SASB Press Kit

The New York Times

Investors Want More Firms to Be More Open. This Nonprofit Is Trying to Make It Happen.

By David Gelles
November 15, 2016
Source: http://www.nytimes.com/2016/11/15/business/dealbook/dealbook-investing-sustainability-environmental-impact.html?smid=tw-share&_r=1

Jean Rogers cut her teeth as an environmental engineer. Early in her career, she worked to clean up Superfund sites, donning hazmat suits to take samples of soil and groundwater polluted by industrial activity.

That firsthand look at how industry could despoil nature left her distrustful of big business.

“I became very disillusioned with what was happening, with how businesses were dealing with these issues,” she said. “I was literally cleaning up their messes.”

But today, as chief executive of the Sustainability Accounting Standards Board, Ms. Rogers is working closely with some of the biggest corporations on the planet, prodding them to be more forthcoming about the environmental and social impacts of their operations.

The board, an independent nonprofit organization that she founded in 2011, has one mission: To develop standards that get public American companies to disclose more information about sustainability concerns, such as greenhouse gas emissions and work force diversity, in their filings to the Securities and Exchange Commission.

Ms. Rogers, 50, runs the standards board from an office in San Francisco’s financial district. She has parlayed her experience as an environmental engineer into an influential role on Wall Street, where she is helping shape what companies reveal to the public.

“Jean Rogers and the SASB leadership know what they’re doing,” said Alice Korngold, who runs a consulting firm that works on corporate sustainability. “Her technical skills in this area are unmatched.”

The goal is not purely idealistic. Within the investor community, these issues are increasingly viewed as material, capable of swaying a company’s stock price.

Already, these issues are making headlines. Last month, Exxon Mobil conceded it might need to write down the value of some of its oil and gas assets.

Coal companies have been criticized for failing to warn investors that their businesses were in jeopardy because of environmental problems they had helped create. And Chipotle has drawn fire for lax reporting about food safety concerns.

And still, companies often use opaque or boilerplate language to discuss social and environmental concerns.

“Standards are key, so there is integrity to the reports and there is some degree of comparability,” Ms. Korngold said. “Otherwise, a lot of reports are fluff.”

For example, Molson Coors, the brewing company, included highly generalized language in last year’s annual report: “Climate change and water availability may negatively affect our business and financial results,” it said.

“Companies are reluctant to make public data about the risks they face, not only about sustainability issues, but around other issues as well,” said Jim Coburn, who runs the investor program at Ceres, a group that is also working to promote sustainability and the disclosure of environmental problems at big companies.

But change is afoot, thanks in part to the efforts of Ms. Rogers.

Her career led her to do environmental consulting at Deloitte and Arup, an engineering consultancy.

Along the way, she worked to make the sailing and swimming facilities at the Beijing Olympics more sustainable, and to prepare contaminated former military sites for commercial development.

In 2010, she and colleagues published a white paper that outlined what companies in six industries, including utilities, airlines and paper manufacturing, could do to offer more substantial environmental disclosures. They proposed that carmakers emphasize reporting on issues such as product safety, rather than, say, biodiversity, and that energy companies focus on reporting on climate change more than child laborpractices.

“We were really trying to figure out what were the different issues for different industries,” Ms. Rogers said. “It was a paradigm shift in the thinking about sustainability.”

After the paper came out, investors approached Ms. Rogers about expanding her research. She quit her job at Arup the next year and did a web search on “how to start a nonprofit.” After some false starts funding the organization, she met with Daniel L. Doctoroff, then chief executive of Bloomberg LP. That led to an investment of $1 million from Bloomberg Philanthropies, the charitable foundation run by Michael R. Bloomberg, the former mayor of New York.

“We didn’t even have a bank account,” Ms. Rogers said. But soon she had temporary office space at Bloomberg’s San Francisco offices. “It was a rocket ship from that point,” she said.

Over the last few years, the standards board has worked to develop guidelines for dozens of industries, with suggestions on what types of social and environmental information cruise lines, asset managers and coal operators, among others, should report.

Companies are already required to disclose information that might be material to investors. The issue is that, until now, no one has defined which social and environmental issues are material. “The S.E.C. has very good existing rules that have been around for decades,” said Mr. Coburn of Ceres.

The S.E.C. does not need to issue a new rule for the board’s standards to become the norm. Instead, the agency could signal its desire for companies to use nonprofit’s standards in comment letters or public statements.

This summer, the agency said it would review what disclosures it required from companies and how effective they were, and invited public comment.

Letters poured in to the S.E.C. More than 66 percent of the original letters reviewed by the standards board discussed the need for greater sustainability disclosures.

“It’s very strategic what they have done,” Mr. Coburn said. “They have to get companies using their reporting standards, and there’s a lot of momentum of around climate disclosure.”

Ms. Rogers said the election of Donald J. Trump and the likely appointment conservative commissioners to the S.E.C. would not slow her momentum.

“The investor demand for this is unchanged,” she said. “Investors believe these factors are material and need better disclosure. That’s not going to change with the president.”

THE WALL STREET JOURNAL.

Investors Demand More Sustainability Disclosures From Companies

By TATYANA SHUMSKY
Sep 26, 2016

Source: http://blogs.wsj.com/cfo/2016/09/26/investors-demand-more-sustainability-disclosures-from-companies/

Investors are asking companies to bolster the information that appears in company financial filings regarding sustainability efforts.

While many companies issue corporate social responsibility reports, there is little standardization of reported metrics or third party oversight of the disclosure, raising a number of concerns for investors, said Mary Morris, investment officer at the California State Teachers' Retirement System, or CalSTRS.

"We really should be moving some of that information into the financial statements because it's audited and it's assured," she said, speaking on a panel at the Pace University Pacesetters In Financial Reporting Conference on Monday.

Moreover, investors need objective, industry-based standards for sustainability reporting, as this would make comparisons easier to perform, Ms. Morris said.

The information "is useful to our capital allocation and whether we still keep that allocation," Ms. Morris said.

CFO Journal previously reported that roughly 75% of the S&P 500 issued sustainability reports in 2015, up from 20% in 2011, according to the Governance and Accountability Institute.
The Sustainability Accounting Standards Board, a nonprofit, is developing industry-specific metrics for material sustainability disclosure, but has so far issued only provisional measures that are not mandatory.

"Investors are pushing harder and harder and harder for this information…They are doing this through an increasing number of shareholder proposals," said Elisse Walter, director of the SASB.

While roughly three quarters of the sustainability topics covered by the SASB are already covered by mandatory Securities and Exchange Commission filing requirements, investors remain dissatisfied, Ms. Walter said. Much of the disclosure available to investors is boilerplate, and lacks the insightful detail investors seek, she said.

"It's not the topics that [companies] are shying away from, it's the specificity," Ms. Walter said.

And, while the SEC currently requires certain disclosures, investors continue to ask for more. A recent proposal to change certain disclosure requirements garnered about 360 public comment letters, the majority of which touched on sustainability reporting, said Keith Higgins, director of the SEC's division of Corporation Finance.

"Climate change probably tops the list, but it isn't the only issue," Mr. Higgins said.

Making Sustainability Reporting Work for Investors and Companies
by Alan L. Beller
July 27, 2016

Source: https://listingcenter.nasdaq.com/ClearingHouse.aspx#outsideinsight

I became Director of Corporate Finance at the SEC in January 2002, in the immediate aftermath of the Enron accounting and auditing failure and bankruptcy, and most of my first 18 months at the SEC were spent on financial reporting, audit committees and the like. Even then, however, others at the SEC and I were convinced that, in the 21st century, financial information doesn't provide a complete picture of corporate performance. We sought, with limited success mostly due to lack of bandwidth and a practicable plan for moving forward, greater emphasis on operating metrics and other forms of non-financial disclosure.

Investors agreed with the efforts then, and they agree even more violently today. In a 2015 CFA Institute survey, 73 percent of institutional investors indicated that they take sustainability (environmental, social, and governance) issues into account in their investment analysis and decisions, to help manage investment risks.

Notwithstanding the title of a recent book regarding the future of accounting, excerpted in the Wall Street Journal, accounting is not dead, and financial information and analysis remains critically important. However, investors need better disclosure in respect of sustainability matters, and under current reporting systems companies have the ability to provide what investors need. The SEC has acknowledged the need for disclosure to evolve in this area. In its long-awaited recent Concept Release regarding disclosure effectiveness, currently open for public comment, the SEC asks "which, if any, sustainability and public policy disclosures are important to an understanding of a registrant's business and financial condition and whether there are considerations that make these disclosures important to investment and voting decisions."

These questions bring companies and investors to an inflection point, whether or not the SEC expeditiously takes the next steps towards disclosure effectiveness. Investors want and already receive disclosure regarding sustainability and related matters through a variety of channels. Companies already provide such information, through SEC disclosures, websites, sustainability reports and questionnaires. What is needed now is a pathway to make sustainability reporting more cost-effective for companies and more decision-useful for investors. In particular, for companies sustainability reporting is already reality. The full-stretch ostrich position of ignoring it and hoping it will go away, to which some companies still seem committed, will not work. What is necessary is implementation of robust and effective governance around sustainability disclosure and effective engagement with investors, as well as other stakeholders.

As noted above, companies currently report sustainability information in a variety of channels, including the periodic reports and offering documents filed with the SEC, sustainability reports, and investor questionnaires. However, standalone sustainability reports lack standardization and comparability and in at least some cases reflect insufficient attention to existing regulatory requirements. The generalized requirements followed for some of these reports also result in both companies and stakeholders spending time and focusing attention on unimportant information. Investor questionnaires raise their own issues. Questionnaires follow different formats and seek information in non-standardized ways, and information made available to an investor may differ from that provided by the company through other channels or to another investor. This disharmony of information is not good for a company, and if there is differentiated or selective disclosure of information that is in fact material under the federal securities laws, a company's practices may run afoul of the SEC's Regulation FD (Fair Disclosure). This current situation provides

ample evidence that companies need effective governance around the sustainability disclosure choices that they are making now.

A critical area of focus for governance and engagement involves disclosure in a company's filings with the SEC, including the annual report on Form 10-K (or for foreign companies registered with the SEC, Form 20-F). This is the appropriate channel for disclosure of improved sustainability information to investors within the framework and requirements of the federal securities laws, and it is the one in which my principal expertise lies.

Other disclosure efforts, including those aimed at other stakeholders, should be considered as complementary to and not competitive or conflicting with the decision-useful disclosure that investors deserve under the securities laws. Continuing investor and other stakeholder engagement with companies regarding sustainability disclosure is not inconsistent with the efforts of SASB, described below, to use the existing legal framework and its standard-setting to ensure disclosure of material sustainability information in SEC filings. Neither should these other activities delay or prevent the accomplishment of SASB's mission to make these material disclosures in SEC filings a reality.

Regulation S-K and analogous SEC disclosure regulations, which set forth the specific disclosure requirements associated with Form 10-K and other SEC filings, contain principles-based requirements that call for disclosure of both current and forward-looking information. As the SEC noted in its 2010 guidance regarding disclosure related to climate change, certain sustainability information should be disclosed under existing SEC rules. A lot of good sustainability disclosure requires careful analysis and disclosure of matters as they exist today. At least as much requires similar careful analysis and disclosure of forward-looking information, or how tomorrow is reasonably likely to turn out in respect of material matters, based on what is known today. In particular, Item 303 of Regulation S-K requires that companies describe known trends, events, and uncertainties that are reasonably likely to have material impacts on their financial condition or operating performance in the so-called Management's Discussion and Analysis sections of their annual and quarterly reports and securities offering documents. Similar requirements exist for non-US issuers registered with the SEC in their annual reports and offering documents filed with the agency.

Because of these requirements, companies often include sustainability information in SEC filings. SASB's research shows that information regarding 74 percent of SASB disclosure topics is already being disclosed in companies' annual reports on Form 10-K. However, currently these disclosures are only rarely presented in a manner that is decision-useful for investors. More than 40 percent of all disclosures on sustainability topics contain boilerplate language: broad, generic, nonspecific wording. Current sustainability disclosures in SEC filings do not provide investors with comparable, industry-specific data with which to evaluate and compare performance.

Disclosure of performance on sustainability topics that would be decision-useful to investors and cost-effective and sensible for companies and that would be equal to the quality that markets expect for financial information—can best be accomplished via a clear focus on material information and on an industry-specific market standard. Just as the markets have a standard for material financial information—US GAAP—the markets need a standard for material sustainability information.

This is the need SASB was created to address. SASB standards are designed to help companies effectively disclose material sustainability information and comply with regulatory obligations, working within the framework of existing U.S. securities laws. SASB's provisional standards have been developed, and SASB is embarking on a project to make the provisional standards final, in both cases through processes that are designed to produce standards that are cost-effective and decision-useful, and to embody in those standards industry-specific sets of disclosure topics and metrics that are reasonably likely to constitute material information for companies in that industry. SASB seeks to incorporate by reference metrics already in use by industries where it concludes that is practicable.

In order to move from boilerplate disclosure to metrics, companies will need to strengthen their governance and internal controls and procedures, as well as procedures for independent assurance. However, accepted improved disclosure on material sustainability factors will have benefits for companies. First, they will reduce the cost and burden of the plethora of varied shareholder resolutions and questionnaires that will be the most likely alternative to market standards. Second, there is some support in recent academic research that suggests that by focusing on the limited set of sustainability related risks and opportunities identified by the SASB standards—those reasonably likely to have material impacts—companies can achieve superior results, including return on sales, sales growth, return on assets, and return on equity, in addition to improved risk adjusted shareholder returns.

In addition to improving the quality of sustainability disclosure in their SEC filings, companies need to ensure their description of material information is consistent across corporate communication channels. For example, 81 percent of the S&P 500 companies now produce stand-alone sustainability reports, designed for a broad range of stakeholders. These reports often describe matters as “material” but in some cases use that term more loosely than is the case under federal securities laws. The inconsistent characterization of information as material across corporate communications channels within a company may present legal, reputational and operational risks and itself calls out for more robust governance. Significant issues arise as a result of inconsistent characterization of information as material among companies in an industry.

The SEC’s disclosure requirements including Regulation S-K already exist. To make sustainability reporting work better for companies, we need a market standard and a commitment by companies to embrace that standard. A market standard for sustainability information should reduce the pressure for additional regulation and the current practice of scattershot disclosure. It should also level the playing field, so that no one company in an industry is required to say materially more, or less, than another. Lastly, it will reduce the uncertainty around what is material, and maybe even drive competitiveness by helping companies improve performance on the most important issues for their industry.

***

Alan Beller is a Senior Counsel at Cleary Gottlieb Steen & Hamilton LLP in New York and a Board Director of the Sustainability Accounting Standards Board (SASB). He is a former Director of the Division of Corporation Finance and Senior Counselor to the Commission at the SEC.

Directors Can Add Valuable Perspective to SEC's View of Sustainability
By Elisse Walter & Aulana Peters
July 14, 2016

Source: https://blog.nacdonline.org/2016/07/directors-can-add-valuable-perspective-to-secs-view-of-sustainability/

Business news headlines on any given day highlight the importance of sustainability issues such as resource scarcity, climate change, population growth, globalization, and transformative technologies. In today's world, management of these and other sustainability risks and opportunities influences corporate success. Thus, understandably, investors are increasingly requesting information on how companies are managing these factors.

A **concept release** from the Securities and Exchange Commission (SEC) on disclosure effectiveness includes a lengthy discussion of sustainability disclosure. In the release, the SEC states that it is "interested in receiving feedback on the importance of sustainability and public policy matters to informed investment and voting decisions." We hope that the SEC's request for input on sustainability issues signals an understanding that the information investors consider "material"—much like the world around it—is changing. As a result, corporate disclosures should also evolve to provide investors with the information they need to make informed investment and voting decisions.

Sustainability issues are increasingly important to a company's financial condition and operating performance, and thus merit the attention of its board. At **more than 55 percent** of S&P 500 companies, the board oversees sustainability, according to the Investor Responsibility Research Center Institute. Such boards are to be applauded for taking a more holistic view of risk oversight, and for getting out in front of global challenges.

This shift in focus by investors and the business community is driven by a growing recognition that sustainability issues are business issues, not only born of social or political concerns. One **recent study** found that when companies focus their efforts on managing material sustainability factors—namely, those critically linked to their core business—they outperform their peers with significantly higher return on sales, sales growth, return on assets, and return on equity. They also show significantly improved risk-adjusted shareholder returns.

Clearly, the board plays a key role in developing a company's capacity to create long-term value and in safeguarding its assets. In this regard, a board's careful consideration of information on material sustainability factors would help it to fulfill its oversight responsibilities, by assisting it in understanding, prioritizing, and monitoring business-related risks and opportunities.

For example, a board should regularly consider how its company measures, manages, and reports its material sustainability risks. A pharmaceuticals company might consider how it is addressing a **$431 billion counterfeit drug market**, where mitigation strategies in an increasingly complex, global supply chain could stem or reverse the loss of consumer confidence and company revenues, and prevent up to 100,000 deaths each year (see Roger Bate's 2012 book *Phake: The Deadly World of Falsified and Substandard Medicines*). The plunging stock price and loss of goodwill suffered by Chipotle Mexican Grill after outbreaks of E. coli and norovirus at its restaurants demonstrate the way in which a failure to manage sustainability risk factors can seriously damage a company's reputation and shareholder value.

Moreover, sustainability issues not only raise risks, but also present opportunities that can and should be taken into account by the board as it considers development and implementation of the company's strategic goals.

Sustainability issues may have a material impact on a company's ability to achieve such goals. For automakers, a strategy that incorporates fuel-efficient technologies and alternative fuels can help the company capitalize on legal and consumer trends regarding fuel economy and emissions in a market where car ownership is projected to **triple by 2050**.

Sustainability issues directly affect a company's financial condition and operating performance. Therefore, it is not surprising that investors are increasingly demanding more effective and useful sustainability information. Many companies have made efforts to meet this demand through disclosures in corporate social responsibility (CSR) reports, by responding to questionnaires, or otherwise engaging with investors. The sustainability information in CSR reports is not, from our perspective, "investment-grade;" that is, it is not necessarily material, not industry specific, not comparable, and not auditable. To that point, **a 2015 PwC study** found that 82 percent of investors said they are dissatisfied with how risks and opportunities are identified and quantified in financial terms; 74 percent of the investors polled said they are dissatisfied with the comparability of sustainability reporting between companies in the same industry.

What the markets have lacked, until now, are standards that can guide companies in disclosing material sustainability information in a format that is decision-useful. These standards must be industry specific. Sustainability issues affect financial performance differently depending on the topic and the industry. Therefore, investors need guidance on which sustainability issues are material to which industries, and they need industry-specific metrics by which to evaluate and compare the performance of reporting companies.

The Sustainability Accounting Standards Board (SASB), an independent 501(c)(3) nonprofit, was created to address this market inefficiency. The mission of SASB is to develop and disseminate industry standards for sustainability disclosure that help public corporations provide material, decision-useful information to investors via MD&A and other relevant sections of SEC filings such as the Form 10-K and 20-F. SASB's standards are formulated with broad market participation and draw upon metrics already used by the corporate community. They will continue to evolve, as our world, and thus material sustainability issues, change.

Investors want to place their funds in entities that have good prospects for the future. To do so, they evaluate the information that is material to a company's prospects. Not all that information rests in the financial statements that reflect a company's current financial condition. We believe that, in today's world, risks and opportunities not yet reflected in a company's financial statements influence its success. And, the information that is "material" to investors—much like the world around it—has changed.

To help companies disclose material sustainability information, the capital markets need standards for disclosure of sustainability information that are created by the market, specific to industry, and compatible with U.S. securities law.

The management and disclosure of sustainability issues merits the attention of directors. The **public comment period** for the SEC's disclosure effectiveness concept release runs through July 21. This is an important opportunity for publicly held companies and their directors to be heard on these critical issues, and to stress the importance of a market standard that serves investors while not overburdening issuers.

Aulana Peters was an SEC Commissioner from 1984-1988. Elisse Walter was the 30th chair of the SEC. Peters and Walter serve on the SASB board of Directors.

Forbes

93 Percent of Public Companies Face Climate Risk; Only 12 Percent Have Disclosed It
By Jeff McMahon
July 13, 2016

Source: http://www.forbes.com/sites/jeffmcmahon/2016/07/13/93-percent-of-public-companies-face-climate-risk-only-12-percent-disclose-it/#57e17c478158

Almost all U.S. publicly traded companies face risk either from climate change itself or from the changes needed to fend it off, experts agreed Monday at the S&P Global offices in New York—but few companies have warned their investors.

Some executives seem to be in denial, while other executives may not have any idea how to assess climate risk, according to panelists convened by the international Task Force on Climate-related Financial Disclosures.

"If you look at the boards maybe they don't have the expertise to assess climate risk and opportunities," said Diane Larsen, Americas assurance markets leader for Ernst & Young. "So then this is about good governance. How do we get that expertise, how do we bring it on board?"
The Sustainability Accounting Standards Board (SASB) chaired by Michael Bloomberg reported in December that 93 percent of American public companies face some degree of climate risk, and only 12 percent have disclosed it.
The SASB report was overlooked by news organizations at the time, perhaps with so much news breaking from the Paris Climate Conference. Bloomberg himself was in Paris, announcing the formation of the Task Force on Climate-related Financial Disclosures, which he also chairs.

"Make no mistake, climate change means business," wrote SASB CEO Jean Rogers. "It affects 93 percent of the U.S. equity market, representing $33.8 trillion market capitalization. As we've said before, because climate risk is systemic and embedded across a portfolio, investors can't diversify away from it."

Those 93 percent of companies could face "transition risks" as the world shifts to a low-carbon economy, including declining revenues, stranded assets, asset write-downs, impairment charges, and changes in cash flow.

To prepare for those risks, investors need information on companies' future emissions profiles, capital-expenditure plans and risk-management plans, the panelists said. Investors need to know who is responsible for assessing risk at each company, how they're doing it, and how far they've gotten.

Mike Wilkens of S&P called on companies to prepare carbon stress tests, calculating revenues and cash flows under different emissions limits and carbon prices.

Among the companies that seem to be in denial, Wilkens singled out American oil majors. Unlike their European counterparts, some American oil companies continue to predict, at least publicly, that oil demand will continue to grow, he said.

"I'm not entirely sure what planet they're living on because clearly there is a second- or possibly third-generation renewables revolution happening at the moment," said Wilkins, the global head of environmental and climate risk research for S&P Global.

If the world is to limit global warming to 2ºC, then fossil fuel demand has to fall, added Mark Lewis, the head of European utilities equity research for Barclays.

“Over the next 25 years the global fossil fuel industry in our view would stand to lose $33 trillion of revenue compared with a business-as-usual scenario,” Lewis said, citing a Barclay’s analysis that also came out last December. Most of those lost revenues, he added, are oil revenues.

The use of fossil fuels for energy, transportation and industry accounts for about 70 percent of anthropogenic greenhouse gas emissions, Lewis said, so those sectors seem most vulnerable.

But climate risk is spread across the market, can come from unforseen directions, including storm damage and coastal flooding, and companies outside of the energy sector may be less prepared to assess it.

“I think the first step, in terms of baby steps, is to acknowledge the possibility that there is a risk or an opportunity out there—there could be opportunities,” said Diane Larsen, “and then bake that into a process, you know, do an assessment, figure out what it means.

“There could be real significant financial impact to the organization, and the governance structure of that company needs to really understand that impact and when will that impact come home to roost.”

If the companies don’t do it, the panel suggested, it will get done another way.

“If you don’t use a reasonable assumption for your climate policies and your climate risk, then the market will do it for you,” Lewis said. ”And then ultimately you’re going to be at the mercy of the market, which most companies don’t want to be.”

The Dutch pension firm PGGM is shifting $20 billion in assets based on four “megatrends” that it believes will affect the value of companies going forward: climate change, water security, food security, and access to health care.

“We have started divesting from those companies with the highest carbon footprint,” said Eloy Lindeijer, PGGM’s chief of investment management, “and then reinvesting those funds on a country- and sector-neutral basis with those companies that have a better performance in that field.”

SASB the Missing Link in ESG Integration
By Amanda White
May 13, 2016

Source: http://www.top1000funds.com/analysis/2016/05/13/sasb-the-missing-link-in-esg-integration/?utm_campaign=general+SASB+info&utm_source=hs_email&utm_medium=email&utm_content=2&_hsenc=p2ANqtz-_dakEKmqYsGURDKFOwVQ33jLskRC_KS4USjYk-p81QHjaMk3GwQIHgJN3lseE-3Cn4H04r3s6xt4vMmdC-zkHl6HEURQ&_hsmi=2

No longer can analysts use the excuse there is inadequate data for incorporating ESG into investment decisions.

The Sustainability Accounting Standards Board (SASB), a not-for-profit chaired by Michael Bloomberg with Mary Schapiro as vice chair, was formed to set market standards for disclosure of material sustainability information to investors. With "material" defined as likely to affect financial performance.

The organisation – founded by Jean Rogers and made financially viable through donors including Bloomberg Philanthropies; foundations such as Ford, Rockefeller, PwC and Deloitte – is predicated on a belief that ESG factors can impact company financial performance and drive long-term value. The fact there is a now a broader range of risks and resource constraints beyond just access to capital makes the use of standardised financial reporting to investors insufficient.

This means that a new, standardised language is needed to articulate the material, non-financial risks and opportunities facing companies that affect their long-term value creation.

Bloomberg has put its money where its mouth is and was the first company to use the voluntary SASB standards; and a number of investors, including CalSTRS are behind the initiative, with chief executive Jack Ehnes on the board.

"SASB will help forge the link between ESG and how to put it into practice," Chris Ailman, chief investment officer of CalSTRS, says.

"Our board has said they want us to integrate ESG, and our managers are saying how do we do that? ESG is all about looking at not just the balance sheet, but also the footnotes. SASB is focused on that, it looks at what is material for each industry.

"It is really important to us that SASB has defined material as affecting financial performance, which is right down the centre of our fiduciary duty," Ailman says.

"For over 10 years when we've hired managers, we grill them on whether they look at ESG. Ninety-seven per cent of our managers confirm they use ESG criteria, now the board wants us to prove it."

Standardised comparable data a big improvement

Director of capital markets policy and outreach at SASB, Janine Guillot – formerly chief operating investment officer at CalPERS – says the standards can be used to incorporate data into investment strategies; for corporate engagement to improve sustainability issues; or at the total portfolio level. Standardised, comparable data will improve all of those tools and enable them to be more metric-focused.

“I’m so excited about SASB, it’s a tool for investors to integrate sustainability across the entire portfolio,” she says. “The standards are firmly focused on what will impact a company’s financial performance. Whatever type of investor you are, you will have the right access to comparable data on sustainability. We are a piece of market infrastructure.”

In a presentation to the CalPERS investment committee, Guillot said her view has moved from being a sceptic about whether ESG factors should be incorporated into decision-making, to seeing that they must be incorporated into investment decision-making for long term investors.

But this, says Guillot, is still aspirational because incorporating ESG into investment decision-making in a rigorous and scalable way requires data – data that’s reliable, relevant and comparable. That’s the gap that SASB aspires to close,” she says.

SASB was formed to set market standards for disclosure of sustainability information to investors, with a focus on identifying sustainability topics and metrics that are material, decision-useful and cost-effective for companies to provide.

It has now developed provisional sustainability accounting standards across 11 sectors and 79 industries, and is conducting industry consultation with companies and investors.

“This will enable companies to report comparable information so performance can be benchmarked. We hope companies will compete to improve performance on sustainability metrics, just like they do on financial metrics today,” Guillot says.

“Existing sustainability reporting is not standard and they don’t have industry-specific performance metrics. The SASB accounting standards are the first that allow comparison of peer performance and benchmarking within an industry,” she says.

Companies hit by ‘survey fatigue’

As an investor, Chris Ailman says he would like companies to report on a more consistent basis.

“Companies are dealing with survey fatigue: they are hit with surveys from lots of directions. SASB will provide consolidation and a consistent format, and then other groups can use it as a data feed. It means comparisons are now possible, and a financial analyst wants a quick financial analysis on who’s better or worse,” he says.

“ESG is such a broad topic it is begging for a definition, and we are 100 per cent behind it. We will integrate it into our process and work with investment managers on how they pick stocks.”

Guillot says within a corporate, the SASB standards should be incorporated into regular financial reporting and be the responsibility of the CFO. If these internal controls and frameworks exist then investors know it is reliable, and it also gives a framework for CEOs and boards to benchmark performance.

“Our vision is that companies will compete on sustainability information, like they do with financial information,” Guillot says.

“The standards will also allow investors to understand the sustainability risks they are exposed to given their asset allocation and ensure companies they invest in are sustainable.”

“Widespread adoption of these standards would give a common language for talking about sustainability performance. It would enable integration of ESG into investment decision-making with rigour and at scale. This would be a better outcome for society, and long term investors.”

As a sign of the momentum in the industry, the SEC’s has included a discussion around sustainability disclosure in its recent Regulation S-K concept release, looking for comment on modernising certain business and financial disclosure requirements.

It says: “We are interested in receiving feedback on the importance of sustainability and public policy matters to informed investment and voting decisions. In particular, we seek feedback on which, if any, sustainability and public policy disclosures are important to an understanding of a registrant’s business and financial condition and whether there are other considerations that make these disclosures important to investment and voting decisions. We also seek feedback on the potential challenges and costs associated with compiling and disclosing this information.”

It is asking for comment.

Forbes

What The World Needs Now: Sustainability Accounting Standards

By Dr. Bob Eccles
MAY 3, 2016
Source: http://www.forbes.com/sites/bobeccles/2016/05/03/what-the-world-needs-now-sustainability-accounting-standards/2/#134cdd7a7fc3

"The new SASB standards allow us—for the first time—to identify and measure exposure to climate risk across companies and industries. Climate change affects all markets and presents risks that investors can no longer ignore. The standards help them understand their exposure while also directing capital to the strongest performing companies." — Michael Bloomberg, Chairman of the Sustainability Accounting Standards Board

Markets depend on standards. Weights and measures were some of the first examples. Standards make it possible for companies to do business with each other and for consumers to buy products that will meet their expectations. The Internet, one of the biggest markets in the world, depends on standards. When standards don't exist, markets don't develop to their full potential. And as anybody who travels and has to worry about how to recharge their phone and computer in different countries — or tries to convert pounds to kilos and feet to meters — knows only too well, the absence of standards creates inefficiencies.

Though most people are familiar with accounting standards, most non-accountants probably don't think this is a particularly interesting subject. I'm not a practicing accountant, but I find accounting standards a fascinating and important topic. Here's why: We wouldn't have the deep and liquid capital markets we have today without accounting standards for measuring and reporting on financial performance. These markets have created enormous wealth, albeit too unevenly distributed, that have benefited billions of people. Thanks to accounting standards, investors can compare the financial performance of companies when deciding where to invest their money. Accounting standards quite simply make "apples-to-apples" comparisons possible.

We take the mundane world of accounting standards, and the organizations that create and maintain them—primarily the U.S. Financial Accounting Standards Board and the International Accounting Standards Board—for granted. But this market infrastructure didn't always exist. Whereas double-entry bookkeeping is over 400 years old, accounting standards are much more recent. In the U.S. they didn't exist until after the creation of the Securities and Exchange Commission (SEC) in the early 1930s, one response of the government to the stock market crash of 1929 and the ensuing Great Depression.

What the world needs now, in addition to love true love, is accounting standards for measuring so-called "nonfinancial performance," i.e., how well a company is performing on the environmental, social, and governance (ESG) issues that are important to investors. For without these standards, we won't have the capital markets we need today to create a sustainable society for future generations. Climate change risk is one obvious example of a nonfinancial issue that affects most industries, affecting 93% of U.S. market cap. So are product alignment and safety (80%), and resource scarcity and intensity (75%).

The last two decades have seen a rise in genuine commitment by companies to sustainability and, more recently, by retail and institutional investors as well. These investors are realizing that how a company performs on a relatively small number of ESG issues will limit downside risk and create upside opportunities. These investors want to practice "ESG integration," which means considering a company's nonfinancial performance just as they do its financial performance. However, these same investors also rightly complain that a lack of good information hinders their ability to practice ESG integration. As the old saying goes, "Where there's a will, there's a way."

In this situation the way is through standards. And thanks to the work of the Sustainability Accounting Standards Board (SASB), a non-profit organization founded by CEO Jean Rogers five years ago, we now have standards for measuring and reporting on nonfinancial information. Commenting on why she decided to start SASB, Rogers said, "Material information is the right of every investor. In order to get a full picture of corporate performance, investors need to be able to type in a ticker and access sustainability fundamentals right alongside financial fundamentals.

While the role of standards for both financial and nonfinancial information is the same — to help investors make their resource allocation decisions — there is an important difference. The ESG issues that must be properly managed in order to create value over the long term — or what is called "material" in the language of corporate reporting — vary by industry. A chemical company's carbon emissions are more material to that organization than say, to a bank. Whereas systemic risk management is more material to that bank than say, for example, a pharmaceutical company, where drug safety and side effects are highly material.

Thus SASB has taken an industry-based approach based on a 10-sector classification system which subdivides into 79 different industries. Through Industry Working Groups equally comprised of companies (affiliated with $11 trillion in market cap), investors (affiliated with $23.4 trillion in assets under management), and others (e.g., NGOs, industry experts, and accounting firms) SASB has identified the likely material issues for each industry and the appropriate metrics, or Key Performance Indicators (KPIs), for reporting on them. As noted by Ted Eliopoulus, Chief Investment Officer of the $280 billion pension fund CalPERS, "Accounting standards are a key foundational element to our proposed ESG strategy going forward over next five years…we believe, at this point in time, it's crucial for development of accounting standards for material ESG issues. SASB is a very important part of that solution."

On April 7, 2016 SASB announced that it had finished the process of developing provisional standards for all 79 industries. It is now at the beginning of a 90-day public comment period to seek feedback on the proposed process to codify and maintain the standards. In addition to seeking input on the codification process, SASB will work with companies "to discuss the likely materiality of the topics and usefulness and cost-effectiveness of the metrics" in the provisional standard. Similarly, SASB will seek input from investors to ensure the standards provide decision-useful information.

These standards will enable investors to make better investment decisions since they will be able to compare companies within an industry and better understand the relationship between ESG performance and financial performance. Companies will find this useful as well, just as they compare their financial performance to their competitors. According to Mary Schapiro, Vice Chair of SASB and former Chairman of the SEC, "SASB standards—now available for 79 industries—can help create more efficient capital markets. Companies that understand material sustainability risks will manage them more effectively. And investors that understand material sustainability risks will better allocate their capital."

Of course, issuing standards is just the first step. In order to get investors the information they need, companies need to report on their ESG performance using SASB standards. While existing regulation already requires the disclosure of material information to investors, until recently, material information has been largely deemed to be financial information. However, as part of its disclosure effectiveness initiative, the SEC is considering whether investors need better disclosure on sustainability information that is material. The SEC has recently issued a concept release on disclosure reform for a 90-day public comment period. The release includes 11 pages of discussion of sustainability disclosure and eight questions on which the SEC seeks input. This presents an opportunity for investors to tell the SEC that sustainability accounting standards will yield the type of disclosure that investors need to make informed decisions.

I think it's too soon for the SEC, or the securities commission in any country, to mandate nonfinancial reporting according to SASB's standards. The standards are too new and need to be stress-tested in practice, and SASB needs further feedback from both companies and investors. What is needed now however is for investors to start asking their portfolio companies to provide them information based on

SASB's standards. And indeed, companies should do so even before being asked because it will help them better manage the sustainability risks and opportunities that are only going to grow over time.

When the time is right, companies and investors should collectively and willingly call on the appropriate regulator to make this reporting mandatory. Just as we need government support for accounting standards and financial reporting, we will eventually need the same for nonfinancial accounting standards and reporting. The capital markets will then play the enormous role they can in helping to ensure a sustainable society.

THE WALL STREET JOURNAL.

Why Investors Can't Avoid Climate Risk by Divesting
By Jean Rogers
September 14, 2015

Source: http://blogs.wsj.com/experts/2015/09/14/why-investors-cant-avoid-climate-risk-by-divesting/ (Retrieved October 15, 2015)

The topic of divestment often comes up in conversations about how to mitigate climate change. But these discussions often miss an important point: Climate risk is real and embedded across a portfolio, and as such, investors cannot diversify away from climate risk by divesting.

Take climate as an example. My organization–The Sustainability Accounting Standards Board (SASB), an independent 501(c)3 nonprofit organization–provides sustainability accounting standards for use by publicly listed corporations in the U.S. We have found that climate change affects 51 out of the 57 industries for which it has issued standards. However, climate change manifests differently in every industry. For software and IT companies, it is the energy intensity of data centers. For apparel companies, it is the ability to source cotton, a crop that is vulnerable to shifting weather patterns. In health care, extreme weather events can affect both business continuity and demand for health care services.

Given that climate change impacts most industries, investors can't divest away from climate risk. Instead, to reduce risk investors must first understand the type of risk, where it manifests in their portfolio, and their level of exposure. With this understanding, investors can create a responsive investment strategy, including strategies such as tilting, weighting, screening, and/or engaging with companies.

To make these decisions, investors need good data. Investors realize this need and increasingly seek sustainability information. In 2014, there was a 74% annual increase in analysts using environmental, social and governance data in the Bloomberg terminal. However, the sustainability information currently available doesn't meet investor needs; 79% of investors are dissatisfied with comparability of sustainability reporting between companies in the same industry.

Even the Securities and Exchange Commission—via interpretive guidance issued in 2010—has acknowledged that climate change may present material risks to companies, and thus, that disclosure is warranted. However, much of the disclosure that resulted from the guidance is boilerplate—i.e., generic language that doesn't help investors make decisions.

What's needed, in order for investors to evaluate climate risk, is an understanding of climate's industry-specific impacts, and appropriate metrics to evaluate this risk. Industry-specific metrics are important because even the same aspect of climate change can vary between industries.

Take the issue of stranded assets, for example. In oil and gas, analysts need to understand the capital expenditures that are planned to "prove" potentially unproductive assets. For banking industries, investors need to know the credit risk to the loan portfolio presented by climate change and the deal size of advisory and underwriting transactions for carbon-intensive industries. SASB issues sustainability accounting standards that identify the sustainability factors that are mostly likely to present financial risks, and metrics to manage and disclose performance.

The stark truth is that climate risk is ubiquitous throughout a portfolio, and every investor must understand how climate change manifests in different industries. Rather than viewing divestment as the sole solution,

investors must seek data—on factors that can affect the risk and return profile of a company, industry, or in the case of a diversified investor, an entire portfolio.

Our markets are founded on the premise that investors need good information to make decisions. While divesting from some companies may be an appropriate way to mitigate climate risk, without data, investors may be overlooking other solutions.

The New York Times

A Good Corporate Accounting of Social Costs is Needed
By Jean Rogers
April 16, 2015

Source: http://www.nytimes.com/roomfordebate/2015/04/16/what-are-corporations-obligations-to-shareholders/a-good-corporate-accounting-of-social-costs-is-needed (Retrieved 5/19/15)

Corporate concern about issues like climate change, population growth or inequality is not just a matter of altruism, but of the company's growth and prosperity.

Insurance companies' insured assets are highly vulnerable to rising sea levels and intensifying storms. Credit card companies must walk a line between high returns and crippling debt for their customers. Coca-Cola, for example, can focus on social and environmental issues such as water quality, biodegradable packaging and obesity, not just because they are popular but because they can affect the company's financial future.

Sustainability factors can improve financial performance. The trick is identifying which factors affect the bottom line.

Research shows that stock prices of companies with an eye to more than just the bottom line did better than other companies if they focused on a subset of sustainability factors that actually improve financial performance. The trick is identifying which sustainability factors will make an impact to the bottom line.

And here's the hard part: These subsets of sustainability factors that influence financial performance differ by industry. Data security is critical to the success of IT companies. Greenhouse gas emissions affect oil and gas companies. Food safety matters to restaurants. The list continues. The Sustainability Accounting Standards Board is identifying which sustainability issues affect a company's bottom line in more than 80 industries.

Right now, investors who want to assess corporate performance on environmental, social and governance issues, are navigating with no map or compass. While a global survey found that 90 percent of institutional investors said that performance on these issues ''had played a pivotal role in their investment decision-making process,'' they don't have the information they need to evaluate their financial effects.

Just as the accounting industry set standards in 1972 for reporting financial information, we need accounting standards for sustainability factors such as energy consumption, fair labor practices, data security and supply chain management. Sustainability accounting involves defining metrics that fairly represent a company's performance. These are the standards that our board is providing.

Companies can't create long-term shareholder value without managing the sustainability factors that matter the most. Thus, the question isn't whether companies have to choose between profit and purpose. Companies can use sustainability to maximize profits as long as the sustainability factors have a financial impact.

The Type of Socially Responsible Investments That Make Firms More Profitable
By George Serafeim
April 14, 2015

Source: https://hbr.org/2015/04/the-type-of-socially-responsible-investments-that-make-firms-more-profitable (Retrieved May 19, 2015)

One of the most contentious issues in business revolves around the role of for-profit companies in addressing social and environmental problems. Should a business be driving a "conversation" about race or pressuring U.S. states to reform discriminatory laws? And as investors inevitably ask, does engagement on such issues detract from generating profits?

The answer to that last question is no, according to a study we recently completed. We find that firms making investments and improving their performance on environmental, social, and governance (ESG) issues exhibit better stock market performance and profitability in the future. For companies, this suggests that their efforts to do good are rewarded. For investors, this suggests that there is substantial value from analyzing non-financial data and incorporating it into their decisions.

However, not all such initiatives are equally beneficial. My research, with Mozaffar Khan and Aaron Yoon, suggests companies should stick to social and environmental issues that are strategically important for their business if they want such efforts to contribute to the valuation. The results of this paper provide support to an earlier article ("The Performance Frontier: Innovating for a Sustainable Strategy") where we described a framework that companies could use to create value by doing good.

For instance, managing environmental impact is a very important element of business strategy for firms in the fossil fuel or transportation industries. Less so for financial institutions or healthcare companies. In contrast, fair marketing and advertising of products are very important for companies in these sectors. With this intuition we could hypothesize about the ESG investments that would be financially important for different industries, but until recently we had no objective and systematic way of making those judgments.

Our study was made possible because of data infrastructure that was created only recently by the Sustainability Accounting Standards Board (SASB). SASB develops industry-by-industry accounting standards that identify the material ESG issues that could have financial implications. SASB uses the U.S. Supreme Court's definition of material information as information presenting "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available." Going industry by industry, we hand-mapped the standards to data items that codify the investments that hundreds of companies in the US make each year over the last twenty years. (Interestingly, across industries, on average, only about 20% of the ESG issues were classified as material.) This allowed us to construct an index ranking companies based on investments on material issues and another index ranking companies based on investments in immaterial issues. Using models that control for other systematic risk factors (market, size, value vs. growth, momentum, and liquidity) we constructed portfolios of companies that score high in ESG investments versus those that score low.

The results are very consistent: firms making investments on material ESG issues outperform their peers in the future in terms of risk-adjusted stock price performance, sales growth, and profitability margin growth. In contrast, firms making investments on immaterial ESG issues have very similar performance to their peers suggesting that such investments are not value relevant on average.

Importantly, our study ruled out reverse causality – it is not the case that more profitable firms simply choose to invest more in ESG. We accounted for this by controlling for the correlation between the level of investments with current firm profitability, valuation, size, and financial leverage, and by examining stock price performance and implementing a trading strategy that any investor could implement in real time.

The results of our study suggest that companies need to analyze which ESG issues are strategically important to their business. Improving performance on those will likely lead to better financial performance in the future. At the same time, they need to be able to inform their investors how they are performing on those issues by communicating credible key performance indicators. In turn, investors need themselves to analyze what are the important ESG issues for the companies in their portfolio and manage hidden risks. Not all social and environmental initiatives are created equal. But if companies stick to the ones most related to their businesses, they can drive social and financial performance simultaneously.

Sustainability Accounting Standards Board
1045 Sansome St., Suite 250
San Francisco, CA 94111
415 830-9220
sasb.org

Media Contact:
Amanda Medress
Director of Communications
Amanda.Medress@sasb.org
(415) 830-9220 ext. 106