DRUG RETAILERS & CONVENIENCE STORES
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.
# Table of Contents

**Introduction** ................................................................. 1  
  Purpose & Structure .......................................................... 1  
  Industry Description .......................................................... 1  
  Guidance for Disclosure of Sustainability Topics in SEC filings ............................................. 2  
  Guidance on Accounting of Sustainability Topics ................................................................. 4  
  Users of the SASB Standards .................................................. 5  
  Scope of Disclosure ............................................................. 5  
  Reporting Format ............................................................... 5  
  Timing .................................................................................. 7  
  Limitations ........................................................................... 7  
  Forward Looking Statements ................................................... 7  

**Sustainability Disclosure Topics & Accounting Metrics** ................................................................. 9  
  Energy Management in Retail .................................................. 10  
  Data Security & Privacy .......................................................... 12  
  Management of Controlled Substances ................................................. 17  
  Patient Health Outcomes .......................................................... 19  
  Drug Supply Chain Integrity ....................................................... 22
INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Drug Retailers & Convenience Stores 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 and referenced in AT 701, 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 Drug Retailers & Convenience Stores industry comprises companies that operate retail pharmacies, convenience stores, and distribution centers that supply retail stores. Stores may be company-owned or franchised. Large companies operate mainly in the U.S. and source drugs and other merchandise through wholesalers and distributors. The majority of the industry’s revenues are derived from consumer sales of prescription and over-the-counter pharmaceutical products; other goods sold include household goods, personal care products, and a limited selection of groceries. Additionally, the pharmacy retailer segment is expanding its health-focused services by offering clinics at various retail locations, which adds to the industry’s shifting sustainability landscape.

---

1. [http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7](http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7)
2. [http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx](http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx)
Guidance for Disclosure of Sustainability Topics in SEC Filings

1. **Industry-Level Sustainability Topics**

For the Drug Retailers & Convenience Stores industry, SASB has identified the following sustainability disclosure topics:

- Energy Management in Retail
- Data Security & Privacy
- Management of Controlled Substances
- Patient Health Outcomes
- Drug Supply Chain Integrity

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.”

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.”

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.”

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.

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.”


Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Drug Retailers & Convenience Stores 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—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 (SICSTM). 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), for use in SEC filings, including, without limitation, annual reports on Form 10-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;

- 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

---

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).
that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

**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.

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

<table>
<thead>
<tr>
<th>ACTIVITY METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of pharmacy locations</td>
<td>Quantitative</td>
<td>Number</td>
<td>CN0402-A</td>
</tr>
<tr>
<td>Total area of retail space</td>
<td>Quantitative</td>
<td>Square meters (m²)</td>
<td>CN0402-B</td>
</tr>
<tr>
<td>Number of prescriptions filled, percentage for controlled substances</td>
<td>Quantitative</td>
<td>Number, Percentage (%)</td>
<td>CN0402-C</td>
</tr>
<tr>
<td>Number of pharmacists¹⁰</td>
<td>Quantitative</td>
<td>Number</td>
<td>CN0402-D</td>
</tr>
</tbody>
</table>

---

¹⁰ Note to **CN0402-D**—Pharmacists are employees in the 29-1051 group of the EEO-1 Job Classification Guide who dispense drugs prescribed by physicians and other health practitioners and provide information to patients about medications and their use. Pharmacists may advise physicians and other health practitioners on the selection, dosage, interactions, and side effects of medications.
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, 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

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Management in Retail</td>
<td>Total energy consumed, percentage grid electricity, percentage renewable energy</td>
<td>Quantitative</td>
<td>Gigajoules (GJ), Percentage (%)</td>
<td>CN0402-01</td>
</tr>
<tr>
<td>Data Security &amp; Privacy</td>
<td>Discussion of policies and practices to secure customers’ protected health information (PHI) records and other personally identifiable information (PII)</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CN0402-02</td>
</tr>
<tr>
<td></td>
<td>Number of data security breaches, percentage involving (1) only customers’ PII and (2) customers’ PHI, number of customers affected in each category</td>
<td>Quantitative</td>
<td>Number, Percentage (%)</td>
<td>CN0402-03</td>
</tr>
<tr>
<td></td>
<td>Amount of legal and regulatory fines and settlements associated with data security and privacy</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>CN0402-04</td>
</tr>
<tr>
<td>Management of Controlled Substances</td>
<td>Percentage of controlled substance prescriptions dispensed for which a prescription drug monitoring program (PDMP) database was queried</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>CN0402-05</td>
</tr>
<tr>
<td></td>
<td>Amount of legal and regulatory fines and settlements associated with controlled substances</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>CN0402-06</td>
</tr>
<tr>
<td>Patient Health Outcomes</td>
<td>First fill adherence rate</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>CN0402-07</td>
</tr>
<tr>
<td></td>
<td>Description of policies and practices to prevent prescription dispensing errors</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CN0402-08</td>
</tr>
<tr>
<td></td>
<td>Amount of legal and regulatory fines and settlements associated with prescription dispensing errors</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>CN0402-09</td>
</tr>
<tr>
<td></td>
<td>Percentage of gender and racial/ethnic group representation for pharmacists</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>CN0402-10</td>
</tr>
<tr>
<td>Drug Supply Chain Integrity</td>
<td>Discussion of efforts to reduce the occurrence of compromised drugs within the supply chain</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CN0402-11</td>
</tr>
<tr>
<td></td>
<td>Number of drug recalls, total units recalled, percentage for private-label products</td>
<td>Quantitative</td>
<td>Number, Percentage (%)</td>
<td>CN0402-12</td>
</tr>
</tbody>
</table>

11 Note to CN0402-03—Disclosure shall include a description of corrective actions implemented in response to data security breaches.
12 Note to CN0402-04—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
13 Note to CN0402-05—Disclosure shall include a description of additional verification procedures the registrant uses when dispensing controlled substances prescriptions to prevent controlled substance abuse.
14 Note to CN0402-06—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
15 Note to CN0402-07—Disclosure shall include a description of strategies used to increase medication adherence.
16 Note to CN0402-09—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
17 Note to CN0402-12—The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.
Energy Management in Retail

Description

Chain drug retailers and convenience store companies operate thousands of locations that consume large quantities of energy. Energy, in the form of electricity, is used primarily for lighting and refrigeration purposes. Refrigeration is necessary to cool fresh foods and beverages, as well as some pharmaceutical products. Furthermore, some convenience stores are open around the clock, which increases total energy demands. Energy efficiency in operation and diversifying their energy portfolio across a range of sources can mitigate exposure to rising energy costs and limit a company’s contribution to indirect GHG emissions.

Accounting Metrics

CN0402-01. 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.  

• Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, 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 that from 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 (including for electricity from solar or wind energy).

18 SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.
Data Security & Privacy

Description

Drug retailers, as distributors of prescription medication and operators of retail health clinics, have access to and manage protected health information. Companies have a legal obligation to safeguard their customers’ information, a task that includes the proper handling of sensitive information by staff in pharmacies and clinics, as well as the safe storage of information on physical and electronic media. Cyber-attacks may compromise data stored electronically, which is increasingly the medium of choice. In addition to health information, industry players also have access to their customers’ financial and personal data; credit cards and debit cards have steadily eclipsed cash and checks as consumers’ preferred payment methods. Customer information should be adequately protected by retailers in order to maintain customer trust and brand reputation. Strong internal controls are essential to protect customer information. Retailers that prevent major data breaches, including point-of-sales breaches and cyber-attacks, can avoid harming brand value, reduce contingent liabilities, and maintain market share.

Accounting Metrics

CN0402-02. Discussion of policies and practices to secure customers’ protected health information (PHI) records and other personally identifiable information (PII)

.08 The registrant shall describe the nature, scope, and implementation of its policies and practices related to securing customer PHI records and other PII, with a specific focus on how it addresses the collection, usage, and retention of customers’ information, where:

- PHI is defined in 45 CFR 160.103 and referenced in Section 13400 of Subtitle D (“Privacy”) of the Health Information Technology for Economic and Clinical Health (HITECH) Act as information that is a subset of health information, including demographic information collected from an individual, that meets the following criteria: The information (1) is created or received by a health care provider, health plan, employer, or health care clearinghouse and (2) relates to the past, present, or future physical or mental health or condition of an individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual; and (i) identifies the individual or (ii) there is a reasonable basis to believe the information can be used to identify the individual.

- Health information is defined as any information, whether oral or recorded in any form or medium, that (A) is created or received by a health care provider, health plan, public health authority, employer, life insurer, school or university, or health care clearinghouse and (B) relates to the past, present, or future physical or mental health or condition of any individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual.

- PHI includes information that is transmitted by electronic media, maintained in electronic media, or transmitted or maintained in any other form or medium.
• PHI excludes individually identifiable health information in education records covered by the Family Educational Rights and Privacy Act (20 U.S.C. 1232g), records described at 20 U.S.C. 1232g(a)(4)(B)(iv), and employment records held by a drug retailer in its role as employer.

• PII is defined as any information about an individual that is maintained by an entity, including 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 any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.19

09 The registrant shall describe the information “lifecycle” (i.e., collection, use, retention, processing, disclosure, and destruction) and how information-handling practices at each stage may affect individuals' privacy.

• With respect to data collection, it may be relevant for the registrant to discuss which data or types of data are collected without consent of an individual, which require opt-in consent, and which require opt-out action from the individual.

• With respect to usage of data, it may be relevant for the registrant to discuss which data or types of data are used by the registrant internally and under what circumstance the registrant shares, sells, rents, or otherwise distributes data or information to third parties.

• With respect to retention, it may be relevant for the registrant to discuss which data or types of data it retains, the length of time of retention, and practices used to ensure that data is stored securely.

10 The registrant shall discuss the systems it uses to ensure compliance with the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy and Security Rules and the HITECH Act, including policies and practices related to the collection, usage, storage, and disposal of PHI and PII.

11 The registrant shall discuss its efforts to ensure compliance in the context of how it implements the following three categories of system security:

• Administrative safeguards, which are defined as documented, formal policies and procedures that are intended to manage the selection and execution of security measures to protect data and manage the conduct of personnel in relation to the protection of data.

• Physical safeguards, which are defined as the protection of physical computer systems and the buildings holding such systems from natural and environmental hazards and inappropriate intrusion or removal.

• Technical safeguards, which are defined as processes put in place to protect information, authenticate users, and control individual access to information.

Relevant practices to discuss include internal monitoring practices, technology and security programs to prevent data breaches, training programs and protocols in place for employees who handle PHI or PII, and disposal methods for paper and electronic PHI records.

The registrant shall disclose if it employs heightened security measures to ensure the security of PHI, including a discussion of those additional measures.

The registrant should not include in its disclosure any information that compromises the security of its systems or its enrollees’ PHI or PII.

**CN0402-03. Number of data security breaches, percentage involving (1) only customers’ PII and (2) customers’ PHI, number of customers affected in each category**

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

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.

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.).

The registrant shall disclose the percentage of data security breaches in which only customers’ PII (but not PHI) 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. 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.

.19 The registrant shall disclose the percentage of data security breaches in which customer’s PHI was breached, where:

- PHI is defined in 45 CFR 160.103 and referenced in Section 13400 of Subtitle D (‘Privacy’) of the Health Information Technology for Economic and Clinical Health Act (HITECH Act) as information that is a subset of health information, including demographic information collected from an individual, that meets the following criteria: The information (1) is created or received by a health care provider, health plan, employer, or health care clearinghouse and (2) relates to the past, present, or future physical or mental health or condition of an individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual; and (i) identifies the individual or (ii) there is a reasonable basis to believe the information can be used to identify the individual.

- Health information is defined as any information, whether oral or recorded in any form or medium, that is created or received by a health care provider, health plan, public health authority, employer, life insurer, school or university, or health care clearinghouse and relates to the past, present, or future physical or mental health or condition of any individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual.

- PHI includes information that is transmitted by electronic media, maintained in electronic media, or transmitted or maintained in any other form or medium.

- PHI excludes individually identifiable health information in education records covered by the Family Educational Rights and Privacy Act (20 U.S.C. 1232g), records described at 20 U.S.C. 1232g(a)(4)(B)(iv), and employment records held by a covered entity in its role as employer.

- PHI is a subset of PII.

.20 Disclosure shall include incidents in which encrypted data were acquired with an encryption key that was also acquired.

.21 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.

.22 The registrant shall disclose the total number of customers that were affected by data breaches of (a) only PII and (b) PHI, where:

- The number of customers affected includes all those whose personal data (PII or PHI) was compromised in a data breach.
Note to **CN0402-03**

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

.24 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.

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

**CN0402-04. Amount of legal and regulatory fines and settlements associated with data security and privacy**

.26 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements associated with data security and privacy, including, but not limited to, violations of HIPPA, the HITECH Act, Directive 2002/58/EC (ePrivacy Directive) of the Federal Trade Commission Privacy Act, and the US-EU Safe Harbor Program.

.27 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 **CN0402-04**

.28 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unauthorized monitoring, sharing of data, improper disposal of health information, etc.) of fines and settlements.

.29 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.

.29 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 security.
Management of Controlled Substances

Description

Drug retailers are distributors and sellers of a wide variety of controlled substances. The Controlled Substance Act (CSA) defines requirements for record keeping, distribution, dispensing, disposal, and security of controlled substances. Within this industry, the high volumes of drugs processed and dispensed, along with the extensive retail and distribution networks of larger companies, heighten the risk of theft, loss, and illegal drug dispensing. These actions may result in adverse social externalities, including public health consequences related to drug abuse and the illicit drug trade, which are on the rise in the U.S. Drug retailers are participating in statewide drug-monitoring programs to help mitigate some of the social issues associated with dispensing controlled substances. Furthermore, regulatory enforcement of the CSA requirements can result in fines and license suspensions. Strong internal management of controlled substances can mitigate these risks and help protect shareholder value in the long term.

Accounting Metrics

CN0402-05. Percentage of controlled substance prescriptions dispensed for which a prescription drug monitoring program (PDMP) database was queried

The registrant shall disclose the percentage of controlled substance prescriptions that it dispensed for which a pharmacist queried a PDMP database prior to dispensing the prescription, where:

- Controlled substances are defined in §802(6) of Title 21, United States Code (U.S.C.) as drugs that have some potential for abuse or dependence and are regulated by the federal Controlled Substances Act (CSA). Controlled substances exclude distilled spirits, wine, malt beverages, or tobacco, as those terms are defined or used in subtitle E of the Internal Revenue Code of 1986.

- A PDMP is defined as an electronic database that collects designated data about controlled substances dispensed, typically on a statewide level. PDMPs are housed by specified statewide regulatory, administrative, or law enforcement agencies, and this housing agency distributes data from the database to individuals who are authorized under state law to receive the information for purposes of their profession.

- A PDMP shall be considered queried if the registrant has a record that an authorized individual accessed the applicable PDMP system prior to dispensing a prescription in an effort to locate patient prescription history information.

- Patients and circumstances of a type that are excluded from PDMP reporting and querying, based on waiver or exemption established by state law, shall be excluded from the scope of this calculation.

The registrant shall disclose the percentage as the number of controlled substance prescriptions dispensed for which a PDMP was queried divided by the total number of controlled substance prescriptions dispensed.
• Patients and circumstances that are excluded from PDMP reporting and querying based on state exemptions shall not be included in the number of controlled substance prescriptions dispensed where a PDMP was queried or the total number of controlled substance prescriptions dispensed.

Note to CN0402-05

.32 The registrant shall describe any additional verification procedures it uses when dispensing controlled substance prescriptions in order to prevent controlled substance abuse.

.33 Relevant strategies to discuss include:

• Practices to identify physicians and prescribers who exhibit extreme patterns of prescribing “high-risk drugs.”

• Identification of “red flags” in customers, such as their age, payment methods, the prescriber of the medication, how long the customer has been taking the medication, and the geographic proximity of the prescriber.

CN0402-06. Amount of legal and regulatory fines and settlements associated with controlled substances

.34 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements associated with controlled substances, including, but not limited to, violations of the CSA and other state regulations that monitor controlled substances.

• Controlled substances are drugs that have some potential for abuse or dependence and are regulated by the CSA. A controlled substance is defined in §802(6) of Title 21, U.S.C. as a drug or other substance, or immediate precursor of such a substance, that is included in schedule I, II, III, IV, or V of part B of this subchapter. The term does not include distilled spirits, wine, malt beverages, or tobacco, as those terms are defined or used in subtitle E of the Internal Revenue Code of 1986.

.35 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 CN0402-06

.36 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., failure to report specific drug orders, selling a controlled substance above the legal quantity, or other inappropriate dispensing practices, etc.) of fines and settlements and any significant results of violations (including loss of DEA license to sell certain products).

.37 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.
Patient Health Outcomes

Description

Drug retailers and pharmacists play an important role in the healthcare delivery system, as they provide patients with medications and are often the last healthcare professionals to interact and engage with patients before medications are consumed. Therefore, to provide the best level of care, drug retailers can enhance patient outcomes by improving communication, avoiding dispensing errors, and raising patients’ drug-adherence rates (i.e., the degree to which patients follow their physician-specified drug regimens). Patients’ failure to adhere to drug medication schedules can lead to suboptimal health outcomes and result in social externalities in the form of increased hospital visits and avoidable healthcare costs. Pharmacies have the opportunity to engage and educate patients on the importance of adhering to prescriptions, which provides beneficial outcomes for patients as well as for businesses, as more prescriptions are refilled. These close interactions make employee diversity an important factor in customer satisfaction and may provide companies with additional insight into consumer preferences and needs, better helping them service their customers. Pharmacies occasionally have errors in dispensing medications that can result in harm to consumers and create financial liabilities. While these occur infrequently, relative to the number of prescriptions filled every year, they still present risks to customer satisfaction and drug retailers’ reputations.

Accounting Metrics

CN0402-07. First fill adherence rate

.38 The registrant shall disclose its customers’ first fill adherence rate, where the rate is calculated as:

- The percentage of customer prescriptions that are required by the prescriber to have one or more refill and were refilled by the registrant at least once after the initial fill divided by the total number of customer prescriptions that were initially filled by the registrant and were required by the prescriber to have at least one additional refill, regardless of whether the prescription was refilled.

.39 The scope includes prescriptions that were initially filled in the registrant’s pharmacies and excludes prescriptions that were transferred into the registrant’s pharmacy from another pharmacy, and out of the registrant’s pharmacy after the initial fill.

Note to CN0402-07

.40 The registrant shall describe the strategies it uses to increase medication adherence in its pharmacies, where:

- Medication adherence is defined as the patient’s conformance with the health care provider’s recommendation with respect to timing, dosage, and frequency of medication-taking during the prescribed length of time.

.41 Relevant practices to discuss include programs to communicate prescription information, directions, and reminders with customers, technology and systems used to track prescriptions and place refill orders, refill
reminders, research to identify customers most at-risk for non-adherence, cultural, language, or other
group engagement training programs for pharmacists, programs that provide educational resources to patients,
efforts to increase diversity of pharmacy staff, and any other programs aimed at improving adherence that
are in place.

.42 The registrant may choose to disclose its performance on other relevant metrics it uses to measure progress
on medication adherence

- Where the registrant discloses additional metrics related to medication adherence, it shall disclose
the methodology used to calculate each such metric.

**CN0402-08. Description of policies and practices to prevent prescription dispensing errors**

.43 The registrant shall discuss its policies and practices to prevent prescription dispensing errors in its
pharmacies and for any mail order dispensing activities, where:

- A dispensing error is defined as a discrepancy between the medicine indicated on a prescription
and the medicine that the pharmacy delivers to the patient, including the dispensing of a
medicine with inferior pharmaceutical or informational quality.

.44 Relevant policies and practices to discuss include, but are not limited to, implementation of quality
assurance protocols, use of bar coding, automation of processes, use of data verification systems, training
of key employees, and improvements to the accuracy of recordkeeping.

.45 The registrant may also choose to discuss observed trends or high-risk practices that could lead to
dispensing errors as well the number of dispensing errors identified.

**CN0402-09. Amount of legal and regulatory fines and settlements associated with prescription
dispensing errors**

.46 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements
associated with dispensing errors in pharmacies.

.47 A dispensing error is a discrepancy between a prescription and the medicine that the pharmacy delivers to
the patient, including the dispensing of a medicine with inferior pharmaceutical or informational quality.

.48 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 **CN0402-09**

.49 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., dispensing the incorrect dose or incorrect medicine, etc.) of fines and settlements.

.50 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.

**CN0402-10. Percentage of gender and racial/ethnic group representation for pharmacists**

.51 The registrant shall classify its pharmacists according to the following definition from the U.S. Equal Employment Opportunity Commission *EEO-1 Job Classification Guide*:

- Pharmacists (29-1051) dispense drugs prescribed by physicians and other health practitioners and provide information to patients about medications and their use. Pharmacists may advise physicians and other health practitioners on the selection, dosage, interactions, and side effects of medications.

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

.53 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.

.54 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.

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

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

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Gender (%)</th>
<th>Race and Ethnicity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Pharmacists</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and “two or more races” classifications.
Drug Supply Chain Integrity

Description

The industry’s supply chain is long and complex, consisting of distribution networks between manufacturers and retailers. Drugs are intended for human consumption, which means that the quality and safety of pharmaceutical and healthcare products is of great importance. Compromised drugs include those that are counterfeit or are recalled or withdrawn for various consumer health and safety reasons. These drugs may enter the supply chain, presenting business and social safety risks. When there is a lack of quality control in a drug retailer’s supply chain, it can raise the potential for human consumption of dangerous products. This can lead to costly recalls, some of which are outside the direct control of the drug retailers but still present significant consumer health and business risks. The importance of this issue is elevated by the prevalence of store-brand products, which constitute a growing portion of drugstore sales.

Accounting Metrics

CN0402-11. Discussion of efforts to reduce the occurrence of compromised drugs within the supply chain

.57 The registrant shall describe any practices or policies it has implemented to mitigate the introduction of counterfeit or compromised drugs into its supply chain, including, but not limited to, implementation of or updates to internal controls and updates to operations, management, processes, products, business partners, training, or technology.

.58 Compromised drugs include counterfeit drugs and other drugs that are recalled or that are of substandard quality because of a health or other safety hazard, mislabeling or improper packaging, potential contamination, or poor manufacturing.

- Counterfeit drugs are defined by the U.S. law as drugs sold under a product name without proper authorization. Counterfeiting can apply to both brand name and generic products, where the identity of the source is mislabeled in a way that suggests that it is the authentic, approved product. Counterfeit products may include products that lack the active ingredient, contain an insufficient or excessive quantity of the active ingredient, contain the wrong active ingredient, or have fake packaging.

.59 Relevant processes to discuss include:

- Vendor inspection and supply chain audits
- Traceability and bar code systems (including those related to Drug Supply Chain Security Act (DSCSA) compliance)
- Participation in industry partnerships and initiatives, such as audit sharing programs
- Implementation of alert systems
- Training programs for pharmacists and other supply chain employees
• Coordination with law enforcement

• Customer feedback tools

.60 The registrant shall discuss whether its practices to identify compromised drugs in the supply chain differ between its private-label products and national brand products.

.61 The registrant shall specifically discuss its plan for achieving complete implementation of the DSCSA within the DSCSA-mandated timeframe, including implementation of measures as they align with requirements of Title II of the Drug Quality and Security Act, which outlines critical steps to build an electronic, interoperable system to identify and trace certain prescription drugs as they are distributed in the United States.

.62 The registrant shall describe its implementation of the DSCSA provisions across its operations, including any measures it has implemented to meet requirements for product identification, product tracing, product verification, detection and response, notification, and licensing.

CN0402-12. Number of drug recalls, total units recalled, percentage for private-label products

.63 The registrant shall disclose the total number of recalls for drug products that the registrant retails, where:

• Drugs are defined by the FD&C Act sec. 201(g)(1) as articles intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease and articles (other than food) intended to affect the structure or any function of the body of man or other animals.

• Drugs include pharmaceutical prescription products as well as over-the-counter medications. Recalls are defined as actions taken by a firm to remove a product from the market, including those conducted on the registrant’s own initiative, by FDA request, or by FDA order under statutory authority.

• A recall is defined as removal or correction of a marketed product that the FDA considers to be in violation of the laws it administers and against which the agency would initiate legal action.

  ▪ Removal means the physical removal of a device from its point of use to some other location for repair, modification, adjustment, relabeling, destruction, or inspection.

  ▪ Correction means repair, modification, adjustment, relabeling, destruction, or inspection of a product without its physical removal to some other location.

• The scope includes all recalls of drugs for sale by the registrant, whether initiated by the FDA or voluntarily by the registrant.

• The scope of recalls excludes market withdrawals, which are defined as a registrant’s removal or correction of a distributed product that involves a minor violation that would not be subject to legal action by the FDA or that involves no violation (e.g., normal stock rotation practices).
The scope of disclosure includes voluntary recalls initiated by the registrant and recalls requested or mandated by the FDA (or other relevant government agency).

The registrant shall disclose the total number of drug product units available for sale by the registrant that were subject to a recall.

The registrant shall disclose the percentage of the total number of units recalled that were for private-label products.

- Private-label is defined as a product containing the registrant’s brand name and label, whether manufactured by a third-party vendor or by the registrant’s own facilities.

The registrant may choose to disclose, in addition to the total number of drug recalls, the percentage of recalls that were (1) voluntarily, (2) FDA requested and (3) FDA mandated.

The registrant may choose to disclose the percentage of the total number of units recalled that were part of Class I recalls, where Class I recalls is defined as a situation in which there is a reasonable probability that the use of, or exposure to, a violative product will cause serious adverse health consequences or death.

Note to CN0402-12

The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.

For such recalls the registrant should provide:

- Description and cause of the recall issue
- The total number of units recalled
- The cost to remedy the issue (in U.S. dollars)
- Whether the recall was initiated voluntarily or at the request of the FDA
- Corrective actions
- Any other significant outcomes (e.g., legal proceedings, customer fatalities, etc.)

Additional References

U.S. FDA Backgrounds and Definitions

U.S. FDA Drug Supply Chain Integrity and Counterfeit Drugs Questions and Answers