals who participate in a voluntary manner and do not receive financial compensation from SASB.

On June 27, 2013, we conducted an independent review of the outcome of the process and procedures used to develop Sustainability Accounting Standards for the Financial Industry. For this review, we relied primarily on a report titled ***SASB Standards Outcome Review – Financials***, which was prepared by SASB staff.

Based on our review, we believe the process and procedures followed by the SASB in identifying sustainability issues and corresponding metrics for the Financial Industry was satisfactory with respect to SASB-defined protocols for developing industry standards.

Notwithstanding the above conclusion, several points were raised during the Standards Council's review, which we include below.

Financial Industry Outcome Feedback

Some council members raised concerns about whether systematic risk management and talent recruitment are ESG issues or financial ones. This raises a broader question about how to draw distinctions between ESG issues, financial issues, and the financial impact of ESG issues. The Council encourages the SASB to carefully consider these issues, particularly in developing a conceptual framework, to help ensure focused and consistent standard setting.

In addition, some council members noted that several qualitative disclosures are being proposed, but this may not lead to comparability between firms. Others noted the benefits of qualitative disclosure, suggesting the need to strike a balance between the two types of disclosures.

Another concern arose regarding whether it was appropriate to pursue an issue like Integration of ESG Factors in Disclosure Requirement for the securities and commodities exchanges, especially given the current lack of evidence of financial impact.

Some council members also questioned the materiality of the issue of whether firms in the financial industry are providing environmental products and services. As an example, these council members



believe that, whereas providing environmentally friendly consumer goods can have a direct impact on the environment, making available financial products to invest in companies that provide these types of goods has, at best, a second-order / indirect impact because it merely changes the potential paths through which environmentally concerned investors can allocate their capital (and introduces an intermediary into the process). Related to this issue, other council members suggested that, if this is a material ESG issue for this industry, the list of products and funds offered may be less important than the use of the capital raised through those investment vehicles.

Other Feedback and Comments

In addition to reviewing the standard setting outcomes for the financial industry, the Council also reviewed the format of the long form standards and the evidence tables supporting those standards.

In general, the Council found the evidence tables very helpful, particularly for the evidence of materiality. With respect to evidence of financial impact, there was some discussion about the best way to convey evidence of financial impact, including what labels to use. Some additional clarification was requested on how the different pieces are combined into a summary high/medium/low classification.

With respect to public comment periods for standards, several suggestions were made:

- Develop formal responses to provide greater transparency to the response process
- Engage with those who submitted comments
- Try to increase awareness of the public comment periods and the forthcoming release of standards

It was also recommended that the long form standards include a stated intention for how the standard will be used and an acronym list.

We understand that as an advisory body, our recommendations are not binding and that the responsibility to implement the suggested changes is at the discretion of SASB.

Prepared by Jeffrey Hales
SASB Chair of the Standards Council

Signed _____ . July 16, 2014

In representation of:

Jim Coburn, JD
Christine Ervin



Jeffrey Hales, PhD

Tom Kiely

Gayle S. Koch

Stephen Linaweaver

Jameela Pedicini

Patricia Farrar-Rivas, CIMA, CIS

C. Gregory Rogers, J.D., CPA

Katherine Schipper, PhD

Elizabeth Seeger

George Serafeim, PhD

Jeremy Shapiro

Nigel Topping

Jean Rogers, PhD

Shana Harbour

Andrew Park, JD, PhD