



PROPOSED CHANGES TO PROVISIONAL STANDARDS

BASIS FOR CONCLUSIONS

Consumer Goods Sector

Apparel, Accessories & Footwear

Appliance Manufacturing

Household & Personal Products

Building Products & Furnishings

Toys & Sporting Goods

Multiline and Specialty Retailers & Distributors

E-commerce

Prepared by the
Sustainability Accounting Standards Board®

October 2017

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Introduction

Robust and resilient sustainability accounting standards must not only address the sustainability-related risks and opportunities faced by reporting organizations, they must themselves be sustainable. That is, they must be designed to continually and systematically adapt to an ever-changing world. For this reason, the SASB engages in ongoing technical research and market consultation to ensure the maintenance of decision-useful, cost-effective standards. As changes occur in an industry's competitive context, in the broader sustainability landscape, or in the interests of the reasonable investor, this approach—bolstered by rigorous analysis and bottom-up, market-based input—is key to maintaining a set of standards that evolve to support market needs.

When potentially necessary or appropriate updates to the standards are identified by the SASB's own research or through engagement with corporate issuers, investors, or other subject matter experts, those items may be added to the SASB's Research Agenda or future Technical Agendas, indicating that such items are under review. For such items, the SASB staff prepares proposed updates intended to both incorporate its findings and to satisfy the essential concepts of sustainability accounting set forth in the [SASB Conceptual Framework](#). These updates are then proposed to the SASB Standards Board for review and approval.

The Basis for Conclusions for the proposed changes to provisional standards details the SASB staff's considerations in developing the updates included in the published 2017 Technical Agenda, helping users to better understand the updates and the reasoning behind them. The Basis for Conclusions go hand in hand with the Exposure Draft of the standard, and highlight the specific proposed updates and associated changes per industry per sector. An explanation and rationale for each change is included herein.

About the SASB

Established in 2011, the Sustainability Accounting Standards Board (SASB) is the independent standards-setting organization for sustainability accounting standards that meet the needs of investors by fostering high-quality disclosure of material sustainability information. The standards focus on known trends and uncertainties that are reasonably likely to affect the financial condition or operating performance of a company and therefore would be required to be disclosed under Regulation S-K. The standards are designed to improve the effectiveness and comparability of corporate disclosure on material environmental, social, and governance (ESG) factors in U.S. Security and Exchange Commission (SEC) filings such as Forms 8-K, 10-K, 20-F, and 40-F. Based on a rigorous process that includes evidence-based research and broad, balanced stakeholder participation, the SASB currently maintains provisional standards for 79 industries across 11 sectors.¹

The SASB Standards Board, seated in 2017, comprises nine members, representing a diversity of key perspectives, including standards-setting, corporate reporting, and investing and financial analysis. The Standards Board is responsible for guiding the standard-setting process and for the quality of its outcomes. The SASB operates in accordance with its primary governance documents, the [SASB Rules of Procedure](#) and [SASB Conceptual Framework](#). The [SASB Conceptual Framework](#) sets out the basic concepts, principles, definitions, and objectives that guide the SASB in its approach to setting standards for sustainability-related matters. The [SASB Rules of Procedure](#) establish the

¹ Where traditional industry classification systems group companies by sources of revenue, the SASB's approach considers the resource intensity of firms, and groups industries with like sustainability characteristics, including risks and opportunities, within SASB's Sustainable Industry Classification System™ (SICS™) found at: <https://www.sasb.org/sics/>. SASB has proposed a number of amendments to SICS, and the revised classification system will go into effect when the standards are codified in early 2018. [Proposed changes](#) to SICS are on SASB's website and the Updates proposed herein are based on the amended classification.

processes and practices followed by the SASB in its standard-setting activities, and in its oversight of related work undertaken by the SASB staff. The following fundamental tenets underpin the SASB's efforts:

- **Materiality-Focused:** SASB standards address the sustainability topics that are reasonably likely to have material impacts on the financial condition or operating performance of companies in an industry. In identifying sustainability topics that are reasonably likely to have material impacts, the SASB applies the definition of "materiality" established under the U.S. securities laws.² For more information, see the staff bulletin [SASB's Approach to Materiality for the Purpose of Standards Development](#).
- **Evidence-Based:** The SASB takes an evidence-based approach to assess whether sustainability topics are likely to be of interest to the reasonable investor, and whether they are reasonably likely to have material impacts on the financial condition or operating performance of a company. Evidence is drawn from both internal research and from credible external sources, such as financial filings, earnings calls, databases of U.S. government agencies, industry research products, and academic studies, among others.
- **Market-Informed:** The SASB standards are shaped in large part by feedback from participants in the capital markets—primarily corporate issuers and mainstream investors. The SASB actively solicits input and carefully weighs all stakeholder perspectives in considering which aspects of a sustainability topic warrant standardized disclosure and in determining how to frame, describe, and measure those aspects for the purposes of standardization. The SASB's consultation efforts have involved engagement through Industry Working Groups over a four-year period with more than 2,800 experts, representing \$23.4 trillion in assets under management and more than \$11 trillion market capitalization. Recently, deep consultation on the provisional standards included 141 companies (along with 19 industry associations, representing hundreds of companies) and 38 institutional investors (who consulted on 271 industries). Additionally, the SASB's Investor Advisory Group (IAG) comprises 28 organizations, representing more than \$20 trillion in assets under management, including BlackRock, California Public Employees Retirement System, (CalPERS), California State Teachers' Retirement System (CalSTRS) State Street Global Advisors, and others. This market feedback has played a significant role in shaping the SASB's 2017 Technical Agenda.

In its guidance and oversight role, the SASB operates in a sector committee structure, which assigns a minimum of three Standards Board members to each sector for review, discussion, and liaising with staff. The committees are structured as follows:

² TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976).

SASB Sector Committees		
<p>Health Care <u>Industries:</u> Biotechnology & Pharmaceuticals; Medical Equipment & Supplies; Health Care Delivery; Health Care Distributors; Managed Care; Drug Retailers <u>Committee Members:</u> Lloyd Kurtz*, Bob Hirth, Jean Rogers</p>	<p>Renewable Resources & Alternative Energy <u>Industries:</u> Biofuels; Solar Technology & Project Developers; Wind Technology & Project Developers; Fuel Cells & Industrial Batteries; Forestry Management; Pulp & Paper Products <u>Committee Members:</u> Stephanie Tang*, Jeff Hales, Kurt Kuehn</p>	<p>Food & Beverage (formerly Consumption I) <u>Industries:</u> Agricultural Products; Meat, Poultry, & Dairy; Processed Foods; Non-Alcoholic Beverages; Alcoholic Beverages; Tobacco; Food Retailers & Distributors; Restaurants <u>Committee Members:</u> Stephanie Tang*, Elizabeth Seeger, Lloyd Kurtz</p>
<p>Financials <u>Industries:</u> Commercial Banks; Investment Banking & Brokerage; Asset Management & Custody Activities; Consumer Finance; Mortgage Finance; Security & Commodity Exchanges; Insurance <u>Committee Members:</u> Jeff Hales*, Dan Goelzer, Verity Chegar</p>	<p>Transportation <u>Industries:</u> Automobiles; Auto Parts; Car Rental & Leasing; Airlines; Air Freight & Logistics; Marine Transportation; Cruise Lines; Rail Transportation; Road Transportation <u>Committee Members:</u> Kurt Kuehn*, Jean Rogers, Jeff Hales</p>	<p>Consumer Goods (formerly Consumption II) <u>Industries:</u> Apparel, Accessories & Footwear; Appliance Manufacturing; Household & Personal Products; Building Products & Furnishings; Toys & Sporting Goods; Multiline and Specialty Retailers & Distributors; E-commerce <u>Committee Members:</u> Elizabeth Seeger*, Stephanie Tang, Kurt Kuehn</p>
<p>Technology & Communications <u>Industries:</u> Electronic Manufacturing Services & Original Design Manufacturing; Software & IT Services; Hardware; Semiconductors; Telecommunication Services; Internet Media & Services <u>Committee Members:</u> Bob Hirth*, Lloyd Kurtz, Verity Chegar</p>	<p>Services <u>Industries:</u> Education; Professional & Commercial Services; Hotels & Lodging; Casinos & Gaming; Leisure Facilities; Advertising & Marketing; Media & Entertainment <u>Committee Members:</u> Dan Goelzer*, Jeff Hales, Bob Hirth</p>	<p>Infrastructure <u>Industries:</u> Electric Utilities & Power Generators; Gas Utilities & Distributors; Water Utilities & Services; Waste Management; Engineering & Construction Services; Home Builders; Real Estate; Real Estate Services <u>Committee Members:</u> Jean Rogers*, Kurt Kuehn, Verity Chegar</p>
<p>Extractives & Minerals Processing (formerly Non-Renewable Resources) <u>Industries:</u> Oil & Gas - Exploration & Production; Oil & Gas – Midstream; Oil & Gas - Refining & Marketing; Oil & Gas – Services; Coal Operations; Iron & Steel Producers; Metals & Mining; Construction Materials <u>Committee Members:</u> Verity Chegar*, Elizabeth Seeger, Bob Hirth</p>	<p>Resource Transformation <u>Industries:</u> Chemicals; Aerospace & Defense; Electrical & Electronic Equipment; Industrial Machinery & Goods; Containers & Packaging <u>Committee Members:</u> Lloyd Kurtz*, Dan Goelzer, Jean Rogers</p>	<p style="text-align: right;">* Sector chair</p>

The Standards Board sector committees have reviewed proposed changes to the provisional standards, based on the Technical Agenda, in anticipation of ratifying the standards in Q1 2018.

Commenting

The SASB has voted to release the Proposed Changes to Provisional Standards: Basis for Conclusions compendium and the Exposure Drafts of the standards, thus initiating a 90-day Public Comment Period. The Public Comment Period will occur from October 2, 2017, to December 31, 2017. During this time, the public may submit comments to the SASB on the proposed updates to the standards. Public comments will be evaluated in the process to ratify the standards, expected in early 2018. Further guidance on the Public Comment Period, including instructions to submit comments and accessing the Basis for Conclusions and Exposure Drafts, is available at: <http://www.sasb.org/public-comment>. Other questions on the SASB or the Public Comment Period may be sent to: info@sasb.org.

Proposed Changes to Provisional Standards: Basis for Conclusion Overview

The following provides a detailed description of—and rationale for—each change proposed to the SASB Provisional Standard for the industries within the Consumer Goods sector. Changes may be related to content, including adding, removing, or reframing a topic or adding, removing, or revising a metric. Changes may also be technical in nature, including updates to a metric's scope, definitions, third-party references, or harmonization across SASB's standards and/or with external initiatives. Typographical and other editorial changes have not been included below but can be provided to interested parties or reviewed in the redline Public Comment Standard.

Guidance Used to Determine Proposed Updates

In preparing its proposed updates, the SASB is guided by the Fundamental Tenets of the SASB Approach to Standards-Setting, which are designed to better achieve the Core Objectives of the SASB, as established by the *SASB Conceptual Framework*.

Topic-Level Proposed Updates

Proposed updates that relate to the addition, removal, or reframing of a topic are based on the following Principles for Topic Selection ("Principles"), as established by the *SASB Conceptual Framework*:

- **Potential to affect corporate value.** Through research and stakeholder input, the SASB identifies topics that can or do affect operational and financial performance through three channels of impact: (1) revenues and costs, (2) assets and liabilities, and (3) cost of capital or risk profile.
- **Of interest to investors.** The SASB addresses issues likely to be of interest to investors by assessing whether a topic emerges from the "total mix" of information available through the existence of, or potential for, impacts on five factors: (1) direct financial impacts and risk; (2) legal, regulatory, and policy drivers; (3) industry norms, best practices, and competitive drivers; (4) stakeholder concerns that could lead to financial impacts; and (5) opportunities for innovation.
- **Relevant across an industry.** The SASB addresses topics that are systemic to an industry and/or represent risks and opportunities unique to the industry and which, therefore, are likely to apply to many companies within the industry.

- **Actionable by companies.** The SASB assesses whether broad sustainability trends can be translated into industry-specific topics that are within the control or influence of individual companies.
- **Reflective of stakeholder (investor and issuer) consensus.** The SASB considers whether there is consensus among issuers and investors that each disclosure topic is reasonably likely to constitute material information for most companies in the industry.

Metric-Level Proposed Updates

Proposed updates that relate to the addition, removal, or revision of a metric are based on the following Criteria for Accounting Metrics (“Criteria”), as established by the *SASB Conceptual Framework*:

- **Fair Representation:** A metric adequately and accurately describes performance related to the aspect of the disclosure topic it is intended to address, or is a proxy for performance on that aspect of the disclosure topic.
- **Useful:** A metric will provide useful information to companies in managing operational performance on the associated topic and to investors in performing financial analysis.
- **Applicable:** Metrics are based on definitions, principles, and methodologies that are applicable to most companies in the industry based on their typical operating context.
- **Comparable:** Metrics will yield primarily (a) quantitative data that allow for peer-to-peer benchmarking within the industry and year-on-year benchmarking for an issuer, but also (b) qualitative information that facilitates comparison of disclosure.
- **Complete:** Individually, or as a set, the metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic.
- **Verifiable:** Metrics are capable of supporting effective internal controls for the purposes of data verification and assurance.
- **Aligned:** Metrics are based on those already in use by issuers or are derived from standards, definitions, and concepts already in use by issuers, governments, industry associations, and others.
- **Neutral:** Metrics are free from bias and value judgment on behalf of the SASB, so that they yield an objective disclosure of performance that investors can use regardless of their worldview or outlook.
- **Distributive:** Metrics are designed to yield a discernable range of data for companies within an industry or across industries allowing users to differentiate performance on the topic or an aspect of the topic.

Technical-Protocol Proposed Updates

Proposed updates that relate to the revision of technical protocols are based on the following attributes, designed to enable the technical protocols to serve as the basis for “suitable criteria,” as defined by the PCAOB’s AT Section 101³ and as referenced in the *SASB Conceptual Framework*:

- **Objectivity:** Criteria should be free from bias.
- **Measurability:** Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.

³ PCAOB, [AT Section 101](#) – Attest Engagements

- **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.

Proposed Updates Related to Other Elements of Standardized Presentation

Each SASB standard is presented in a structured manner to ensure consistent application and to facilitate the cost-effective preparation of material, decision-useful information. These core objectives guide the preparation of proposed changes that involve the revision of specific elements of standardized presentation. Such revisions—including those made to general disclosure guidance, industry descriptions, topic descriptions, and activity metrics—are based on the stated objectives and key characteristics of the element, as established by the *SASB Conceptual Framework*.



CONSUMER GOODS SECTOR

APPAREL, ACCESSORIES & FOOTWEAR INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CG0101

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #9-1 – **Industry:** Apparel, Accessories & Footwear; **Topic Name:** Raw Material Sourcing & Innovation

2017 Technical Agenda Item #9-1 Description

SASB is evaluating the revision of metric CN0501-03⁴ to improve its cost-effectiveness and the alignment with existing industry frameworks.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric CN0501-03 from “Top five raw materials used in products, by weight” to “Discussion of environmental and social risks associated with sourcing priority raw materials.”

Adherence to Criteria for Accounting Metrics

The Apparel, Accessories & Footwear industry provisional standard includes a topic for Raw Material Sourcing & Innovation (topic name proposed to be updated to Raw Material Sourcing per Proposed Update #9-2) with two associated quantitative metrics that characterize a company’s management of environmental and social risks related to the sourcing and procurement of raw material inputs. 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 types of risks vary by raw material and the geographic location from where they are sourced, as do approaches to mitigate those risks. With respect to raw material sourcing, provisional metric CN0501-03 currently focuses on the disclosure of the top five raw materials used in products, by weight. The current provisional metric does not provide a complete view of a company’s risks related to raw materials sourcing in part because a given raw material may present a critical risk to a company, even if only a small amount of it is needed, by weight. Further, many issuers within the industry do not currently have the systems in place to monitor all raw materials from their source to the end product. Tracking this would require a material investment and significant coordination with suppliers. The proposed revision of the metric addresses these concerns by improving the cost-effectiveness of disclosure for corporations. The Sustainable Apparel Coalition (SAC) is the major sustainability-focused industry association in this industry. In collaboration with member companies, it has developed a sustainability benchmarking tool called the Higg Index for internal tracking of company performance. The proposed revision better aligns with the SAC’s Higg Index, further reducing the reporting burden.

Supporting Analysis

Two major apparel brands currently publicly report on the top five raw materials used; however, this is not common practice among apparel and footwear manufacturers. This is a result of many companies in the industry not having the data collection processes in place to calculate the absolute amount of raw materials used in products. This collection process is further complicated as the issuer often has to rely on data from suppliers. There is also a disconnect between weight and importance of raw materials in the production process, and different materials are measured in different units. Cost of goods sold (COGS) was investigated as a potential solution to define “priority” or “critical” raw materials. However, this hides the fact that some raw materials may be a small portion of raw material costs but have outsized risks associated with social, environmental, or political factors, such as sourcing from a risky country or a water-stressed region. There could therefore be significant exposure to reputational sourcing risks around certain materials used in a lower quantity.

⁴ CN0501-03: Top five raw materials used in products, by weight

Additionally, the proposed revision increases alignment with SAC Higg Index indicators. Aligning SASB metrics with Higg Index indicators will reduce the cost burden for companies to adopt SASB metrics. Most of the metrics in the provisional standard reference Higg Index indicators and either have a high feasibility or a possibility that Higg Index data can be the basis for reporting SASB metrics. Thus, the proposed discussion and analysis metric regarding management of risks and opportunities associated with raw materials may be more appropriate for disclosure, as it would significantly increase alignment with industry practices and improve the cost-effectiveness of the standard.

Stakeholder Consultation

Investors: Seven investors provided feedback and all expressed interest in comparable disclosure on the top raw materials and associated sourcing risks. All investors consulted on this topic agreed that weight is not the best unit of measurement to track performance on this topic, and they would like a general discussion around risks and governance strategies related to sourcing of priority materials, especially including information on regions where materials are sourced.

Issuers: Three issuers noted that it would be difficult to provide the weight of their priority materials without significant investment. One industry association that represents major industry players indicated the provisional metric is not cost-effective because not all issuers have the data collection systems in place to calculate their top five raw materials. Further complicating data collection and evaluation is the fact that input materials are measured in various units, such as metric tons for cotton, square feet for leather, and yards for fabric, while the heaviest raw materials do not necessarily represent the most significant raw material risks.

Benefits

Improves cost-effectiveness: The proposed change improves cost-effectiveness through alignment with industry standard.

Aligns with other standards: The proposed revision increases alignment with the SAC Higg Index indicators.

Proposed Update #9-2 – **Industry:** Apparel, Accessories & Footwear; **Topic Name:** Raw Material Sourcing & Innovation

2017 Technical Agenda Item #9-2 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

The SASB proposes renaming the provisional topic Raw Materials Sourcing & Innovation to Raw Material Sourcing.

Supporting Rationale

The provisional standard for the Apparel, Accessories & Footwear Industry has a topic for Raw Material Sourcing & Innovation. A core objective of the standard is to generate decision-useful information. As established in the *SASB Conceptual Framework*, the decision-usefulness of sustainability information is enhanced when it meets numerous criteria, including neutrality. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by removing terminology that could be perceived as lacking neutrality. This topic relates to how companies are managing sustainability risks associated with the raw materials inputs they source for their finished products. While innovation can be a strategy to manage sustainability risks associated with raw materials sourcing, there may be other means available to companies for managing the issue. This change facilitates a more neutral topic name that is consistent with the principals of the *Conceptual Framework*.

Benefits

Improves the SASB standard: The proposed revision improves the neutrality of the standard.

Proposed Update #9-3 – **Industry:** Apparel, Accessories & Footwear; **Topic Name:** Labor Conditions in the Supply Chain

2017 Technical Agenda Item #9-3 Description

SASB is evaluating the revision of metric CN0501-06⁵ to improve its completeness and representativeness.

Summary of Change – Revise Technical Protocol

SASB proposes adding a note to provisional metric CN0501-06 “Priority non-conformance rate and associated corrective action rate for suppliers’ labor code of conduct audits” to provide context regarding a registrant’s supply chain auditing practices.

Adherence to Attributes of Technical Protocols

The Apparel, Accessories & Footwear industry standard includes a topic for Labor Conditions in the Supply Chain with associated metrics to describe a company’s management of operational and reputational risks related to labor conditions throughout the firm’s supply chain. Specifically, provisional metric CN0501-06 examines the priority non-conformance rate and associated corrective action rate for suppliers’ labor code of conduct audits. The current technical protocol describes the way the issuer should calculate the priority non-conformance rate, as well as how to describe any corrective actions taken. While the current technical protocol provides measurable, relevant guidance, it does not provide context around a firm’s supply chain auditing practices. To address this, the proposed note to the metric will allow issuers to describe relevant supply chain auditing issues such as audit criteria that may provide a more complete picture of a firm’s practices. This additional information is likely to improve the completeness of the technical protocol.

Supporting Analysis

Reporting on supplier labor conditions is challenging due to the complexities within the industry’s supply chain, such as the lack of transparency and direct control over factories, as well as the lack of an industry standard or consensus around information to disclose. SASB’s analysis of current disclosure practices shows that, while some companies identify reputational and operational risks arising from this topic, most companies either do not disclose metrics on their progress in SEC filings or disclose a variety of metrics through sustainability reports. A review of the sustainability reports of top companies in the industry shows that reported metrics can include: number of facilities audited, number of audits conducted, and/or percentage of suppliers audited. Further, there is a lack of transparency in the apparel industry supply chain, which makes it difficult to understand where labor violations occur. Labor violations are more common up the supply chain, e.g., in tier 2 and beyond, but apparel companies have less oversight and knowledge about their suppliers beyond tier 1. Issuer efforts to increase transparency in their supply chains is therefore an important element to the overall understanding of company management of this issue.

The diverse manner in which companies have implemented policies and practices to manage supply chain labor conditions suggests that complete understanding of the issue requires additional detail regarding the specific policies and practices employed, as well as the context surrounding the implementation of these policies and practices. Providing the opportunity for issuers to disclose additional information around audit practices (such as audit criteria), company efforts to increase supply chain transparency, disclosure of ongoing relationships with suppliers, and time

⁵ CN0501-06: Priority non-conformance rate and associated corrective action rate for suppliers’ labor code of conduct audits

taken to resolve issues is important in order to give context to the current quantitative metric. The updated technical protocol will provide a more complete picture of company management of and investment in its supply chain partners.

Stakeholder Consultation

Investors: The seven analysts who provided feedback during consultation noted that additional detail from companies regarding their management of the issue would improve the quality of the information generated by the standard. While SASB's approach to including critical non-compliances (i.e., "zero tolerance" violations) was thought to be useful, context around these violations provides a more complete picture.

Issuers: Three individual issuers and an industry association indicated that the addition of a note would be a good revision to this metric and that additional context is important. There was feedback that SASB's approach to auditing may drive companies toward more auditing rather than toward behavior that will lead to improved performance and accountability. There was feedback that, due to the complexity of supply chains in the industry, a detailed explanation as well as contextual information was required for the interpretation of environmental and social factory audits data. Stakeholders indicated that additional information around audit practices (such as audit criteria), company efforts to increase supply chain transparency and develop capacity-building programs, along with disclosures of ongoing relationships with suppliers, and time taken to resolve issues need to be disclosed alongside audit performance data. These stakeholders indicated that such information would provide a more complete picture of company performance and investment into its supply chain partners. These factors have been addressed in the note to the metric.

Benefits

Improves the SASB standard: Adding a note to the provisional metric provides more context and insight to the quantitative audit results, which could be misinterpreted. SASB will provide specific guidance around the type of context to include, thereby providing a more complete view of how companies are managing this topic.



CONSUMER GOODS SECTOR

APPLIANCE MANUFACTURING INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CG0201

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #9-4 – **Industry:** Appliance Manufacturing; **Topic Name:** Product Safety

2017 Technical Agenda Item #9-4 Description

SASB is evaluating the addition of a new metric to improve the completeness, representativeness, and decision-usefulness of the metrics associated with the topic.

Summary of Change – Add Metric

The SASB proposes adding a new metric, “Discussion of process to identify and manage safety risks associated with the use of its products.”

Adherence to Criteria for Accounting Metrics

The Appliance Manufacturing industry standard includes a topic for Product Safety, which is focused on managing regulatory, operational, and reputational risks stemming from product liability claims due to product safety concerns, recalls, and other customer-protection related incidents. The associated metrics describe an individual company’s performance as it relates to this topic. Specifically, provisional metric CN0601-01 quantifies the number of recalls and total units recalled, and provisional metric CN0601-02 quantifies the amount of legal and regulatory fines and settlements associated with product safety incidents. However, the current metrics may not offer a complete and representative indication of an issuer’s product safety risk management practices. The proposed addition of a qualitative discussion will allow for issuers to disclose their policies and practices to mitigate safety risks associated with products. This will better accomplish the core objectives of the standard by providing investors with a more complete, representative view of performance with respect to product safety.

Supporting Analysis

Product safety is of critical importance to the Appliance Manufacturing industry, as exemplified by recent incidents related to the topic:

- In November 2016, the Consumer Product Safety Commission (CPSC) recalled 2.8 million washing machines after more than 700 reports of exploding washing machines. The defective washing machines resulted in at least nine injuries.⁶
- In 2015, according to recalls.gov, about 15,200 microwaves were recalled due to fire hazard and about 40,000 wall ovens due to risk of burns.⁷
- In September 2016, approximately 222,000 top-loading washers were recalled due to fire hazard.⁸
- According to the CPSC, one manufacturer received numerous complaints and failed to report to the CPSC immediately. The firm recalled 520,000 of its single-cup brewers in August 2012.⁹

⁶ “Consumer Product Safety Commission Recalls 2.8 Million Samsung Top-Loading Washing Machines Over Explosion Risks,” Appliance Design, accessed September 14, 2017, <http://www.appliancedesign.com/articles/95262-consumer-product-safety-commission-recalls-28-million-samsung-top-loading-washing-machines-over-explosion-risks>.

⁷ United States Consumer Product Safety Commission, “Whirlpool Recalls Microwaves Due to Fire Hazard,” accessed September 13, 2017, <https://www.cpsc.gov/Recalls/2016/whirlpool-recalls-microwaves>.

⁸ United States Consumer Product Safety Commission, “GE Appliances Recalls Top-Loading Clothes Washers Due to Fire Hazard,” accessed September 13, 2017, <https://www.cpsc.gov/Recalls/2016/GE-Appliances-Recalls-Top-Loading%20Clothes-Washers>.

⁹ United States Consumer Product Safety Commission, “Mr. Coffee Single Cup Brewers Recalled by JCS Due to Burn Hazard,” accessed September 14, 2017, <https://www.cpsc.gov/Recalls/2012/Mr-Coffee-Single-Cup-Brewers-Recalled-by-JCS-Due-to-Burn-Hazard/>.

- A major manufacturer recalled 466,000 portable air conditioners because of fire hazard in December 2016. The firm received four reports of fires that caused \$380,000 in property damage, before it recalled the product.¹⁰

These examples support the applicability of a metric describing the number and size of recalls, as well as the general materiality of the topic to the industry. However, they also highlight the limited view of overall Product Safety risk management provided by such data for investors when assessing the likelihood of such incidents occurring in the future. Further supporting the need for standardized, enhanced disclosure on this topic, a review of the top nine publicly listed companies in the industry by revenue revealed that, while eight companies discussed product safety in their regulatory filings, six of the companies used boilerplate language with no standardized or comparable disclosure on policies and procedures to identify and mitigate product safety risks.

The proposed discussion and analysis metric improves the SASB standard by providing a forward-looking view of company policies and procedures to prevent such incidents from occurring. This forward-looking indicator, when combined with the existing quantitative, backward-looking metrics, provides investors with a more complete and representative view of company exposure to and management of product safety risk than would be provided by the number of product recalls alone.

Stakeholder Consultation

Investors: No feedback was received from investors regarding the proposed change. Despite efforts to reach out to analysts, the SASB did not receive any analyst feedback on the Appliance Manufacturing standard during the consultation period.

Issuers: The SASB reached out to six issuers during consultation to obtain input on the provisional standard, however, limited issuer feedback was received regarding the proposed change. This feedback suggested that a discussion of mitigation of safety risks would be useful for investors due to the variation in recall rates by appliance types. Feedback received from an industry association indicated that the number of recalls may not be a valid measure of the safety performance of products, and that recalls are infrequent in the industry. The association suggested that the SASB include a discussion and analysis metric on a company's processes, policies, and internal review operations to mitigate safety risks associated with products.

Benefits

Improves the SASB standard: The addition of the proposed metric improves the quality of the information generated by the existing quantitative metrics by providing investors with information about how companies are addressing consumer safety. It improves decision-usefulness by providing a more complete and representative view of company exposure to and management of product safety.

¹⁰United States Consumer Product Safety Commission, "LG Electronics Recalls Portable Air Conditioners Due to Fire Hazard," accessed September 13, 2017, <https://www.cpsc.gov/Recalls/2017/LG-Electronics-Recalls-Portable-Air-Conditioners>.



CONSUMER GOODS SECTOR

MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CG0301

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #9-5 – **Industry:** Multiline and Specialty Retailers & Distributors; **Topic Name:** Fair Labor Practices

2017 Technical Agenda Item #9-5 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

The SASB proposes renaming the provisional topic “Fair Labor Practices” to “Labor Practices.”

Supporting Rationale

“Fair Labor Practices,” the topic name used in the provisional standard, may be perceived as an implicit value judgment due to the inclusion of the word “fair.” A core objective of the standard is to generate decision-useful information. As established in the *SASB Conceptual Framework*, the decision-usefulness of sustainability information is enhanced when it meets numerous criteria, including neutrality. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by removing terminology that could be perceived as lacking neutrality.

Benefits

Improves the SASB standard: The proposed revision improves the neutrality of the standard.

Proposed Update #9-6 – **Industry:** Multiline and & Specialty Retailers & Distributors; **Topic Name:** Workforce Diversity & Inclusion

2017 Technical Agenda Item #9-6 Description

SASB is evaluating the revision of metric CN0403-04¹¹ to improve its cost-effectiveness and applicability.

Summary of Change – Revise Technical Protocol

The SASB proposes to revise the technical protocol for the provisional metric CN0403-04, “Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees,” to consider the differences in companies’ ability to report decision-useful data on U.S. versus international workforces. The proposal is to update the technical protocol so that companies report gender breakdown for global operations, but racial/ethnic breakdown according to the U.S. Equal Employment Opportunity Commission (EEOC) EEO-1 Job Classification Guide only for U.S. operations. This reporting would be accompanied by a discussion of issuer performance as it relates to managing the global risks and opportunities associated with diversity. Companies may report the racial/ethnic breakdown outside the U.S. by country or region, but this will be included as an optional disclosure rather than a required disclosure.

Adherence to Criteria for Accounting Metrics

In the provisional industry standard for Multiline and & Specialty Retailers & Distributors, the percentage of gender and racial/ethnic group representation metric is intended to communicate a company’s performance as it relates to the management of risks and opportunities associated with diversity. Currently, the provisional metric CN0403-04 requires global disclosure on gender breakdown and on racial/ethnic breakdown according to the U.S. EEO-1 Job Classification Guide. The proposed revised metric recognizes that the U.S. EEOC’s racial/ethnic classification can only be consistently applied to a company’s U.S. workforce. Currently, the metric does not provide investors with representative data when assessing a company’s performance with respect to diversity. The proposed revision will improve the usefulness and representativeness of the disclosure on racial/ethnic representation.

Supporting Analysis

Companies with transparent hiring and promotion practices to promote workforce diversity and inclusion can benefit from improvements in productivity, revenues, and market share over the medium to long term. Widely accepted diversity metrics, as required by the EEOC, include the gender and racial/ethnic breakdown of employees and managers.

There are several challenges related to reporting racial/ethnic data outside of the U.S. First, classification categories vary significantly country-by-country and region-by-region; therefore, it would not be practical or necessarily representative of racial/ethnic diversity for companies to aggregate their global number of employees by EEO-1 categories. Second, data are typically only available in some countries (e.g., Canada, Brazil) due to privacy laws preventing disclosure. Finally, some countries also look at age, disability, gender identity, sexual orientation, or other aspects of diversity. But not every country will define these demographics similarly.

The updated metric addresses these concerns by requiring a gender breakdown globally. However, racial/ethnic breakdowns per the EEO-1 categories are only required in the United States. Companies will describe their policies for

¹¹ CN0403-04: Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees

preventing the development of a homogenous workforce, promoting inclusivity, and building a workforce representative of the local population. A proposed note to metric CN0403-04 on company strategy will provide investors with a forward-looking measure of how companies are ensuring diverse representation in their workforce and preventing discriminatory practices. This discussion is essential in order to provide context to diversity numbers. If they choose, companies can also disclose racial/ethnic or other breakdown by region or country-specific categories. This update recognizes that a perfectly representative workforce would mirror population demographics, but that regional demographics and ideal representation may vary widely. Thus, it improves the representativeness and the usefulness of the metric.

Stakeholder Consultation

Investors: Four retail analysts provided other feedback on the provisional standard, however, multiple investors across sectors consistently communicated during SASB's consultation period that while a gender breakdown is relevant globally, a racial/ethnic group breakdown by EEO-1 categories is feasible only in the U.S.

Issuers: The SASB contacted 12 issuers in the industry during consultation to obtain input on the provisional standard. Eight of these issuers were briefed on the standard, four of which provided feedback. Issuers echoed the feedback received from investors that the current metric was U.S.-centric and would not result in meaningful information for large, multinational companies that operate in different countries.

Benefits

Improves the SASB Standard: This change improves cost-effectiveness by limiting the required quantitative disclosure on race/ethnicity to U.S. operations. It also improves decision-usefulness by only requiring the aggregation of gender data, which is more likely to be comparable across issuers in different industries and geographies.



CONSUMER GOODS SECTOR

E-COMMERCE INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CG0302

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #9-7 – **Industry:** E-Commerce; **Topic Name:** Employee Recruitment, Inclusion, and Performance

2017 Technical Agenda Item #9-7 Description

SASB is evaluating the revision of metric CN0404-12¹² to improve its cost-effectiveness and applicability.

Summary of Change – Revise Technical Protocol

The SASB proposes to revise the technical protocol for the provisional metric CN0404-12, “Percentage of gender and racial/ethnic group representation for (1) executives, (2) technical staff, and (3) all others,” to consider the differences in companies’ ability to report decision-useful data on U.S. versus international workforces. The proposal is to update the Technical Protocol so that companies report gender breakdown for global operations, but racial/ethnic breakdown according to the EEO-1 Job Classification Guide only for U.S. operations. This reporting would be accompanied by a discussion of issuer performance as it relates to managing the global risks and opportunities associated with diversity. Companies may report the racial/ethnic breakdown outside the U.S. by country or region, but this will be included as an optional disclosure rather than a required disclosure.

Adherence to Criteria for Accounting Metrics

The percentage of gender and racial/ethnic group representation metric is intended to communicate a company’s performance as it relates to the management of risks and opportunities associated with diversity. Currently, the metric requires global disclosure on gender breakdown and on racial/ethnic breakdown according to the EEO-1 Job Classification Guide. The proposed revised metric recognizes that the U.S. EEOC racial/ethnic classification can only be consistently applied to a company’s U.S. workforce. Currently, the metric does not provide investors with representative data when assessing a company’s performance with respect to diversity. The proposed revised metric will improve the usefulness and representativeness of the disclosure on racial/ethnic representation.

Supporting Analysis

Companies with transparent hiring and promotion practices to promote workforce diversity and inclusion can benefit from improvements in productivity, revenues, and market share over the medium to long term. Widely accepted diversity metrics, as required by the EEOC, include the gender and racial/ethnic breakdown of employees and managers.

There are several challenges related to reporting racial/ethnic data outside of the U.S. First, classification categories vary significantly country-by-country and region-by-region. Therefore, it would not be practical or necessarily representative of racial/ethnic diversity for companies to aggregate their global number of employees by EEO-1 categories. Second, data are typically only available in some countries (e.g., Canada, Brazil) due to privacy laws preventing disclosure. Finally, some countries also look at age, disability, gender identity, sexual orientation, or other aspects of diversity. But not every country will define these demographics similarly.

The updated metric addresses these concerns by requiring gender breakdown globally but racial/ethnic breakdown per the EEO-1 categories only in the United States. Companies will describe their policies for promoting inclusivity and preventing the development of a homogenous workforce that is not representative of the local population. A proposed note to metric CN0404-12 on company strategy will provide investors with a forward-looking measure of

¹² CN0404-12: Percentage of gender and racial/ethnic group representation for (1) executives, (2) technical staff, and (3) all others

how companies are ensuring diverse representation in their workforce and preventing discriminatory practices. This discussion is essential to provide context to diversity numbers. Companies can also disclose racial/ethnic or other breakdown by region or country-specific categories, if they choose. This update recognizes that a perfectly representative workforce would mirror population demographics. It improves the representativeness and usefulness of the metric while recognizing that regional demographics and ideal representation may vary widely.

Stakeholder Consultation

Investors: Two E-commerce analysts provided other feedback on the provisional standard, however, multiple investors across sectors consistently communicated during SASB's consultation period that while a gender breakdown is relevant globally, a racial/ethnic group breakdown by EEO-1 categories is feasible only in the U.S.

Issuers: No direct feedback was received from issuers in the industry regarding the proposed change, however, multiple issuers across sectors echoed the feedback received from investors stating that the current metric was U.S.-centric and would not result in meaningful information for large, multinational companies that operate in different countries.

Benefits

Improves the SASB standard: This change improves cost-effectiveness by limiting the required quantitative disclosure on race/ethnicity to U.S. operations. It also improves decision-usefulness by only requiring the aggregation of gender data, which is more likely to be comparable across issuers in different industries and geographies.

Proposed Update #9-8 – **Industry:** E-Commerce; **Topic Name:** Energy & Water Footprint of Hardware Infrastructure

2017 Technical Agenda Item #9-8 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

The SASB proposes renaming the provisional topic “Energy & Water Footprint of Hardware Infrastructure” to “Hardware Infrastructure Energy & Water Management.”

Supporting Rationale

“Energy & Water Footprint of Hardware Infrastructure,” the topic name used in the provisional standard, focuses on company management of energy and water use. A core objective of the standard is to generate decision-useful information. As established in the *SASB Conceptual Framework*, the decision-usefulness of sustainability information is enhanced when it meets numerous criteria, including alignment. The topic name “Energy & Water Footprint of Hardware Infrastructure” consists of nomenclature that is not used within this industry. In contrast, all five of the largest e-commerce firms, by market size, discuss the “management” of these respective resources in corporate filings. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by using terminology consistent with that used in corporate filings.

Benefits

Improves the SASB standard: The proposed revision improves the standard through alignment of terminology with industry norms for disclosure on this topic.

Proposed Update #9-9 – **Industry:** E-Commerce; **Topic Name:** Data Privacy

2017 Technical Agenda Item #9-9 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

The SASB proposes renaming the provisional topic “Data Privacy” to “Data Privacy & Advertising Standards.”

Supporting Rationale

“Data Privacy,” the topic name used in the provisional standard, limits the scope of the underlying metrics. The revised topic name signals the importance of advertising standards in the industry. Investors, issuers, and regulators are increasingly concerned about how consumer data is used in conjunction with advertising to create targeted ads. On October 27, 2016, the Federal Communications Commission announced a new rule to protect personal privacy online that requires consumers to “opt in” to share certain data on browsing and applications. This regulation change is part of a broader sentiment illustrated by the European Union, which has enacted stricter regulation. Any change that limits a company’s ability to generate sales through using targeted advertising may materially impact that company as well as e-commerce firms that rely on digital-ad revenue. Digital-ad revenues in the U.S. in the first half of 2016 were \$32.7 billion. A Bloomberg filings search limited to the ten largest e-commerce companies by market size found hundreds of references to advertising standards. A core objective of the standard is to generate decision-useful information. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by improving clarity of the topic name.

Benefits

Improves the SASB standard: The proposed revision adds clarity to the topic name.