



SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

APPAREL, ACCESSORIES & FOOTWEAR

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0501

Prepared by the
Sustainability Accounting Standards Board®

September 2015
Provisional Standard

APPAREL, ACCESSORIES & FOOTWEAR

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.

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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Apparel, Accessories & Footwear 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 - 32¹ and referenced in AT 701², 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 Apparel, Accessories & Footwear Industry includes companies involved in the design, manufacturing, wholesaling, and retailing of various products, including men’s, women’s, and children’s clothing, handbags, jewelry, watches, and footwear. These companies operate globally, and many are headquartered outside the U.S. Although the U.S. remains the largest single market for many apparel, accessories, and footwear companies, products are largely manufactured and imported from outside the U.S. Most companies in the industry outsource manufacturing to vendors in emerging markets and focus on design, wholesaling, marketing, and retail activities.

¹ http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7

² <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Apparel, Accessories & Footwear industry, SASB has identified the following sustainability disclosure topics:

- Management of Chemicals in Products
- Labor Conditions in the Supply Chain
- Raw Material Sourcing & Innovation
- Environmental Impacts in the Supply Chain

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

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of the information made available.”^{3,4}

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

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

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

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:

³ TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management’s Discussion and Analysis

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

b. Other Relevant Sections of Form 10-K

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

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

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

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

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

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

necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

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

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Apparel, Accessories & Footwear 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-20⁶—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.

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

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.”

Securities Exchange Act of 1934 (the Exchange Act),⁷ 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;⁸
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

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

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

⁸ See US GAAP consolidation rules (Section 810).

Activity Metrics and Normalization

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

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

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

Activity metrics disclosed should:

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

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

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of (1) tier 1 suppliers and (2) suppliers beyond tier 1 ¹⁰	Quantitative	Number	CN0501-A

Units of Measure

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

Uncertainty

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

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

¹⁰ Note to **CN0501-A**—Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities). Suppliers beyond tier 1 are the key suppliers to the registrant’s tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.) The registrant shall disclose whether any supplier data beyond tier 1 is based on assumptions, estimates, or otherwise includes any uncertainty.

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

Estimates

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

Timing

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

Limitations

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

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

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

Forward-looking Statements

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

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

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

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Management of Chemicals in Products	Description of processes to maintain compliance with restricted substances regulations	Discussion and Analysis	n/a	CN0501-01
	Description of processes to assess and manage risks associated with chemicals in products	Discussion and Analysis	n/a	CN0501-02
Raw Material Sourcing & Innovation	Top five raw materials used in products, by weight ¹¹	Quantitative	Metric tons (t)	CN0501-03
	Percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard	Quantitative	Percentage (%) by weight	CN0501-04
Labor Conditions in the Supply Chain	Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 that have been audited to a labor code of conduct, percentage conducted by a third-party auditor	Quantitative	Percentage (%)	CN0501-05
	Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits	Quantitative	Rate	CN0501-06
	Discussion of greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	Discussion and Analysis	n/a	CN0501-07
Environmental Impacts in the Supply Chain	Percentage of (1) tier 1 supplier facilities and (2) supplier facilities beyond tier 1 with wastewater discharge meeting or exceeding legal requirements ¹²	Quantitative	Percentage (%)	CN0501-08
	Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 who have completed the Sustainable Apparel Coalition's Higg Index Facility Module assessment or equivalent environmental data collection	Quantitative	Percentage (%)	CN0501-09

¹¹ Note to **CN0501-03**—Disclosure shall include a discussion of environmental and social risks associated with sourcing each of the top five raw materials used in products.

¹² Note to **CN0501-08**—Disclosure shall include a description of the risk related to wastewater discharge and the wastewater treatment and management method(s) used.

Management of Chemicals in Products

Description

The introduction of the Consumer Product Safety Improvement Act in the U.S. and the Registration, Evaluation, Authorization, and Restriction of Chemicals legislation in the E.U. demonstrates increasing regulatory and stakeholder concern surrounding the use of harmful or potentially harmful substances in consumer products, including apparel, accessories, and footwear. Finished apparel and footwear products have been found to contain traces of chemicals that have been banned or regulated. Depending on the chemical, the amount present in a product, and the type of exposure that consumers face, specific substances can be carcinogenic, and can disrupt hormone activity in humans and other organisms. Companies in this industry must work at both the design and manufacturing phases to manage the use of chemicals of concern, develop safe alternatives, and eliminate those that have been banned. Given the industry's reliance on outsourced manufacturing, this requires proactive partnerships with suppliers. In managing this issue, companies must balance the hazard posed by certain chemicals, some of which are important to the functionality or quality of a product, with the risk that consumers face in using these products. Failure to manage this issue may generate additional regulatory oversight and impact a company's social license to operate. In addition, the presence of harmful chemicals in products can lead to recalls, litigation, and reputational damage.

Accounting Metrics

CN0501-01. Description of processes to maintain compliance with restricted substances regulations

- .01 The registrant shall describe the processes it uses to verify that its products are in compliance with restricted substances regulations to which they are subject (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question Gen-B-4.1), where:
 - Restricted substances regulations are defined as laws, rules, and regulations that restrict or ban the use of certain materials, chemicals, and substances in finished home textile, apparel, and footwear products.
- .02 The registrant shall discuss its use of finished product and product input laboratory testing and verification, restricted substance lists (RSL), material supplier (i.e., vendor) agreements, and/or input stream management where:
 - An RSL is defined as a list of chemicals that the registrant restricts from inclusion in materials, components, and products that it produces. This list typically includes the common names of the chemicals, the Chemical Abstracts Service (CAS) numbers, the restriction levels in the final product or tested component, and the test method.
 - Material supplier agreements are defined as contracts between the registrant and its manufacturing suppliers that limit regulated substances to their restricted levels in the products that the supplier manufactures.

- Input stream management is defined as a preventive process for monitoring and optimizing chemical recipes, proactive reactants and reagents, or material inputs (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.5).
- .03 The registrant shall describe the verification and testing processes it employs to confirm that its materials maintain compliance with restricted substances regulations, (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-3.1) including:
- Whether the registrant tests each product input or finished products
 - Product inputs are defined as the component(s) of the finished product
 - Whether the registrant conducts its own lab testing or if testing is done by a third party
 - The frequency of testing, including whether or not random sampling is conducted
 - Whether the registrant has a standard operating procedure (SOP) for verifying compliance with restricted substances regulations as a part of its material selection and approval process (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-5.2).
- .04 The registrant shall describe the scope of the RSL(s) it uses, including whether it:
- Uses separate RSLs to manage legal compliance within each market it operates in or applies a single RSL to products in all markets in which it operates, regardless of whether the RSL contains chemicals that are not be regulated in certain markets.
 - Uses one or more RSL that it has independently developed or if it uses an industry-accepted RSL (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.1).
 - An industry-accepted RSL is defined as an RSL that is promulgated by an industry or trade organization (e.g., American Apparel & Footwear Association (AAFA) Restricted Substance List (RSL), June 2015 | Release 16).
 - Uses an RSL that reflects the strictest regulation in all of the countries or markets in which the brand operates and sells products (e.g., regulations that apply to manufacturing, marketing, and sales locations). (Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B.2.1.)
 - Strictest regulation is defined as the lowest allowable concentration of the regulated chemical found in any regulation in all locations worldwide where the chemical is regulated.
 - Uses an RSL that reflects the most restrictive allowable limits in all locations worldwide where the chemicals that may be used in the registrant’s products are regulated (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B.2.2).
 - An example of an RSL that reflects the most restrictive allowable limits worldwide is the American Apparel & Footwear Association (AAFA) RSL, June 2015 | Release 16.

- Uses one or more RSL that includes voluntary limits or bans of chemicals beyond what is covered in the most restrictive global regulations, or if it includes chemicals that may not be subject to regulation but which the registrant has voluntarily chosen to limit or ban from its products (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.3 and GEN-B-4.5.1).
 - An example of an RSL that includes chemicals that may not be subject to regulation but which a registrant may voluntarily have chosen to limit or ban from its products is the List of Non-Regulated Substances Contained in the AFIRM RSL Guidance.
- .05 The registrant shall disclose whether the RSL(s) it uses is publicly available and shall disclose its location. (Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.4.)
- Public disclosure is defined as online disclosure of the full list of chemicals on the RSL, their restriction limits, and the regulations to which the chemicals are subject.
- .06 The registrant shall disclose how it enforces compliance with restricted substances regulations within its supply chain, including:
- How it requires its suppliers to demonstrate adherence (i.e., through self-declaration or if the registrant includes RSL compliance requirements in supplier contracts/agreements) (Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-3.1).
 - Which tiers (i.e. tier 1, tier 2, or beyond tier 2) of suppliers the registrant directly verifies to be in compliance with restricted substance regulations.
 - How the registrant enforces corrective actions when it identifies non-compliance with its RSL(s) (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.3.1 and GEN-B-4.3.3).

CN0501-02. Description of processes to assess and manage risks and/or hazards associated with chemicals in products

- .07 The registrant shall describe the business and operational processes it employs to assess and manage potential risks and hazards associated with materials, chemicals, and substances (hereafter “chemicals”) (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.7).
- The scope of disclosure shall focus on chemicals that may be detected at certain levels in the registrant’s finished products
 - The scope of disclosure excludes chemicals management processes for chemicals used during manufacturing and production processes or that are associated with the production of raw materials or components of its products, but which are not present in finished products, which are addressed through CN0501-09.

- .08 Where chemicals management policies and practices differ significantly by business unit, product category, or geography, the registrant shall describe those differences.
- .09 The registrant shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:
- A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human-health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and dosages (amounts) of a substance it takes to cause an adverse effect.¹³
 - A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure (i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.¹⁴
 - Other approaches may include the usage of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.
- .10 The registrant shall describe the operational processes it employs for chemicals management, where:
- Relevant operational processes used for hazard-based approaches include the exclusion of chemicals in a finished product because their use is prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in the registrant's products (e.g., use of a comprehensive restricted substances list (RSL) for chemicals that are banned globally or in locations where the registrant operates) (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question MAT-B-4.1).
 - Relevant operational processes that typify risk-based management include evaluating chemical hazard data, conducting assessment of exposure pathways, and identifying potential corresponding health risks through the use of screening methods and chemical risk framework tools, such as the World Health Organization (WHO) [Human Health Risk Assessment Toolkit: Chemical Hazards](#), the International Council of Chemical Associations (ICCA) [Guidance on Chemical Risk Assessment, and](#) the Outdoor Industry Association's Chemicals Management Framework Tool.
 - Additional frameworks for hazard- and risk-based chemical assessment include those compiled by the Organisation for Economic Co-operation and Development (OECD), available [here](#).

¹³ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

¹⁴ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

- .11 The registrant shall discuss its approach to chemicals management in the context of each stage in its products' lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.
- .12 The registrant shall describe how it prioritizes chemicals for reduction and/or elimination from its products and how it works to incorporate alternative chemicals into product formulation and design, including through materials substitution assessments (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator questions GEN-B-4.6.1 and MAT-B-4.3).
- .13 The registrant shall describe whether it designs its products according to one or more green chemistry principles, including how it prioritizes a set of chemicals from its full product portfolio and evaluates sourcing options and potential material innovation (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question MAT-B-4.1 and MAT-B-4.3).
 - Green chemistry principles are defined by the [12 Principles of Green Chemistry](#).
 - A product shall be considered to have been designed with green chemistry principles if documentation shows that tools, frameworks, standards, and/or certifications were used to incorporate one or more green chemistry principle into the design, materials selection, manufacturing processes, use-phase, and/or end-of-life disposal of the product.
- .14 The registrant shall disclose whether it pursues third-party certifications to verify the chemical content of its finished products, including which certifications it holds and which products the certifications apply to.
 - Examples of third-party certifications that verify chemical content in products include, but are not limited to, OEKO-TEX Standard 100 Certification, Eco-Passport, Bluesign, and Intertek Eco-Certification.
- .15 The registrant shall describe how it works with its suppliers to manage risks and/or hazards associated with chemicals in products, (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question GEN-B-4.6) including:
 - Whether and how it works with its suppliers to implement its green chemistry program, if extant, and if it rewards suppliers for participating (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question MAT B-4.2 and MAT-B-4.3).
- .16 The registrant may choose to identify chemicals found in its finished products that it is targeting for reduction, elimination, or assessment for reasons such as:
 - There is incomplete and/or insufficient availability of toxicity information such that the registrant cannot determine if the chemical is safe for use;
 - Pending or anticipated regulations may limit or restrict the use of the chemical in the future;

- There is potential for environmental, but not human health, harm that the registrant wishes to limit; and/or
 - In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the registrant as being “of concern” to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).
 - Specific chemicals to discuss may include, but are not limited to, those found on the California Department of Toxic Substances Control [Priority Product Work Plan](#).
 - Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.6.1.
- .17 Where the registrant has identified specific chemicals for elimination or substitution, it should discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.7).

Raw Material Sourcing & Innovation

Description

The Apparel, Accessories & Footwear industry relies on numerous raw materials as key inputs for finished products. Sustainability concerns related to climate change, water scarcity, land use, resource scarcity, and conflict in the supply chain are increasingly shaping the industry's ability to source materials, including cotton, leather, wool, rubber, and precious minerals and metals. The ability of companies to manage potential materials shortages, supply disruptions, price volatility, and reputational risks is made more difficult by the fact that they source materials from geographically diverse regions through supply chains that often lack transparency. Further, the types of risk faced for different materials can require different solutions, ranging from engaging with suppliers, enhancing transparency, using certification standards, to using innovative alternative materials. Companies that are most proactive are likely to reduce their exposure to price volatility and potential supply disruptions, while improving the brand reputation and developing new market opportunities. Failure to effectively manage this can lead to higher costs of capital, reduced margins, and constrained revenue growth.

Accounting Metrics

CN0501-03. Top five raw materials used in products, by weight

- .18 The registrant shall disclose the five raw materials that compose its finished products in the greatest amounts (by weight) during the fiscal year, and the amount of each, in metric tons.
- .19 Raw materials include synthetic fibers and fabrics, natural fibers and fabrics, cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to:
 - Cotton, rayon, polyester, acrylic, spandex, nylon, rubber, leather, wool, flax, silk, hemp, and down.
- .20 The registrant shall disclose the top five materials by weight that comprise its products regardless of whether the registrant purchased the materials directly or its suppliers purchased the materials.

Note to CN0501-03

- .21 The registrant shall discuss environmental and social risks associated with sourcing each of the top raw materials it used, and describe how it manages those risks.
- .22 Environmental supply chain risks include, but are not limited to:
 - Climate change impacts (e.g., changing temperatures, water stress, etc.) on natural fiber crop production that may affect their price and availability;
 - Legislation on greenhouse gases affecting the price of petroleum which may affect the price of petroleum-derived raw materials;

- Tightening environmental regulations for suppliers that could affect the cost or availability of raw materials they supply;
- Lack of full traceability to the source of the raw materials, which may hinder the ability to identify compliance incidents that could lead to negative effects on brand reputation;
- Improper land use practices within the supply chain that may affect the yield of natural fiber raw materials; and
- Other environmental factors that may have an impact on the registrant's ability to source raw materials for its products.

.23 Social supply chain risks include, but are not limited to:

- Suppliers' animal welfare, labor and human rights practices that may affect the registrant's reputation; and
- Sourcing materials from regions of conflict which may affect the price and availability of raw materials.

.24 If the registrant identifies cotton as one of the top five raw materials used in its products, it shall discuss its vulnerability to cotton-growing regions with water stress and how it manages the risk of price variability due to sourcing cotton from these regions.

- The registrant may choose to identify its known sources of cotton for High (40–80%) or Extremely High (>80%) Baseline Water Stress using the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct (publicly available online [here](#))

.25 The registrant shall discuss its approach to managing risks associated with the use of raw materials in its products, including physical limits on availability, access, price, and reputational risks.

- Relevant strategies to discuss include due diligence practices, supply chain auditing, partnerships with industry groups or nongovernmental development organizations, using substitute materials, research and development into materials with less environmental or social risks, supplier diversification, implementing supply chain codes of conduct, training or engagement programs, supplier audits and/or certifications, and research into the full traceability of material sources, among other strategies.

CN0501-04. Percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard

.26 The registrant shall disclose the percentage of raw materials, by weight in metric tons, that are third-party certified to an environmental or social sustainability standard.

- .27 Environmental and social sustainability standards are defined as standards that address environmental and social impacts that result from the primary sourcing of raw materials, such as standards for organic or recycled content, animal welfare, fair labor, and others.
- .28 Third-party certifications include, but are not limited to:
- Outdoor Industry Association's Content Claim Standard (CCS)
 - Textile Exchange's Recycled Claim Standard, Global Recycled Standard, Organic Cotton Standard, and Responsible Down Standard
 - Certified Organic
 - Control Union Global Organic Textile Standard
 - Better Cotton Initiative
 - Forestry Stewardship Council certification (for lyocell and rubber)
 - Rainforest Alliance leather products
 - Global Organic Textile Standard
 - STeP by OEKO-TEX®,
 - OEKO-TEX® Standard 100
 - ECO PASSPORT
 - Cradle to Cradle
 - Bluesign
- .29 The scope of disclosure includes third-party certifications that are based on either environmental or social best practices or both.
- .30 The percentage is calculated as the total weight, in metric tons, of raw materials that are certified to a third-party environmental and/or social standard divided by the total weight of raw materials that compose the registrant's finished products.
- .31 The registrant shall disclose, on a percentage of cost basis, the certification schemes to which its raw materials are certified.
- .32 The registrant may also choose to discuss its use of other sustainable materials that may not be third-party certified, but may demonstrate an environmental lifecycle benefit, and fibers such as reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

Labor Conditions in the Supply Chain

Description

The fair treatment of workers and the protection of worker rights in the Apparel, Accessories, and Footwear industry's supply chain is of growing concern among consumers, regulators, and leading companies. Critical aspects of this issue include employee health and safety, fair pay, child labor, and forced labor. Although companies continue to improve performance on this issue, the industry's reliance on a multitiered system of suppliers, subcontractors, labor recruitment firms, and part-time workers makes it difficult to manage. Since companies in the industry typically contract with suppliers in countries with the lowest direct costs, the industry's products are often manufactured in countries that have limited regulations or enforcement protecting workers. This makes labor issues related to product manufacturing widely prevalent and important to address to reduce reputational risks and impacts on short- and long-term costs and sales. Such effects can arise from increasing regulation and its enforcement in response to high-profile safety or labor incidents, production disruptions due to strikes and other labor-related work stoppages, or through a shift in demand away from companies associated with such incidents. Companies with strong supply chain standards, monitoring, and engagement with suppliers to address labor concerns may therefore be better positioned to protect shareholder value over the long term.

Accounting Metrics

CN0501-05. Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 that have been audited to a labor code of conduct, percentage conducted by a third-party auditor

- .33 The registrant shall disclose the percentage of its tier 1 suppliers and the percentage of suppliers beyond tier 1 that have been audited to a labor code of conduct during the fiscal year, where:
- Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities).
 - Suppliers beyond tier 1 are the key suppliers to the registrant's tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.).
- .34 Audits are defined as visits to a supplier's facility and review of records to ensure compliance with the code of conduct.
- The scope includes audits conducted by an internal corporate representative or by a third-party auditor.
 - The scope includes audit results conducted by other brands or by external third parties not commissioned by the registrant in lieu of having an audit conducted solely for the registrant's purpose (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.1).
 - The registrant may choose to disclose the extent to which it has reduced audit duplicity by accepting audits conducted by other brands or external third parties (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.1).

- .35 A labor code of conduct is a corporate policy, standard, or contract that outlines a set of working conditions, labor practices, and environmental health and safety requirements for suppliers and contractors. At a minimum, a code of conduct ensures that suppliers are in compliance with regulations.
- Labor criteria in the code of conduct shall include, at a minimum, an assessment of worker hours/excessive overtime, nondiscrimination, minimum age requirements, compensation practices, freedom of association (worker involvement and communication), worker treatment and development (anti-harassment and anti-abuse policies), and termination and retrenchment policies.
 - Environmental health and safety criteria in the code of conduct shall include, at a minimum, an assessment of building and occupational safety hazards and environmental provisions relating to human health and safety, including criteria focused on compliance with environmental laws, environmental permits, pollution prevention and source reduction, hazardous materials management, wastewater and solid waste management, and air emissions levels.
 - Examples of apparel industry codes of conduct include the Fair Labor Association [Workplace Code of Conduct](#) and [Compliance Benchmarks](#) and the Outdoor Industry Association (OIA) [Code of Conduct](#) in the Fair Labor Toolkit.
- .36 The registrant shall disclose the standards to which it measures labor code of conduct compliance.
- For internally developed supplier code(s) of conduct, the registrant shall disclose the public location where such code(s) can be viewed.
- .37 The registrant shall disclose the percentage of the total audits conducted that were performed by an independent third-party auditor.
- An independent third-party audit is defined as an audit conducted by an independent external organization to determine that the supplier facility complies with specific standards.
- .38 The registrant may choose to describe its approach to auditing supplier facilities, including how the registrant adjusts the scope and frequency of monitoring for supplier facilities based on potential risk factors and the continuous performance of the facility (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question SL-B-2.2.1).
- .39 The registrant may choose to describe how the it assesses and prioritizes its supply chain partners (including subcontractors) to determine the level of risk associated with each in terms of labor and working conditions (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question SL-B-2.1.2), including:
- If the registrant maintains an ongoing list of the tier 1 suppliers and suppliers beyond tier 1 involved with the production of its goods.
 - If the registrant records information about risk factors that impact performance on labor standards for manufacturers that have been mapped to determine proper levels of oversight and monitoring.

CN0501-06. Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits

- .40 The registrant shall disclose the rate of its suppliers' non-conformance with external labor code of conduct audit standards or internally developed supplier code(s) of conduct and the rate at which those instances of non-conformance have been subject to corrective action.
- .41 The priority non-conformance rate shall be calculated as the total number of priority non-conformances identified in the supply chain divided by the number of facilities audited, where:
- A non-conformance is defined as a finding of violation of a local law or one or more aspects of a code of conduct that has been corroborated by more than one source (e.g., management interview, worker interview, payroll review, on-site observation, etc.) unless that single source is incriminating.¹⁵
 - Priority non-conformances are defined as the highest severity of non-conformance and require escalation by auditors or the registrant. Priority non-conformances may arise from a significant risk to labor conditions, safety, or the environment; non-compliance with relevant regulatory requirements; or failure to adequately address prior minor non-conformances.
 - Priority non-conformances are defined by the registrant's or an external third party's code of conduct, and are also known as "high-risk violations," "severe violations, or "major deficiencies," among other terms. Examples of what constitutes a priority non-conformance in an apparel, accessories, or footwear supplier facility audit include the indicators of a "Major Deficiency" outlined in the OIA [Code of Conduct](#).
 - The number of facilities audited includes those that were audited by the registrant, by other brands, or by external third parties commissioned by the registrant in lieu of having an audit conducted solely for the registrant's purpose.
- .42 The registrant shall calculate and disclose its corrective action rate for priority non-conformances as the number of corrective action plans completed to address priority non-conformances divided by the total number of priority non-conformances that have been identified.
- .43 A corrective action is defined as an action to eliminate the cause of a detected non-conformance, including the implementation of practices or systems to eliminate any non-conformance and ensure there will be no reoccurrence of the non-conformance as well as verification that the corrective action has taken place.
- .44 The registrant may choose to disclose the number of contracts with suppliers that were terminated as result of non-conformances.
- .45 The registrant may also choose to provide a breakdown of levels in the supply chain where non-conformances occurred (tier 1, tier 2, or other), or by geographic region.

¹⁵ Definition adapted from Fair Labor Association (FLA) Independent External Monitoring Reports, available online [here](#).

CN0501-07. Discussion of greatest (1) labor and (2) environmental, health, and safety risks in the supply chain

- .46 The registrant shall list the three labor conditions issues and the three environmental health and safety issues that pose the greatest potential risk in the registrant's supply chain.
- A risk can be identified because: (a) the registrant has determined its potential to cause accidents or incidents at supplier facilities, (b) it was identified as a non-conformance most frequently in labor code of conduct audits, or (c) the registrant has determined it to have the greatest potential to cause financial and/or reputational harm to the registrant or its suppliers if left uncorrected
- .47 Labor conditions risks include the following, related to the criteria outlined in the registrant's labor code of conduct or audit criteria: excessive worker hours, violations in minimum age requirements, unfair compensation practices, lack of freedom of association rights, unfair worker treatment (harassment or abuse), or other labor conditions risks identified by the registrant.
- .48 Environmental health and safety risks include the following, related to the criteria outlined in the registrant's environmental, health, and safety code of conduct or audit criteria: unsafe building and occupational safety hazards, noncompliance with environmental permits, unsafe levels of air and water pollution, improper management of hazardous substances, wastewater and solid waste disposal violations, or other risks identified by the registrant.
- .49 The registrant should discuss any trends within the labor and environmental, health, and safety risks in its supply chain, such as how frequently the greatest risks were identified through monitoring, any differences between geographic regions, or the level in the supply chain at which these risks occur (i.e., tier 1-level or beyond tier 1).
- .50 The registrant may choose to include a discussion of strategies and efforts to reduce the occurrence of the greatest labor conditions and environmental, health, and safety risks in its supply chain, (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.2) including, but not limited to:
- Tracking closure of corrective actions;
 - Capacity building efforts, such as analysis of root causes and management systems and engagement with workers in the remediation process;
 - Supplier training;
 - Self-auditing and reporting support;
 - Participation in multi-stakeholder initiatives; and
 - Providing incentives or mandating sanctions for labor and environmental, health, and safety performance (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.4).

Environmental Impacts in the Supply Chain

Description

The Apparel, Accessories & Footwear industry's global supply chain contributes to significant environmental externalities, including water consumption and pollution and air pollution. Water pollution results from the discharge of chemicals during water-intensive dyeing and tanning processes, while air pollution stems from the industry's inefficient use of energy. These impacts have the potential to damage a company's reputation and to affect cost structures over time. The scale of this issue has historically been intensified by the fact that the industry relies on manufacturing partners in emerging markets where environmental regulations and oversight are limited. However, enhanced scrutiny on the part of stakeholders and consumers, coupled with the development of more stringent regulation in certain regions, has led companies throughout the industry to work with suppliers to reduce their environmental impact. Apparel, accessories, and footwear companies that leverage their market power to work with suppliers to improve operational efficiencies and resource consumption and limit pollution will be able to mitigate costs associated with increased resource scarcity and regulation. Further, those that engage with suppliers through monitoring, auditing, and strict standards will be better positioned to protect shareholder value over the long term.

Accounting Metrics

CN0501-08. Percentage of (1) tier 1 supplier facilities and (2) supplier facilities beyond tier 1 with wastewater discharge meeting or exceeding legal requirements

- .51 The registrant shall disclose the percentage of (1) its tier 1 supplier facilities and (2) its supplier facilities beyond tier 1 that have industrial wastewater treatment systems that meet or exceed applicable regulatory requirements and have wastewater levels that do not adversely affect the environment or the receiving infrastructure (i.e., drains, treatment plants, vehicles, etc.), as determined by applicable regulations or receiving facility limits (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question FAC-4.1.1).
- Wastewater discharge shall be considered to meet applicable regulatory requirements if it meets the limits established by local regulatory requirements for each chemical during testing conducted by local officials and by the registrant, and if the facility has not received a wastewater discharge violation during the fiscal year.
 - The scope includes supplier facilities that discharge industrial wastewater from any building, activity, piece of equipment, or process that uses water.
 - The scope includes facilities that conduct any of the following: dyeing, tanning, lamination, laundry/washing, wet finishing, boiler blow-down, steam generation, cooling waters, cleaning, printing, screen printing, and degreasing.
 - The scope includes wastewater treatment occurring on-site at the supplier facility and off-site (i.e., sent to a wastewater treatment facility).

- .52 Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities).
- .53 Suppliers beyond tier 1 are the key suppliers to the registrant's tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.)
- The registrant should indicate the degree of estimation if the registrant does not know its complete list of suppliers beyond tier 1.
- .54 The registrant shall disclose whether the wastewater standards to which its supplier facilities are subject to exceed regulated limits for the concentrations of chemicals in wastewater, and the location of those wastewater standards, if publicly available.
- Examples of relevant manufacturing wastewater standards that exceed regulated limits include, but are not limited to, the Zero Discharge of Hazardous Chemicals (ZDHC) [Manufacturing Restricted Substances List](#) (MSRL), [OEKO-TEX Standard 100](#), and Bluesign [criteria](#).
- .55 The registrant shall briefly characterize the treatment methods used for wastewater discharge at supplier facilities, where treatment methods include:
- Primary treatment is defined as screening and settling—clarification in which solids settle and oil and grease float.
 - Secondary treatment is defined as biological decomposition—degradation of organic content with aerobic and/or anaerobic biological treatment.
 - Tertiary treatment is defined as any additional method to further improve water quality, such as disinfection, nutrient removal, or reverse osmosis/ultra filtration.
 - The registrant may choose to disclose the percentage (by volume) of water treated and returned to the environment by each treatment method.
- .56 The registrant shall discuss how its requirements address wastewater discharge for:
- Illegal substances
 - Legally regulated substances
 - Substances or discharge parameters which are not regulated or prohibited by law, but may be a specific pollutant or risk to textile manufacturing, such as use of pesticides, allergenic dyes, or tin-organic compounds, and pH value.
- .57 The registrant shall describe the reasons for choosing wastewater discharge requirements for supplier facilities, which may include, but are not limited to:

- The type of effluents being discharged;
- The regulatory or voluntary standards that the registrant is subject to;
- The environmental setting of the facility; and
- The financial implications of developing such treatment methods.

.58 The registrant may choose to describe its procedure for testing wastewater quality at supplier facilities, including the frequency of testing, whether testing is done internally or externally, and the testing parameters used.

Note to **CN0501-08**

.59 The registrant shall discuss its supply chain risks associated with discharge of water from supplier facilities and describe how it manages these risks.

.60 The registrant shall discuss, where applicable, risks associated with discharge of wastewater in the supply chain.

- Relevant information to provide includes, but is not limited to:
 - Environmental constraints, such as the ability to maintain compliance with regulations focused on the quality of effluent discharged to the environment, the ability to eliminate existing and emerging pollutants of concern, and the ability to maintain control over storm water discharges.
 - External constraints, such as increased liability and/or reputational risks, restrictions to discharges and/or increased operating costs due to regulation, stakeholder perceptions and concerns related to water discharges (e.g., those from local communities, non-governmental organizations, and regulatory agencies), and the ability to obtain discharge rights or permits.
 - How risks may vary by discharges to different destinations, including wetlands, rivers, lakes, oceans, groundwater, rainwater, municipal water supplies, or other water utilities.

.61 The registrant should include a discussion of the potential impacts that these risks may have on its supply chain operations and the timeline over which such risks are expected to manifest.

- Impacts may include, but are not limited to, those associated with costs, revenues, liabilities, continuity of operations, and reputation.

.62 The registrant may choose to describe any practices, programs, technology, or methods it utilizes to manage and improve wastewater quality and chemical formulations used at its supplier facilities (disclosure corresponds with Sustainable Apparel Coalition’s Higg Index indicator FAC-4.3.2).

- Relevant programs to discuss include adherence to certification schemes with wastewater discharge standards, including, but not limited to, STeP by OEKO-TEX, German Blue Angel, Bluesign, and Cradle

to Cradle Certified, and improving chemical formulations at supplier facilities to eliminate priority chemicals identified in the ZDHC Manufacturing Restricted Substances List (available [here](#)).

CN0501-09. Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 who have completed the Sustainable Apparel Coalition’s Higg Index Facility Module assessment or equivalent environmental data collection

- .63 The registrant shall disclose the percentage of tier 1 suppliers and the percentage of suppliers beyond tier 1 who have completed the Sustainable Apparel Coalition’s [Higg Index](#) Facility Module assessment or collected equivalent environmental data.
- .64 Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities).
- .65 Suppliers beyond tier 1 are the key suppliers to the registrant’s tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.).
- .66 A Facility Module assessment shall be considered complete if the supplier completed all of the questions in the Facility Module (Facility Profile, Environmental, and Social), available online [here](#).
- .67 If the registrant collects environmental inventory data from its suppliers without using the Facility Module, the data collection shall be considered equivalent to the Facility Module if the registrant gathers inventory data and reduction targets for all categories and criteria covered in the Facility Module, including data on:
 - Environmental management systems
 - Energy use
 - Greenhouse gas (GHG) emissions
 - Water use
 - Wastewater/effluent discharge
 - Air emissions
 - Waste management
 - Chemicals management
- .68 The registrant may also choose to discuss efforts to improve the outcomes of Facility Module indicators at supplier facilities, such as working with supplier facilities and providing resources to achieve reduction targets.

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