



SASB Standards Council

Combined Procedural and Outcome Review Report

Non-Renewable Resources

February 11, 2014

To the Director of Standards Development of SASB,

This Combined Procedural and 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 December 19, 2013, we conducted an independent review of the process and procedures used to develop the Disclosure Protocol proposed to develop Sustainability Accounting Standards for the Non-Renewable Resources Industry. For this review, we relied primarily on two reports titled **SASB Industry Working Groups Due Process Report – Non-Renewable Resources** and **SASB Standards Outcome Review - Non-Renewable Resources**, which were prepared by SASB staff on December 12, 2013.

Andrew Park stepped in as acting Chair on behalf of Jeff Hales, Chair of the SASB Standards Council, who was unavailable to attend the meeting due to his travel schedule.

Due Process Review Report

Based on our review, we believe the process and procedures followed by the Non-Renewable Resources Working Group as part of the standard setting process was satisfactory with respect to the SASB standard for Industry Working Groups (IWGs).

Notwithstanding the above conclusion, the Standards Council offers the following comments:

With respect to an administrative issue, Jean Rogers raised a procedural question around the proper process by which to nominate individuals for election to the SASB Standards Council. Jerome Lavigne-Delville, Jeff Hales, and Andrew Park will consult the existing standards council bylaws and produce a draft provision for amendment to the bylaws regarding nominations for consideration by the council and Board in due course.

Evidence of materiality and investor interest remain crucial for standard setting legitimacy and for future adoption of the standards. Several points arising from the IWG process arose in discussion:

- While recruitment for IWG participation continues apace (as evidenced by the overall participation figures), there remains a challenge regarding to what extent SASB's work can be said to have substantively engaged a specific company beyond more limited affiliation as demonstrated by a



single IWG participant (particularly if the participant plays a CSR/sustainability role). Discussion clarified that in the early days, expertise typically lies within those functions of a company, but efforts are being directed to expand participation towards the CFO and its office. In the meantime, the Standards Council suggests that larger, "top company" participation be highlighted more clearly for more effective assessment of coverage and breadth of IWG participation.

- On a related note, the Standards Council was also informed that there has been anonymous participation by significant companies that might otherwise have been highlighted pursuant to the prior suggestion. In such case, it was decided by vote of the Standards Council that anonymous participants could be identified verbally within the confidential confines of the Standards Council's discussion without written record, strictly for the limited purpose of discharging the Council's duties.
- Finally, the Standards Council was informed that the detailed record of how IWG feedback has been assessed and processed would be compiled, going forward, as a "reference document." Moreover, there continues to be internal dialogue around whether and how to publish a "Basis for Conclusions" document for certain of the more significant or complex decisions around IWG feedback and standards development. The Council will remain apprised of further development on these internal processes.

Outcome Review Report

In review of the Outcomes Report materials, the Standards Council makes the following observations, recommendations, and notes several action items for follow up:

- It was requested that specific issues be highlighted and explicitly called out when the Standards Council's input and feedback is sought. This may be a matter of reverting back to a previous format and adapting for future use in the structure of future outcome materials.
- In the context of discussion around Oil and Gas Services, it was requested that variable terms referring to "human capital" be provided definitions for clarity.
- In the realm of political contributions and companies policies related thereto, concerns were noted that without a clear evidence base for materiality (particularly for inclusion in the standards), there is a risk of being perceived as adopting an advocacy position. The Council recommended following up with the Carbon Disclosure Project (CDP) and Bloomberg LP, both of which have resources that can help provide deeper or more complete data around policy issues (particularly related to political giving, or around other similarly "politically charged," potentially cross-cutting issues like climate change).
- With respect to continued refinement and development of metrics in already-issued standards, the Council inquired about the appropriate mechanism by which to issue updates or amendments. Preliminary ideas include releasing technical bulletins, though actual update mechanisms will need further development and thought to adequately identify who needs to be consulted in the event



that SASB issues an update. The Council suggested consulting with Bruce Fried or Tim Smith for insight into how this process might be developed.

- Part of the discussion ranged back into procedural territory particularly with respect to whether the participants secured for the Non-Renewable Resources sector adequately captures the perspective of the "reasonable investor." In the context of pension funds, discussion clarified that the most useful perspectives come from whatever entities actually manage the money. Therefore to the extent that many pension funds outsource management, the Council notes that it may be important to seek more engagement with external management firms. (To that end, Patricia Farrar-Rivas offered contacts to Schwab Asset Management.)
- Finally, a member also submitted a question for further discussion around the extent to which IWG participants are conflating investor materiality—an established legal/regulatory concept—and the more general materiality to stakeholders. The former is fundamental to producing metrics that enable meaningful comparative narrative analysis; the latter has a tendency to undermine that objective. It was therefore recommended that SASB take additional steps to focus IWG participants' attentions on the centrality of investor materiality to SASB's work (acknowledging that materiality to stakeholders may, in fact, be fully represented by investor materiality in many instances).

Additional Items

In addition to the Process and Outcomes Review of the Non-Renewable Resources sector, several comments and follow up items were noted in the context of the Technology & Communications Long-Form Standards Preview discussion:

- The Council was apprised of lower numbers for participation in Tech & Comm's public comment period. While the Council agrees that timing was complicated by the slowdown at the end of the calendar year, and suggests avoiding coinciding deadlines with holidays in the future, other suggestions include double-checking whether all online forms are actually working and considering whether it would make sense to eliminate any additional/extraneous steps in the ease of offering feedback via the website (i.e., creating an obvious "Comment Now" button on the homepage). The council also recommended that SASB seek inclusion on the agenda for the GreenBiz executive forum as a platform to engage more companies.
- In response to a metrics that used weight and volume, the Council gave feedback that such metrics are often difficult to use for comparative purposes, and suggested that normalized metrics like percentage based metrics would be more appropriate. The Council therefore commends the renewed focus on honing metrics to be the most useful and meaningful to both users and the companies themselves in their tracking efforts.

Finally, the Standards Council reserved time to discuss several meetings SASB had recently convened with major financial institutions as part of the second public comment period for the Financials Sector. Several members voiced concerns about what appeared to be a gap between people's conceptions of sustainability



(largely as an environmental construct) and the much broader scope of the standards themselves. Therefore, the Council sought to develop recommendations that enable further engagement with IWG participants during the process of transitioning material issues into the long-form standards, i.e., after the working group period, which is when theory is transformed into practice. As one member put it, "we need to create followers," and there were concerns that opportunities were being missed to more deeply socialize the standards and its development process with company participants. Council members acknowledged, however, that there is a natural tension between creating standards that are reasonably familiar and intuitive, and those that are more forward looking. The Council emphasizes the need for constant engagement in service of market uptake as each of the sector standards is released.

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 Andrew Park on behalf of Jeffrey Hales, submitting jointly
SASB Chair of the Standards Council

Signed _____ . February 11, 2014

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