



## SASB Standards Council

### Standards Council Meeting Review

September 18, 2014

October 28, 2014

To the Director of Standards Development of SASB,

This Review 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 September 18, 2014, we conducted an independent review of the standards development activities of the SASB during the preceding quarter. This review primarily focused on activities used to develop industry Sustainability Accounting Standards for the Resource Transformation sector, but also included an update on activities in sectors covered in previous meetings. For this meeting, we relied primarily on two reports: **SASB Working Groups Due Process Report – Resource Transformation Sector** and **Standards Outcome Report – Resource Transformation**, which were both prepared by SASB staff. In addition, the SASB staff also prepared a third report: **Supplement to Standards Outcome Review Report – Resource Transformation**. No report was prepared for the update of prior sectors.

Based on our review, we believe the process and procedures followed by the SASB in identifying sustainability issues and corresponding metrics for industries in this sector was satisfactory with respect to SASB-defined protocols for developing industry standards. In addition, we support the SASB's continuing activities to improve the standards being developed in sectors the Council has reviewed in previous meetings.

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

#### **I. Process Review for Resource Transformation Sector**

- A) When evaluating IWG feedback, it is helpful to see who is participating in the IWG process. To that end, the Council had several recommendations, listed below, relating to improving both the IWG process and also the analysis of that process.
- Sort the list of participants into who completed and who didn't complete the survey and include this in the presentation.
  - Measure goal of 180 participants with completed surveys, not commitments.
  - Incentivize completions by letting IWG members know if they don't finish the survey, they won't be considered part of the IWG and won't receive ongoing IWG follow up.
  - Do an analysis to see patterns of who drops off the survey completions.



- If possible, include a survey field for respondents to list who else participated when a respondent happened to leverage their role within a company to reflect multiple opinions.
  - Reflect the above in the survey participation breakdown.
    - SASB Response:
      - Going forward, the **SASB Working Groups Due Process Report** will include a sorted list of participants indicating those who have completed the survey and those who have not. It will also measure the goal of participants against survey completions.
      - The IWG survey already includes a field where participants can indicate others in their organizations who have provided inputs to survey responses. An overview of those who contributed to the Resource Transformation surveys is included as an appendix to this document. This overview will also be included in future SASB Working Groups Due Process Reports.
      - SASB is undertaking an internal strategic analysis of effectiveness of stakeholder engagement for the standards development process, including how to leverage IWG participants throughout the standards development process, including the future finalization phase. This effort, in turn, will increase the value of participation in IWG surveys and therefore will serve as an incentive to strengthen recruitment numbers.
- B) In general, the SASB should be prepared to consider re-releasing standards for second PCP if there are significant changes that arise as a result of feedback received during the first PCP. However, this may be especially appropriate if the standards relate to an industry that had lower than ideal IWG participation.
- SASB Response: As noted in Section 3B, SASB will make increased efforts to reach out to IWG participants during the IWG feedback stages as well as the PCP phase. Industries that have lower than ideal IWG participation will receive additional targeted interviews and response requests prior to (and during) the PCP phase. Given SASB's tight schedule to bring provisional standards to market, SASB does not feel that there is time for a re-exposure of standards. However, additional feedback will be sought during the standards finalization phase. SASB's new online comment tool will also aid in gathering additional comments beyond the PCP phase.
- C) As mentioned in the Council's previous report, in addition to providing a list of the top ten companies in each sector, the Council recommends flagging which of these companies committed to participate and which completed the survey.
- SASB Response: The SET will include a list of the top ten companies in each sector and will highlight those who were included in the industry working groups.

## **II. Outcome Review for Resource Transformation Sector**

- A) During the discussion of the Aerospace and Defense industry, the Standards Development Team proposed changing a metric for Product Lifecycle Management & Innovation from a raw number to



a percentage. In response, it was noted that, often times, both the numerator and the denominator is helpful since it can be important to see both the total magnitude for a metric and also to have information about relative scale for putting that metric into perspective.

- SASB Response: SASB agrees that it can be helpful to know both the relative and absolute performance (i.e. percentages or raw numbers). For this reason, Activity Metrics are included in the standards to provide an investor with the scope and scale of operations, both for context in interpreting impact of percentages, as well as for normalization of raw numbers. For example, the requirements of the numerator and denominator are defined in Metric RT0201-16 in Aerospace and Defense for the number of counterfeit parts and the percentage avoided. A similar example can also be found in the Industrial Machinery industry (among others), where the metrics ratio is the critical measure of performance, but SASB requires that both the numerator and denominator should be disclosed.
- B) When discussing Business Ethics for Aerospace and Defense, it was noted that some IWG feedback suggested that, because fines may be small, they may not meet the materiality threshold. However, materiality is likely to be contextual, not just based purely on magnitude of the fine. Perhaps the SASB could look to the auditing literature or case law to support the idea that violations of ethics are material, to the extent that they speak to corporate culture, management judgment, and/or internal control issues.
- SASB Response: SASB will continue to strengthen the contextual angle of the Business Ethics issue, including by looking at auditing and case law as suggested. This topic remained a part of the Aerospace and Defense standards that were recently released for public comment.
- C) When discussing Water Management for the Industrial Machinery industry, it was noted that, in general, water and energy are easy for people to wrap their heads around, but they may not be looking at data sets of how much an industry uses. Thus, it was recommended that the SASB considering putting water quantity on the watch list.
- SASB Response: SASB has added the management of water scarcity as a watch-list issue that SASB will continue to monitor for materiality in the Industrial Machinery industry and beyond.
- D) When discussing Product Lifecycle Management & Innovation for the Containers and Packaging industry, it was noted that some companies argue that significant differences in company operations and opportunities was a reason to exclude this issue. However, it's precisely when there is substantial diversity in operations that disclosure can be most informative to the investors and creditors.
- SASB Response: SASB agrees that variance in operational performance can be informative to investors and creditors. While there are still challenges in making direct apples to apples comparisons, SASB has included in the standards for public comment several metrics that address the percentage of recycled and recyclable content from both raw materials and end of life product phases. SASB has also



included a discussion of management approach to the minimization of packaging and noxious or hazardous constituents.

### **III. Other Items**

- A) In reviewing SASB's response to the comment letters received for the transportation, the Council found it reassuring that the Standards Development team had received such helpful feedback on the proposed metrics from corporations. However, it is also a bit worrisome that it happened at the end of the Public Comment Period.
- The Council recommends a two-pronged approach. To the extent possible, SASB should attempt to engage companies earlier in the process so that the proposed metrics have been better vetted prior to the Public Comment Period. Then, when substantive changes are made after public exposure, consider re-exposing for a second Public Comment Period.
    - SASB Response: As noted in Section 1b, SASB does not feel that there is sufficient time in the schedule to re-release drafts for public exposure during the provisional development phase. However, SASB will consider additional feedback in the provisional release/finalization phase of the standards. Furthermore, SASB will adopt a more proactive approach to solicit additional feedback from interviews and webinars pre-PCP, as noted below in Section 3b.
- B) Related to the above point, the concern was raised that corporations in some industries (especially the Finance sector) feel somewhat disengaged from the process. On the one hand, some are not involved (and unaware) at a high level in the organization that SASB is proposing standards in their industry. Then others who are engaged feel that the IWG process doesn't circle back enough for them to feel truly engaged in the development process.
- The Council recommends further expanding outreach efforts, perhaps by requesting additional resources from the Board, especially in the lead up to standards finalization. Several possibilities were raised by Council members, including conducting analyst calls, pilot programs with individual firms, and webinars to provide overviews of provisional standards as they are released.
    - SASB Response: SASB will continue to engage more companies throughout various stages of the standards development process, as well as post standards issuance. The Standards Development Team will continue to reach out to individual companies for interviews prior to the IWG and PCP phases, as well as through Delta Series workshops with IWG members. Additional webinars and promotions have already been added for the Resource Transformation and Consumption sectors and will be cross-promoted by industry groups and others where possible. The standards development and stakeholder engagement teams will continue to look for additional opportunities to engage stakeholders early in the process and highlight changes made between release phases.

In addition, and as noted in Section 1A), SASB is undertaking an internal strategic analysis of effectiveness of stakeholder engagement for the standards development



process, including how to leverage IWG participants throughout the standards development process, including the future finalization phase.

As it pertains to the Financials sector in particular, it should be noted that the IWG participation in the Financials sector IWGs exceeded that of any other sector. Post issuance, a determination needs to be made regarding the appropriate role of a standards setting organization encouraging the use of the standards available for use. The SASB Board of Directors, including Chairman Michael Bloomberg and Vice Chair Mary Schapiro, are actively involved in socializing SASB standards. A letter, co-authored by the Chairman and Vice Chair of SASB's board, encouraging corporations to take a leadership role in the adoption of SASB standards, is scheduled to be distributed to the leadership of top companies by revenue in the industries for which SASB standards have been issued. A similar letter emphasizing the importance of participating in upcoming working groups will also be released shortly.

- C) The Council continues to support the efforts of the Standards Development Team to work with the SASB Committee on Metrics Quality, a subcommittee of the Council. While the feedback obtained seems useful, it is currently coming at the end of the Public Comment Period (e.g., as with the most recent meeting, which obtained information for the Transportation sector). Ideally, this feedback would be sooner to improve the metrics going out for the PCP.
- The Council recommends aligning the content of the Metrics subcommittee with standards currently being prepared for release for Public Comment.
    - SASB Response: SASB agrees with the Council's recommendation, but due to the timing of SASB's standards development process it will be unable to conduct this meeting prior to public comment for each future sector. SASB intends to conduct its next subcommittee meeting (November 2014) to cover content from the Services, Resource Transformation, and Consumption I sectors. Future meetings will be used to discuss metrics-related topics pertaining to any active Sector. SASB believes this will best leverage the expertise of the subcommittee to provide input at a variety of stages in the standards development process. SASB will report on the outcome of the November 2014 meeting at the next convening of the Standards Council. .

We acknowledge 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 \_\_\_\_\_, October 28, 2014

In representation of:



Jim Coburn, JD  
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## Appendix – Digest of Resource Transformation IWG Responses from Sources beyond IWG Registrants

Industry	Participant	Interest Group	Additional Contributors
Containers & Packaging	Ara Erickson	Corporations	Alicia Robbins (Economist), Laura Ramon (Technical Services Manager)
Aerospace & Defense	Donna Laviolette	Corporations	Sustainability Program Managers, Supply Chain Managers, Energy Managers
Containers & Packaging	Doug Sharo	Corporations	Dirk Krouskop (MWV) - Vice President Safety, Health & Environment Dirk and I reviewed the metrics section together. My thoughts and comments in other sections are mine alone.
Chemicals	Elizabeth Uhlhorn	Corporations	I included or paraphrased comments from our Global Supply Chain Safety Expert, our Product Safety Leader, and our Waste Minimization Leader.
Industrial Machinery	Jack Shih	Corporations	Ferdinand Alido and Chris Perzan.
Containers & Packaging	James McDonald	Corporations	Dave Kiser, vp EHS&S - International Paper
Containers & Packaging	Jerry Schwartz	Corporations	I consulted with some members and some AF&PA staff on some of the issues raised in the
Chemicals	Katarina Danihlikova Engel	Corporations	To fill in this questionnaire I used input from the experts within our External reporting department, Process safety department, Supply chain, Product Regulatory Management and Energy and climate change department.
Chemicals	Mark Weick	Corporations	I consulted with subject matter experts from across the company for each metric - process safety, personal safety, supply chain, transportation safety, external reporting, finance,
Chemicals	Pamela Oberski	Corporations	Subject matter experts from various departments/work processes within Dow were used to review proposed metrics/disclosures, including: Personal Safety/Industrial Hygiene, Waste Management, Process Safety, Supply Chain, Product Regulatory Management,
Chemicals	William GARCIA	Corporations	William Garcia ( wga@cefic.be)
Aerospace & Defense	Bozena Jankowska	Market Participant (Investors, Research Analysts, Exchanges)	Consulted with BAE Systems.
Chemicals	Dave Nelson	Public Interest & Intermediaries (Gov't, NGOs, Academics, Accountants, Auditors, Consultants)	For worker health, safety and retention, look at the paper by Walsh and Sulkowske (U Mas, Boston) 2015 involving 'happy workers'. This reflects the fact that content workers are willing to accept lower salaries, have less sick leave, and are generally better for the company culture.
Chemicals	Liz Matson	Public Interest & Intermediaries (Gov't, NGOs, Academics, Accountants, Auditors, Consultants)	Liz Matson, Colleen Webster
Containers & Packaging	Steven Bullock	Public Interest & Intermediaries (Gov't, NGOs, Academics, Accountants, Auditors, Consultants)	Julie Raynaud, Senior Research Analyst, Packaging sector