SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

# MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0403

Prepared by the
Sustainability Accounting Standards Board®

September 2015
Provisional Standard

# MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS

## Sustainability Accounting Standard

### About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for 78 industries in 10 sectors.


**SUSTAINABILITY ACCOUNTING STANDARDS BOARD**

1045 Sansome Street, Suite 450
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

# Table of Contents

# INTRODUCTION

## Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Multiline and Specialty Retailers & Distributors industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context—for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

## Industry Description

The Multiline and Specialty Retailers & Distributors industry encompasses a variety of retailing categories such as department stores, mass merchants, home products stores, and warehouse clubs, as well as a smaller segment of distributors like electronics wholesalers and automotive wholesalers. Common to these companies (except for the distribution segment) is that they manage global supply chains to anticipate consumer demands, keep costs low, and keep products stocked in their brick-and-mortar storefronts. This is a highly competitive industry, in which each company category generally has a small number of key players, characterized by generally low margins. The relatively substitutable nature of retail makes companies in this industry especially susceptible to reputational risks.

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

Note: SASB has separate standards for the Food Retailers & Distributors (CN0401), Drug Retailers & Convenience Stores (CN0402), E-Commerce (CN0404), and Apparel, Accessories, & Footwear (CN0501) industries. Companies involved in food or drug retail, e-commerce, or apparel, accessories, and footwear manufacturing should also consider the disclosure topics and metrics outlined in these other standards.

# Guidance for Disclosure of Sustainability Topics in SEC Filings

## 1. Industry-Level Sustainability Topics

For the Multiline and Specialty Retailers & Distributors industry, SASB has identified the following sustainability disclosure topics:

- Energy Management in Retail & Distribution
- Data Security
- Workforce Diversity & Inclusion
- Fair Labor Practices
- Product Sourcing, Packaging, and Marketing

## 2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "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 the information made available."[3,4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).
[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.
- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

## 3. Sustainability Accounting Standard Disclosures in Form 10-K

### a. Management's Discussion and Analysis

For purposes of comparability and usability, companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

### b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

*Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.*

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.
- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

---

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

c. **Rule 12b-20**

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

# Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Multiline and Specialty Retailers & Distributors industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—when disclosing a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported. Where not addressed by the specific accounting metrics, but relevant, the registrant should discuss the following, related to the topic:

- The registrant's **strategic approach** to managing performance on material sustainability issues;
- The registrant's **relative performance** with respect to its peers;
- The **degree of control** the registrant has;
- Any **measures the registrant has undertaken** or **plans to undertake** to improve performance; and
- Data for the registrant's **last three completed fiscal years** (when available).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

# Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

# Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings;[8]

- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and

- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

# Reporting Format

## Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

---

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

[8] See US GAAP consolidation rules (Section 810).

## Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

| ACTIVITY METRIC | CATEGORY | UNIT OF MEASURE | CODE |
|---|---|---|---|
| Number of (1) retail locations and (2) distribution centers | Quantitative | Number | CN0403-A |
| Total area of (1) retail space and (2) distribution centers | Quantitative | Square meters ($m^2$) | CN0403-B |

## Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

## Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies,

[9] *Improving Business Reporting: Insights into Enhancing Voluntary Disclosures*, FASB Business Reporting Research Project, January 29, 2001.

or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

### Estimates

SASB recognizes that scientifically based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

## Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

## Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

## Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

---

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

# Table 1. Sustainability Disclosure Topics & Accounting Metrics

| TOPIC | ACCOUNTING METRIC | CATEGORY | UNIT OF MEASURE | CODE |
|---|---|---|---|---|
| **Energy Management in Retail & Distribution** | Total energy consumed, percentage grid electricity, percentage renewable energy | Quantitative | Gigajoules (GJ), Percentage (%) | CN0403-01 |
| **Data Security** | Discussion of management approach to identifying and addressing data security risks | Discussion and Analysis | n/a | CN0403-02 |
| | Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected[10] | Quantitative | Number, Percentage (%) | CN0403-03 |
| **Workforce Diversity & Inclusion** | Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees | Quantitative | Percentage (%) | CN0403-04 |
| | Amount of legal and regulatory fines and settlements associated with employment discrimination[11] | Quantitative | U.S. Dollars ($) | CN0403-05 |
| **Fair Labor Practices** | Average hourly wage and percentage of in-store employees earning minimum wage, by region | Quantitative | U.S. Dollars ($), Percentage (%) | CN0403-06 |
| | (1) Voluntary and (2) involuntary employee turnover rate for in-store employees | Quantitative | Rate | CN0403-07 |
| | Amount of legal and regulatory fines and settlements associated with labor law violations[12] | Quantitative | U.S. Dollars ($) | CN0403-08 |
| **Product Sourcing, Packaging, and Marketing** | Revenue from products third-party certified to environmental and/or social sustainability standards | Quantitative | U.S. Dollars ($) | CN0403-09 |
| | Description of processes to assess and manage risks and/or hazards associated with chemicals in products | Discussion and Analysis | n/a | CN0403-10 |
| | Description of strategies to reduce the environmental impact of packaging | Discussion and Analysis | n/a | CN0403-11 |

[10] Note to **CN0403-03**—Disclosure shall include a description of corrective actions implemented in response to data security breaches.
[11] Note to **CN0403-05**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[12] Note to **CN0403-08**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

# Energy Management in Retail & Distribution

## Description

Companies in this industry require significant amounts of energy for their retail facilities and warehouses. Sustainability factors—such as the increasing number of GHG-emissions regulations, incentives for energy efficiency and renewable energy, and risks associated with nuclear energy and its increasingly limited license to operate—are leading to price increases in conventional electricity sources while making alternative sources more cost-competitive. Fossil fuel–based energy production and consumption contribute to significant environmental impacts, including climate change and pollution. It is becoming increasingly important for companies to manage their overall energy efficiency, and their access to alternative energy sources. Efficiency in this area can have financial implications through direct cost savings, which are particularly beneficial in this low-margin industry.

## Accounting Metrics

**CN0403-01. Total energy consumed, percentage grid electricity, percentage renewable energy**

.01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.

- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
- The scope includes only energy consumed by entities owned or controlled by the organization.
- The scope includes energy from all sources including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.

.02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.

.04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

.05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.

- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.[13]

- Renewable energy is defined as energy from sources that are replenished at a rate greater than or equal to their rate of depletion, consistent with U.S. Environmental Protection Agency (EPA) definitions, such as geothermal, wind, solar, hydro, and biomass.

.06 For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:

- Energy from hydro sources that are certified by the Low Impact Hydropower Institute or that are eligible for a state Renewable Portfolio Standard.

- Energy from biomass sources is limited to materials certified to a third-party standard (e.g., Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification, or American Tree Farm System), materials considered "eligible renewables" according to the Green-e Energy National Standard Version 2.5 (2014), and materials that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (for energy data including electricity from solar or wind energy).

[13] SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.

# Data Security

## Description

Consumers trust retail companies with their financial and personal data every time they make a noncash transaction. Credit cards and debit cards have steadily eclipsed cash and checks as consumers' preferred payment methods. In these noncash transactions, retailers build up a relationship of trust with consumers, assuring them of the safety of their personal information. Data breaches can occur both through breaches of the physical payment technology, called point-of-sales breaches, as well as through cyber-attacks. Retailers that prevent major data breaches can avoid harming brand value, reduce contingent liabilities, and maintain market share.

## Accounting Metrics

**CN0403-02. Discussion of management approach to identifying and addressing data security risks**

.08 The registrant shall identify vulnerabilities in its information systems that pose a data security threat, where:

- A data security threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the nation through an information system via unauthorized access, destruction, disclosure, modification of information, and/or denial of service.

- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

.09 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.

.10 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.11 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

- At a minimum, this includes disclosing when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition or would cause reported financial information to not necessarily be indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.12 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.13 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements
- "Framework for Improving Critical Infrastructure Cybersecurity, Version 1.0," February 12, 2014, National Institute of Standards and Technology (NIST)

**CN0403-03. Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected**

.14 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.

.15 The scope of disclosure shall be limited to data security breaches, cybersecurity risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

- The scope of disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from deficiencies or failures of people, processes, or technology.
- The scope of disclosure shall exclude disruptions of service due to equipment failures.

.16 Disclosure shall be additional but complementary to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

- At a minimum, this includes instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.17 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.[14]

[14] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- Disclosure shall include incidents in which encrypted data were acquired with an encryption key that was also acquired.
- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise the investigation.

.18 The registrant shall disclose the total number of customers that were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

Note to **CN0403-03**

.19 The registrant shall describe the corrective actions taken in response to specific incidents, such as changes in operations, management, processes, products, business partners, training, or technology.

.20 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.21 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

# Workforce Diversity & Inclusion

## Description

This industry is consumer-facing and relies on the ability to communicate effectively with customers during the sales process and adapt to changing consumer demands for products. The U.S. population is currently undergoing a massive demographic shift, with an increase in minority populations. Companies in this industry can benefit from ensuring that their company culture and hiring and promotion practices embrace the building of a diverse workforce at management and junior positions. Retailers that respond to this demographic trend and employ staff who will be able to recognize the needs of these populations may be better able to capture demand from these segments, which can provide companies a competitive advantage.

## Accounting Metrics

**CN0403-04. Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees**

.22 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following two categories: Management and All Other Employees.

- Management shall include managers at the corporate level and store level.

- Executive/Senior-Level Officials and Managers include individuals who plan, direct, and formulate policies, set strategy, and provide the overall direction of enterprises/organizations for the development and delivery of products or services, within the parameters approved by boards of directors or other governing bodies. Residing in the highest levels of organizations, these executives plan, direct, or coordinate activities with the support of subordinate executives and staff managers. In larger organizations, Executive/Senior-Level Officials and Managers include those individuals within two reporting levels of the CEO. Examples of these kinds of managers are chief executive officers, chief operating officers, chief financial officers, line of functional areas or operating groups, chief information officers, chief human resources officers, chief marketing officers, chief legal officers, management directors, and managing partners.

- First/Mid-Level Officials and Managers are individuals who serve in management roles other than those of Executive/Senior-Level Officials and Managers, including those who oversee and direct the delivery of products, services, or functions at group, regional, or divisional levels of organizations. These managers receive directions from the Executive/Senior-Level management and typically lead major business units. They implement policies, programs, and directives of Executive/Senior-Level management through subordinate managers and within the parameters set by Executive/Senior-Level management. Examples of these kinds of managers are vice presidents and directors; group, regional, or divisional controllers; treasurers; and human resources, information systems, marketing, and operations managers. The First/Mid-Level Officials and Managers subcategory also includes those who report directly to middle managers. These individuals serve at functional, line-of-business-segment, or branch levels and are responsible for directing and executing the day-to-day operational objectives of enterprises or organizations, conveying the directions of higher level officials and managers to subordinate personnel and, in some instances, directly supervising the activities of exempt and non-exempt personnel. Examples of these kinds of managers are first-line managers, team managers, unit managers, operations and production managers, branch managers, administrative services managers, purchasing and transportation managers, storage and distribution managers, call center or customer service managers, technical support managers, and brand or product mangers.

- All other employees not at the manager level (i.e., other EEO-1 categories, including professionals, technicians, sales, admin support, and service workers) should be considered in the "All other employees" category.

.23 The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.

.24 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications), or not disclosed/available.

.25 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.

.26 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

.27 The registrant should summarize and disclose employee representation by employee category in the following table format:

| Employee Category | Gender (%) | | | Race and Ethnicity (%) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Male | Female | NA* | White | Black or African American | Hispanic or Latino | Asian | Other^ | NA* |
| **Management** | | | | | | | | | |
| **All other employees** | | | | | | | | | |

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications.

**CN0403-05. Amount of legal and regulatory fines and settlements associated with employment discrimination**

.28 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with discrimination.

.29 Discrimination is defined as violation of the laws enforced by the U.S. Equal Employment Opportunity Commission (EEOC), and includes the following types:

- Age discrimination, which involves treating someone (an applicant or employee) less favorably because of his or her age and is forbidden by the Age Discrimination in Employment Act (ADEA).
- Disability discrimination, which occurs when an employer or other entity covered by the Americans with Disabilities Act, as amended, or the Rehabilitation Act, as amended, treats a qualified individual with a disability who is an employee or applicant unfavorably because he or she has a disability.
- Equal pay and compensation discrimination, which involves discrimination in compensation and is protected under federal laws including the Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and Title I of the Americans with Disabilities Act of 1990.
- Genetic information discrimination, which involves employment discrimination on the basis of genetic information and is forbidden by Title II of the Genetic Information Nondiscrimination Act (GINA).
- Harassment discrimination, which involves unwelcome conduct that is based on race, color, religion, sex (including pregnancy), national origin, age (40 or older), disability, or genetic information, and is forbidden under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and the Americans with Disabilities Act of 1990.
- National origin discrimination, which involves treating people (applicants or employees) unfavorably because they are from a particular country or part of the world, because of ethnicity or accent, or because they appear to be of a certain ethnic background (even if they are not), and is prohibited under Title VII of the Civil Rights Act of 1964.
- Pregnancy discrimination, which involves treating a woman (an applicant or employee) unfavorably because of pregnancy, childbirth, or a medical condition related to pregnancy or childbirth, and is forbidden in the Pregnancy Discrimination Act (PDA), which is an amendment to Title VII of the Civil Rights Act of 1964.
- Race/color discrimination, which involves treating someone (an applicant or employee) unfavorably because he/she is of a certain race or because of personal characteristics associated with race (such as hair texture, skin color, or certain facial features), and is prohibited by Title VII of the Civil Rights Act of 1964.

- Religious discrimination, which involves treating a person (an applicant or employee) unfavorably because of his or her religious beliefs.

- Retaliation discrimination, which makes it illegal to fire, demote, harass, or otherwise "retaliate" against people (applicants or employees) because they filed a charge of discrimination, because they complained to their employer or other covered entity about discrimination on the job, or because they participated in an employment discrimination proceeding (such as an investigation or lawsuit), and is prohibited by all of the laws enforced by EEOC.

- Sex discrimination, which involves treating someone (an applicant or employee) unfavorably because of that person's sex and includes sexual harassment, is prohibited by Title VII of the Civil Rights Act of 1964.

.30 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0403-05**

.31 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unfair hiring and/or promotion practices, biased compensation practices, etc.) of fines and settlements.

.32 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

# Fair Labor Practices

## Description

Retail's significance to the U.S. economy as a major employer means that it is also often at the center of public labor-practice discussions and fair wage arguments. This can have serious reputational implications for companies in the industry whose performance on labor relations is poor. The low average wages in the industry, which help companies maintain low prices on products, may increase these labor-related risks. Since customers regularly interact directly with employees, companies can face a decrease in market share and revenue from negative consumer sentiment due to public disagreement between companies and their workers. Companies may benefit from taking a long-term perspective on managing workers, including fair compensation, in a way that protects workers' rights and enhances their productivity, which can help to strengthen a company's reputation and financial success.

## Accounting Metrics

**CN0403-06. Average hourly wage and percentage of in-store employees earning minimum wage, by region**

.34 The registrant shall disclose the average hourly wage, in U.S. dollars, paid to in-store and distribution center employees for each geographic region for which it conducts segment financial reporting (as determined by FASB Accounting Standards Codification Topic 280), where:

- The scope of disclosure excludes corporate employees.
- In-store employees are classified in the Bureau of Labor Statistics (BLS) Standard Occupation Classification under the General Merchandise Stores subsector (NAICS 452) and includes cashiers; customer service representatives; first-line supervisors/managers of retail sales workers; retail salespersons; and stock clerks and order fillers.
- If segment reporting (as determined by FASB Accounting Standards Codification Topic 280) does not apply to the registrant, the registrant should disclose one number for the average hourly wage paid to its in-store and distribution center employees.

.35 The average hourly wage is calculated as the total hourly wages (in U.S. dollars) paid to in-store and distribution center employees, excluding overtime, for the fiscal year, divided by the number of regular hours worked, excluding overtime hours, by in-store and distribution center employees during the fiscal year.

.36 The registrant shall disclose the percentage of in-store employees that earn minimum wage, where:

- Minimum wage is defined as the locally mandated minimum wage applicable for each worker.
- For countries or regions with no minimum wage requirement, the 10th percentile hourly wage, in U.S. dollars, of all wage earners in that country or region shall be used for this disclosure, including

for the calculation of the percentage of staff that earns minimum wage and the calculation of the average prevailing minimum wage.

.37 The registrant shall disclose the minimum hourly wage for each geographic region for which it conducts segment financial reporting.

.38 The registrant should discuss the sensitivity of its costs and profit margins to future adjustments in minimum wage, including:

- The likelihood of a minimum wage increase in the regions where the registrant operates, and the regions in which this is more likely to occur.

- The percentage of its current retail and distribution center employees whose salaries are near the current minimum wage, and whose salaries may necessitate an increase given a change in minimum wage regulations.

- The magnitude of the financial impact that a minimum wage increase would likely have on the registrant.

**CN0403-07. (1) Voluntary and (2) involuntary employee turnover rate for in-store employees**

.39 The registrant shall disclose employee turnover of in-store and distribution center employees as a percentage, where:

- Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.

- The scope of disclosure excludes corporate staff and executives. All calculations are based on the number of in-store and distribution center employees (i.e., those employees who work on-site in retail facilities, warehouses, or distribution centers).

.40 The registrant shall calculate the voluntary turnover percentage as the total number of employee-initiated voluntary separations (such as resignations, retirement, etc.) during the fiscal year divided by the total number of employees during the fiscal year.

.41 The registrant shall calculate the involuntary turnover percentage as the total number of registrant-initiated separations (such as dismissal, downsizing, redundancy, non-renewal of contract, etc.) during the fiscal year divided by the number of employees during the fiscal year.

**CN0403-08. Amount of legal and regulatory fines and settlements associated with labor law violations**

.42 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with labor law violations, including, but not limited to, violations of the Fair Labor Standards Act, such as those relating to wages, work hours, overtime, and meal and rest breaks.

.43 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0403-08**

.44 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., improper working conditions, unfair compensation, etc.) of fines and settlements.

.45 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

# Product Sourcing, Packaging, and Marketing

## Description

Companies in this industry sell a wide array of products including electronics, clothing, furnishings, and cosmetics, which all have varying environmental and social impacts throughout their lifecycles. The size and subsequent buying power of many companies in this industry allow them to work effectively with their suppliers to source products and packaging with low lifecycle environmental and social impacts. Companies can lower their costs from these efficiencies, as well as advertise these characteristics to their customers, to gain market share.

## Accounting Metrics

**CN0403-09. Revenue from products third-party certified to environmental and/or social sustainability standards**

.46 The registrant shall disclose its revenue, in U.S. dollars, from products that are third-party certified to an environmental or social sustainability standard, where a product is considered to meet these criteria if:

- It has achieved certification through a government program, including, but not limited to, the U.S. EPA Star and Water Sense programs, USDA Certified Organic, or is listed in the Comprehensive Procurement Guidelines (CPG) directory.
- It has achieved certification to a third-party environmental or social sustainability standard or sustainability standards promulgated by organizations such as the American National Standards Institute (ANSI) or ASTM International, including, but not limited to, Fair Trade Certified, Forestry Stewardship Council (FSC), Sustainable Forestry Initiative (SFI), Rainforest Alliance Certified, BPI Compostable, Cradle to Cradle, Green Seal, or Marine Stewardship Council.
- A product with third-party certification shall be considered certified regardless of what level or tier of certification it received.

.47 Third-party certification is defined as review by an independent organization that determines that the final product complies with specific standards.

.48 The scope of disclosure includes third-party certifications that are based on either environmental or social best practices or both environmental and social best practices.

**CN0403-10. Description of processes to assess and manage risks and/or hazards associated with chemicals in products**

.49 The registrant shall describe the business and operational processes it employs to assess and manage potential risks and hazards associated with materials, chemicals, and substances (hereafter "chemicals") in products it offers for sale.

- The scope of disclosure shall focus on chemicals that may be detected at certain levels in the national brand products and private-label products and that are offered for sale by the registrant.

- Private-label products include store-brand products packaged for sale under the registrant's brand name(s), whether manufactured by the registrant or by another manufacturer.

- The registrant may choose to discuss its management of chemicals used during manufacturing and production of products or that are associated with the production of raw materials or components of products, but which are not present in finished products.

.50 The registrant shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:

- A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human-health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and the dosages (amounts) of a substance it takes to cause an adverse effect.[15]

- A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure (i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.[16]

- Other approaches may include the usage of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.

.51 The registrant shall describe the operational processes it employs for chemicals management, where:

- Relevant operational processes that typify hazard-based approaches include limiting or restricting certain chemicals in products it chooses to sell because the chemicals may be prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in finished products (e.g., use of a restricted substances list (RSL) for chemicals that are banned where the registrant operates and/or for chemicals that the registrant has chosen to limit or eliminate).

- Relevant operational processes that typify risk-based management include evaluating products' chemical hazard data, conducting an assessment of exposure pathways resulting from use of products, and identifying potential corresponding health risks from products through the use of screening methods and chemical risk framework tools, such as the World Health Organization (WHO) Human Health Risk Assessment Toolkit: Chemical Hazards and the International Council of Chemical Associations (ICCA) Guidance on Chemical Risk Assessment.

[15] Definition adapted from "Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, http://chemicalsafetyfacts.org/understanding-risk/.

[16] Definition adapted from "Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, http://chemicalsafetyfacts.org/understanding-risk/.

- Additional frameworks for hazard- and risk-based chemical assessments include those compiled by the Organisation for Economic Co-operation and Development (OECD), available here.

.52 The registrant shall describe how it prioritizes chemicals for reduction and/or elimination from products it offers for sale, how it communicates these priorities to suppliers and enforces compliance, and whether it encourages or requires suppliers to consider alternative chemicals in product formulations.

- Examples of assessment tools and methods include, but are not limited to, GreenScreen® For Safer Chemicals and U.S. EPA Design for the Environment (DfE) Alternatives Assessments.

.53 The registrant shall disclose whether it has a policy to require disclosure of full chemical formulations for the products it offers for sale (both national brand and private label products), where:

- Disclosure is defined as disclosure of the full product formulations and all product ingredients, including all priority chemicals, either online, to the registrant, to a third-party, or directly on the product packaging or label.

.54 The registrant shall disclose if it pursues testing and/or third-party certification to verify the chemical content of its private-label products or if it selects national brand products based on whether they have obtained third-party certification that verifies their chemical content, including which certifications it holds and which products the certifications apply to.

.55 The registrant may choose to identify chemicals found in its product portfolio that it is has a policy for to reduce, eliminate, or assess for reasons such as:

- There is incomplete and/or insufficient availability of toxicity information such that the registrant cannot determine if the chemical is safe for use;

- Pending or anticipated regulations may limit or restrict the use of the chemical in the future;

- There is potential for environmental harm, but not human health harm, that the registrant wishes to limit; and/or

- In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the registrant as being "of concern" to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).

.56 Where the registrant has identified specific chemicals for elimination or substitution in its product portfolio, it should discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals.

.57 The registrant should discuss its policy for selecting products to sell that use chemicals classified as Group 1 carcinogens by the *IARC Monographs on the Evaluation of Carcinogenic Risks to Humans*, and substances listed in Annex XVII to REACH, including its policy for labeling such products.

.58 Where applicable, the registrant shall discuss its approach to chemicals management in the context of each stage in its private-label products' lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.

.59 Where chemicals management policies and practices differ significantly by business unit, product category, or geography, the registrant shall describe those differences.

**CN0403-11. Description of strategies to reduce the environmental impact of packaging**

.60 The registrant shall discuss its strategies to reduce the environmental impacts of packaging, such as optimizing packaging weight and volume for a given application, or using alternative materials, including those that are renewable, recycled, recyclable, or compostable.

.61 Relevant disclosure may include, but is not limited to, the following:

- Design innovations, including strategies to optimize the amount of material used; packaging weight, shape, and size; product-to-package ratio; cube utilization; and void fill.
- Implementation of the "Essential Requirements" in Article 9, Annex II of the E.U. Directive on Packaging and Packaging Waste (94/62/EC), which includes minimization of packaging weight and volume to the amount needed for safety, hygiene, and consumer acceptance of the packed product; minimization of noxious or hazardous constituents; and suitability for reuse, material recycling, energy recovery, or composting.
- Performance on the Global Protocol on Packaging Sustainability 2.0 metrics for Packaging Weight and Optimization and/or Assessment and Minimization of Substances Hazardous to the Environment.

.62 The registrant should discuss its strategies as they relate to primary, secondary, and tertiary packaging of its private-label products as well as the packaging of products from its vendors, where:

- Primary packaging is designed to come into direct contact with the product.
- Secondary packaging is designed to contain one or more primary packages together with any protective materials, where required.
- Tertiary packaging is designed to contain one or more articles or packages, or bulk material, for the purposes of transport, handling, and/or distribution. Tertiary packaging is also known as "distribution" or "transport" packaging.
- Private-label products include store-brand products packaged for sale with the retailer's name, whether manufactured by the retailer or by another manufacturer.

.63 The registrant may choose to discuss its use of Life Cycle Assessment (LCA) analysis in the context of its approach to environmental impact reduction and maximization of product efficiency, including weight reduction and transportation efficiency.

- When discussing improvements to the environmental efficiency of packaging products, improvements should be discussed in terms of LCA functional unit service parameters (i.e., time, extent, and quality of function).

***Additional References***

Consumer Reports Greener Choices Eco-Labels
ISO 18601:2013 Packaging and the environment definitions

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

1045 Sansome Street, Suite 450
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org