



PROPOSED CHANGES TO PROVISIONAL STANDARDS

BASIS FOR CONCLUSIONS

Food & Beverage Sector

Agricultural Products

Meat, Poultry, & Dairy

Processed Foods

Non-Alcoholic Beverages

Alcoholic Beverages

Tobacco

Food Retailers & Distributors

Restaurants

Prepared by the
Sustainability Accounting Standards Board®

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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 factors in Securities and Exchange Commission 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 Food & Beverage 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 Public Accounting and Oversight Board’s (PCAOB) Attest Engagement’s 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*.



FOOD & BEVERAGE SECTOR

AGRICULTURAL PRODUCTS INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FB0101

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #8-1 to #8-4, #8-6, & #8-8 to #8-10 – **Industry:** Agricultural Products; **Topic:** Industry Description and Various Topics

2017 Technical Agenda Item Descriptions

#8-1: SASB is evaluating the operations of issuers within the Agricultural Products industry to improve the relevance and applicability of the topics and metrics.

#8-2: SASB is evaluating the removal of metric CN0101-02⁴ to improve the cost-effectiveness of the standard and the applicability of the metrics associated with the topic.

#8-3: SASB is evaluating the suitability of the topic name.

#8-4: SASB is evaluating revisions to the topics, including corresponding metrics CN0101-06⁵, CN0101-07⁶, and CN0101-10⁷, to improve the materiality of the standard, the relevance of the topics across the industry, and the applicability of the metrics.

#8-6: SASB is evaluating the removal of the topic, including corresponding metrics CN0101-08⁸, CN0101-09⁹, CN0101-11¹⁰, and CN0101-12¹¹ to improve the cost-effectiveness of the standard and the relevance of the topics across the industry.

#8-8: SASB is evaluating revisions to the topic, including corresponding metrics CN0101-17¹² and CN0101-19¹³ to improve the relevance of the topic across the industry, and the applicability of the metrics.

#8-9: SASB is evaluating the suitability of the topic name.

#8-10 SASB is evaluating revisions to the topic, including corresponding metrics CN0101-20¹⁴ and CN0101-21¹⁵ to improve the relevance of the topic across the industry, and the applicability of the metrics.

Summary of Changes – Revise Industry Scope, and Related Topics and Metrics

The SASB proposes revising the scope of the Agricultural Products industry, including the industry description, to better reflect the actual operations of issuers in the industry (Proposed Update #8-1). More specifically, while the provisional standard includes on-farm operations within the industry scope, issuers in the industry do not generally own or directly control farming operations. As a result, the industry scope (as defined in the “Industry Description” in

⁴ CN0101-02: Biogenic carbon dioxide (CO₂) emissions.

⁵ CN0101-06: (1) Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress

⁶ CN0101-07: Discussion of water withdrawal risks and description of management strategies and practices to mitigate those risks

⁷ CN0101-10: Number of incidents of non-compliance with water-quality permits, standards, and regulations

⁸ CN0101-08: Description of strategies to manage land use and ecological impacts

⁹ CN0101-09: (1) Volume of wastewater reused and (2) volume of wastewater discharged to the environment

¹⁰ CN0101-11: Amount of fertilizer consumption by: (1) nitrogen-based, (2) phosphate-based, and (3) potassium-based fertilizers

¹¹ CN0101-12: Amount of pesticide consumption by hazard level

¹² CN0101-17: Percentage of farms and facilities certified for fair labor practices

¹³ CN0101-19: Description of efforts to assess, monitor, and reduce exposure of direct, seasonal, and migrant employees to pesticides

¹⁴ CN0101-20: Amount of crop losses, percentage offset through financial mechanisms

¹⁵ CN0101-21: Average crop yield and five-year standard deviation per major crop type by major operating region

the provisional standard) is proposed to be narrowed by removing the reference to “growing” agricultural products and instead, focusing on the variety of activities that better reflect actual industry operations, including the processing, trading, distributing, and storage of agricultural products.

This proposed revision to industry scope (Proposed Update #8-1) establishes the rationale for multiple, related proposed revisions to several disclosure topics and the corresponding metrics, as summarized below:

- Topic: Greenhouse Gas Emissions
 - Proposed Update #8-2: Remove provisional metric CN0101-02, “Biogenic carbon dioxide (CO₂) emissions.”
- Topic: Water Withdrawal
 - Proposed Update #8-3: Rename topic to Water Management.
 - Proposed Update #8-4: Revise provisional topic scope to remove on-farm water withdrawals, as well as to include an aspect of water management related to wastewater.
 - Proposed Update #8-4: Revise provisional metric CN0101-07 from “Discussion of risks associated with water withdrawal and description of strategies and practices to mitigate those risks” to “Discussion of water management risks and description of strategies and practices to mitigate those risks.”
- Topic: Land Use & Ecological Impacts
 - Proposed Update #8-4: Move provisional metric CN0101-10, “Number of incidents of non-compliance with water-quality permits, standards, and regulations,” from the provisional topic, Land Use & Ecological Impacts, to the proposed topic, Water Management.
 - Proposed Update #8-6: Remove the provisional topic and the following corresponding provisional metrics (which constitute all metrics associated with the topic, except CN0101-10, which is proposed to be moved to a different topic, as per Proposed Update #8-4):
 - CN0101-08: Description of strategies to manage land use and ecological impacts
 - CN0101-09: (1) Volume of wastewater reused and (2) volume of wastewater discharged to the environment
 - CN0101-11: Amount of fertilizer consumption by: (1) nitrogen-based, (2) phosphate-based, and (3) potassium-based fertilizers
 - CN0101-12: Amount of pesticide consumption by hazard level
- Topic: Fair Labor Practices & Workforce Health & Safety
 - Proposed Update #8-8: Remove the following provisional metrics:

- CN0101-17: Percentage of farms and facilities certified for fair labor practices
 - CN0101-19: Description of efforts to assess, monitor, and reduce exposure of direct, seasonal, and migrant employees to pesticides
- Proposed Update #8-9: Rename topic to Workforce Health & Safety
- Topic: Climate Change Impacts on Crop Yields
 - Proposed Update #8-10: Remove the provisional topic, Climate Change Impacts on Crop Yields, and the following corresponding provisional metrics:
 - CN0101-20: Amount of crop losses, percentage offset through financial mechanisms
 - CN0101-21: Average crop yield and five-year standard deviation per major crop type by major operating region
 - Proposed Update #8-10: Move provisional metric CN0101-22, “Identification of principal crops and discussion of risks and opportunities presented by climate change,” from the provisional topic, Climate Change Impacts on Crop Yields, to the topic, Environmental & Social Impacts of Ingredient Supply Chains.

Revised Industry Scope, Supporting Analysis, and Adherence to Principles for Topic Selection and Criteria for Metrics Development

Issuer activities within the Agricultural Products industry do not typically include owning or operating farms. Rather than growing agricultural products, most companies in the industry typically purchase agricultural products from entities that grow such products (either directly or indirectly) to then conduct value-adding activities (e.g., processing, trading, distributing, milling, etc.). For example, of the nine largest U.S.-listed issuers within the industry, which constitutes approximately 90 percent of the U.S.-listed market cap, only four issuers have on-farm operations. Of these four issuers, only two (combined market cap of less than \$4 billion) have on-farm business segments constituting a significant portion of revenues, while the other two issuers with on-farm operations generate only approximately 5 percent and 3 percent of revenues from such segments. By contrast, Archer Daniels Midland (ADM) (\$23 billion market cap), Ingredion (\$8 billion market cap), Darling Ingredients (\$2.6 billion market cap), and Andersons (\$960 million market cap) do not have any reportable income from owned or controlled farm operations. From another perspective, of the \$120.5 billion of industry revenues generated by the nine largest U.S.-listed issuers in 2015, only approximately \$4.6 billion (3 percent) relates to revenues generated from directly owned or controlled farming operations.

As a result, the SASB proposes revising the industry description to the following:

The Agricultural Products industry is engaged in processing, trading, and distributing vegetables and fruits, and producing and milling agricultural commodities including grains, sugar, consumable oils, maize, soybeans, and animal feed. Agricultural products are sold directly to consumers and to businesses for use in consumer and industrial products. Companies in the industry typically purchase agricultural products from entities that grow such products (either directly or indirectly) to then conduct value-adding activities (e.g., processing, trading, distributing, milling, etc.). Agricultural products companies are also involved in the

wholesale and distribution of products such as grains and beans. The industry is global and companies may source a substantial part of agricultural commodities from thousands of third-party growers in various countries. Therefore, managing sustainability risks, including environmental and social issues, within the supply chain is critical to securing raw materials and reducing the risk of price increases.

Because the industry scope established in the provisional standard included the “growing” of agricultural products, yet there are minimal farming activities that are owned or directly controlled by companies in the U.S.-listed Agricultural Products industry, the evidence and rationale that initially supported the inclusion of certain topics and metrics in the provisional standard must be re-evaluated. The following proposed revisions (organized by topics in the provisional standard) are designed to improve the relevance of disclosure topics in the standard, how actionable the topics are for issuers, and the applicability and usefulness of the metrics associated with the standard.

Supporting Analysis Related to Proposed Changes Impacting Greenhouse Gas Emissions Provisional Topic

The provisional metric CN0101-02, Biogenic carbon dioxide (CO₂) emissions, associated with the topic Greenhouse Gas (GHG) Emissions, is proposed to be removed based on the revised industry scope (as proposed above), and to improve the applicability of the metrics associated with the topic. The topic, Greenhouse Gas Emissions, in the provisional industry standard is focused on GHG emissions resulting from both farming operations and agricultural product processing operations. The provisional metrics associated with the topic are centered on Scope 1 emissions, biogenic emissions, and a discussion on GHG emissions-reduction strategy and targets. SASB research initially substantiated the inclusion of a metric in the provisional standard, CN0101-02, focused on biogenic emissions from companies in the industry, which was designed to measure agricultural soil management and land use changes. However, as described above, companies in the industry have minimal ownership and/or direct control over farming operations, including direct control over agricultural soil management and land use. Therefore, the metric is not generally applicable to companies in the industry. The SASB proposes the removal of metric CN0101-02, “Biogenic carbon dioxide (CO₂) emissions,” to improve the applicability of the metrics associated with the topic and the overall standard.

Supporting Analysis Related to Proposed Changes Impacting Water Withdrawal Provisional Topic

The provisional topic, Water Withdrawal, is proposed to be revised based on the revised industry scope (as proposed above), and to improve the relevance of the topic. More specifically, proposed to be removed is the aspect of the topic centered on on-farm water withdrawals, while the aspect of wastewater management (currently captured by the Land Use & Ecological Impacts topic) is proposed to be added. The resulting proposed topic is thus focused on the elements of water management most relevant to companies in the industry, including the water withdrawn and water consumed to support industry activities such as processing and milling, as well as the wastewater produced as a result of such activities (e.g., effluent from processing). Furthermore, elements of water withdrawals that relate to suppliers’ farming activities are proposed to be addressed in the “Environmental & Social Impacts of Ingredient Supply Chains” topic—again, reflecting the revised industry scope, as proposed above. To the extent that issuers do conduct on-farm operations (which is rare, as discussed above), the metrics associated with the topic are structured to continue to apply to such activities.

Consistent with these proposed revisions to the topic scope, its name is proposed to be revised from “Water Withdrawal” to “Water Management,” as the topic is more holistically focused on the management of water- and wastewater-related risks and opportunities, as opposed to simply, water withdrawals.

As a result of the wastewater management element proposed to be included in the revised topic, metric CN0101-10, “Number of incidents of non-compliance with water-quality permits, standards, and regulations,” is proposed to be moved from the topic, Land-Use & Ecological Impacts, to the topic, Water Management (note: this metric scope is proposed to be revised by the separate, unrelated Proposed Update #8-5). This revision is aligned with the industry’s approach to managing water from withdrawal to discharge. Companies in the industry are exposed to wastewater risks through their food processing operations. A review of 2016 10-K’s for the largest seven companies in the industry found six companies provided disclosure on the risks and/or costs associated with wastewater, water quality, and/or water treatment. For example, a leading global ingredients solutions company points out in its 2016 10-K “we spent approximately \$11 million for environmental control and wastewater treatment equipment to be incorporated into existing facilities and in planned construction projects.” If such measures are not taken to proactively manage wastewater, companies can face fines, penalties, increased capital investments, and/or reputational damage. For example, one of the largest U.S. agricultural companies paid a \$3 million fine in 2009 due to wastewater discharges.¹⁶

The issue description is proposed to be revised to the following, based on the revisions to the topic scope described above:

The Agricultural Products industry is reliant on water primarily for the processing of agricultural products. Additionally, companies in the industry typically generate wastewater, or effluent, largely in conjunction with such processing activities. The availability of water (either physical availability or regulatory access) directly impacts the industry’s ability to operate processing facilities, while costs associated with water and wastewater result in operating costs and capital investments. Companies in the industry are increasingly exposed to water-related costs and regulations. Companies seek to manage water-related risks and opportunities through capital investments to improve efficiency, working with regulators and communities on issues related to water access and effluent, assessing physical locations based on water scarcity, as well as other related strategies.

Note: As a result of companies in the industry generally sourcing raw agricultural products instead of growing them directly through owned or operated farming operations, risks related to crop production that are driven by water availability and access are addressed in the supply chain-oriented topic, Environmental & Social Impacts of Ingredient Supply Chains.

Supporting Analysis Related to Proposed Changes Impacting Land Use & Ecological Impacts Provisional Topic

The provisional topic, Land Use & Ecological Impacts, is proposed to be removed from the standard based on the revised industry scope (as proposed and discussed above), and to improve the relevance of the topics and the applicability of the metrics in the standard. As a result of the topic removal, four of the provisional metrics associated with the topic are proposed for removal, driven by the same rationale related to revising the industry scope to better reflect actual issuer operations. More specifically, the provisional metrics CN0101-08, CN0101-09, CN0101-11, and CN0101-12, are only applicable to on-farm operations, as opposed to the processing, trading, and distributing of agricultural products, among other actual issuer activities. Removing the topic and these four metrics from the standard will improve the standard by ensuring the topics are relevant to actual issuer activities, actionable by issuers, and by ensuring the metrics are applicable to industry activities, as well as improving the usefulness of the metrics associated with the standard.

¹⁶“ADM barge facility to pay \$3M fine for dumping into Mississippi,” St. Louis Business Journal, April 3, 2009, Accessed August 28, 2017, <https://www.bizjournals.com/stlouis/stories/2009/03/30/daily88.html>.

The only other provisional metric associated with the topic, Land Use & Ecological Impacts, is CN0101-10: Number of incidents of non-compliance with water-quality permits, standards, and regulations. This metric is separately proposed to be moved to the renamed Water Management topic, as the metric applies to the processing of agricultural products, among other industry activities, and thus, is applicable to companies in the industry in the context of water and wastewater management (see Proposed Update #8-4).

Supporting Analysis Related to Proposed Changes Impacting Fair Labor Practices & Workforce Health & Safety Provisional Topic

The provisional topic, Fair Labor Practices & Workforce Health & Safety, is proposed to be revised based on the revised industry scope (as proposed above), and to improve the relevance of the topic. The topic currently focuses on labor practices directly at farming operations, as well as food processing operations. The proposed revision is for the topic to focus on labor practices at food processing operations—a significant issue in the industry. For example, sugar manufacturing has an Occupational Safety and Health Administration incidence rate of 5.5, significantly higher than the economy wide average of 3.1, while flour milling has an incidence rate of 4.4.

The topic's focus on labor practices occurring at farming operations is proposed to be removed. The labor practices occurring at farming operations are not directly relevant to the majority of companies within the industry. However, such labor practices may impact companies through the supply chain. As a result, the topic, Environmental & Social Impacts of Ingredient Supply Chains, will continue to address the labor practices related to the suppliers for companies in the industry.

Consistent with these proposed revisions to the topic scope, its name is proposed to be revised from Fair Labor Practices & Workforce Health & Safety to Workforce Health & Safety, to create a more clear, direct, and accurate topic name.

The issue description is proposed to be revised to the following, based on the revisions to the topic scope described above:

Agricultural products companies are engaged in food processing operations, which are often labor-intensive activities. The industry's human capital can be adversely affected by health and safety issues within the workforce in poorly managed operations. Common hazards include falls, transportation accidents, equipment-related accidents, and heat-related illness or injury, among others. Violations of health and safety standards could result in monetary penalties and costs for corrective actions. High injury rates, particularly fatality rates, may lead to significant reputational harm and indicate weak governance structures and safety culture. Strong performance on managing workforce health and safety can help build brand image while promoting worker morale, which can lead to increased productivity, reduce worker turnover, and enhance community relations.

Supporting Analysis Related to Proposed Changes Impacting Climate Change Impacts on Crop Yields Provisional Topic

The provisional topic, Climate Change Impacts on Crop Yields, is proposed to be removed from the standard based on the revised industry scope (as proposed and discussed above), and to improve the relevance of the topics in the standard. As a result of the topic removal, two of the provisional metrics associated with the topic are proposed for removal, driven by the same rationale related to revising the industry scope to better reflect actual issuer operations. More specifically, the provisional metrics CN0101-20 and CN0101-21 are only applicable to on-farm operations, as opposed to the processing, trading, and distributing of agricultural products, among other actual issuer activities.

Removing the topic and these two metrics from the standard will improve the standard by ensuring the topics in the standard are relevant to actual issuer activities, actionable by issuers, and by ensuring the metrics are applicable to industry activities, as well as improving the usefulness of the metrics associated with the standard.

The only other provisional metric associated with the topic, Climate Change Impacts on Crop Yields, is CN0101-22: “Identification of principal crops and discussion of risks and opportunities presented by climate change.” This metric is proposed to be moved to the topic, Environmental & Social Impacts of Ingredient Supply Chains, as the metric applies to the sourcing of agricultural products, and thus, is applicable to companies in the industry in the context of their supply chains.

Stakeholder Consultation

Investors: Several investors provided input on the provisional industry standard, all of which agreed that significant revisions were needed based on revising the industry scope to remove on-farm operations, as proposed. As a result, investors generally agreed with the proposed changes that are being driven by the revised industry scope, including the numerous proposals related to removing provisional topics and/or metrics that are only relevant or applicable to on-farm operations. A few investors noted that while issuers do not control such operations, there are approaches for issuers to review farming practices among suppliers and to encourage or require improvements to the environmental or social impacts of the supply chain. Therefore, investor support was provided for emphasizing the supply chain-oriented topic and metrics in place of the on-farm-oriented topics and metrics.

Issuers: A few issuers provided input on the standard, all of which confirmed that most of the revenue generated by the industry does not relate to owned or directly controlled farming operations. Issuers agreed that the provisional topics and metrics that address on-farm operations should be considered as supply chain issues. However, issuers generally stated that they might have minimal ability to influence the sustainability impacts of farming operations. Issuers noted that biogenic emissions are generally not tracked or relevant for the industry. Beyond farm-related biogenic emissions, there is minimal use of biofuels, and thus associated biogenic emissions are not likely to present applicable or useful information. Issuers noted that while wastewater discharges associated with farming operations are not under direct control, the aspect of wastewater management still presents a significant concern to companies in their processing operations, and often results in significant related costs and risks. Issuers noted that wastewater is associated with operational expenses, capital expenditures, and if not appropriately managed, fines and lawsuits.

Benefits

Improves the SASB standard: In revising the industry scope as proposed, along with the resulting proposed changes to multiple topics and metrics as described above, the standard will better accomplish its core objectives, including generating information that is likely to be material, decision-useful, and cost-effective. More specifically, the standard will also benefit through improvements to the relevance of the topics, as well as the usefulness and applicability of the metrics.

Improves cost-effectiveness: The vast majority of companies in the industry perform activities that are distinct from direct farming operations, as described above. Thus, removing the significant aspects of the provisional standard that focus on farming operations will decrease the costs (and viability) of implementation (while not reducing the usefulness of the information generated by the standard), thereby ultimately improving the cost-effectiveness of the standard.

Improves decision-usefulness: Revising the industry scope and the corresponding topics and metrics to align with the industry’s operations will improve the ability of investors and issuers to use the information generated by the standard

to drive strategic financial decisions, and improve their ability to focus on sustainability information directly linked to financial impacts. This enhanced relevance and applicability ultimately bolsters the decision-usefulness of the information generated by the standard.

Proposed Update #8-5 – **Industry:** Agricultural Products; **Topic Name:** Water Withdrawal

2017 Technical Agenda Item #8-5 Description

SASB is evaluating revisions to the water quality metric CN0101-10¹⁷ to improve its decision-usefulness.

Summary of Change – Revise Technical Protocol

The SASB proposes revising the technical protocol for metric CN0101-10, “Number of incidents of non-compliance with water-quality and/or quantity permits, standards, and regulations,” to limit the scope of incidents of non-compliance to exclusively those that result in a formal enforcement action.

Adherence to Criteria for Accounting Metrics

The Agricultural Products industry provisional standard includes a disclosure topic, Water Withdrawal (separately proposed to be revised to, “Water Management,” as per Proposed Update #8-3), which is centered on corporate performance and strategy concerning water-related risks and opportunities. The metrics associated with the topic (and proposed to be associated with the topic, as per Proposed Update #8-4) focus on water consumption, water scarcity, effluent, and regulatory compliance. More specifically, provisional metric CN0101-10 is designed to capture a company’s performance on complying with state- or federal-level water quality regulations, including regulations on water treatment and discharges. Performance on incidents of non-compliance are an indication of the strength of a company’s overall water quality management, its ability to comply with regulation, and its exposure to potential operational impacts associated with non-compliance, including costs related to permitting, penalties, remediation, and capital expenditures. However, the current metric scope, as defined in the technical protocol, is excessively broad as it states, “[a]n incident of non-compliance shall be disclosed regardless of whether it resulted in an enforcement action (e.g., fine, warning letter, etc.).” Incidents of non-compliance vary widely in terms of the nature and severity of impact, and they may or may not result in enforcement actions.

Given the broadly defined scope of non-compliance incidents, the provisional metric does not provide fair representation of corporate performance on the topic and it is less likely to be cost-effective. The proposed revision to the technical protocol for the metric will limit the scope of non-compliance incidents exclusively to those that result in formal enforcement actions—ultimately, improving the signal-to-noise ratio by focusing on those incidents more likely to indicate operational or financial impacts. This proposed revision would improve the representativeness and cost-effectiveness of the metric, as well as the comparability and usefulness of the information it generates.

Supporting Analysis

Water regulations in the U.S., Canada, and many international regions typically address the quality of water discharges from industry facilities. Water-intensive industries, such as Agricultural Products, may also be affected by state or federal regulations that address water withdrawals, although this is less common than regulations governing water discharges. Companies are generally required to obtain state or federal-level permits that allow them to discharge certain amount of wastewater over a given period. Incidents of non-compliance with water regulations may be the result of a variety of events relating to water quality management, including the failure to meet a reporting deadline or a water discharge above permit limits. The magnitude of the regulatory response will vary depending on the nature of the non-compliance. For example, failure to meet a reporting deadline may result in a non-compliance

¹⁷ CN0101-10: Number of incidents of non-compliance with water-quality permits, standards, and regulations

notice or warning letter with little to no financial impact for the issuer. An effluent regulation exceedance could, however, result in a company being issued a formal enforcement action, resulting in remediation costs, fines, and/or reputational damage.

Formal enforcement actions, as defined¹⁸ by the U.S. Environmental Protection Agency (EPA) and some state agencies, are statutorily recognized actions to address a violation or threatened violation of water regulations, regulations, policy, or orders, and include administrative penalty orders, administrative orders, and judicial actions, among others. These types of enforcement actions can result in financial penalties and remediation requirements and can be indicative of overall management of water issues over time. Conversely, non-compliance incidents that result in informal enforcement actions—for example, an inspection, phone call, or violation letter—may be issued when no actual violation has occurred, and are significantly less likely to generate financial impacts for companies. Correspondingly, formal enforcement actions are less common than informal actions. According to EPA data, of 5,102 U.S. facilities that received notices of non-compliance with water regulation, only 519 resulted in formal enforcement actions.¹⁹

The provisional metric requires reporting of incidents of non-compliance regardless of whether they result in a formal enforcement action. Reporting all incidents of non-compliance does not distinguish between the severity of incidents and the resulting potential for financial impacts to the registrant. This creates an undue cost burden for the registrant related to data collection, tracking, and reporting, and adversely affects the usefulness and fair representation of the resulting disclosures.

As incidents that result in formal enforcement actions are more likely to generate financial impacts on the registrant, they are a relevant indicator to measure performance on the management of water quality. Thus, the proposed revision confines the metric's scope to incidents that result in formal enforcement actions, thereby directly improving the representativeness, comparability, and usefulness of the information generated by the standard, and better adhering to the core objectives of the standard.

Additionally, the proposed SASB metric is aligned with federal and state water quality regulations that employ formal enforcement actions as well as reporting guidelines such as the CDP (formerly, the Carbon Disclosure Project) Water Information Request.

Stakeholder Consultation

Investors: A limited number of investors provided input on the proposed revision. Such input broadly supported the revision, based on improvements to the decision-usefulness of resulting disclosures.

Issuers: A limited number of issuers provided input on the proposed revision. Such input constituted support for revising the scope of this metric to focus on notices of violation that result in formal enforcement actions, as doing so improves the decision-usefulness of the metric.

Others: Several subject matter experts commented that the proposed change would more accurately reflect performance on the aspect of the topic related to regulatory compliance.

¹⁸ "Informal and Formal Actions, Summary of Guidance and Portrayal on EPA Websites," U.S. Environmental Protection Agency, last modified July 1, 2010, accessed August 28, 2017, <https://www.epa.gov/sites/production/files/2013-11/documents/actiondefs.pdf>.

¹⁹ "Analyze Trends: State Water Dashboard," U.S. Environmental Protection Agency, Accessed August 28, 2017, <https://echo.epa.gov/trends/comparative-maps-dashboards/state-water-dashboard?view=performance&state=National>.

Benefits

Improves the SASB standard: The proposed change would result in disclosures more consistent with the guiding criteria of fair representation and comparability.

Improves decision-usefulness: By focusing on incidents of non-compliance that resulted in formal enforcement actions, the proposed change would improve the usefulness of information generated by the standard as it improves the signal-to-noise ratio.

Improves cost-effectiveness: The proposed change narrows the scope of disclosure to a more specific (and more meaningful) subset of non-compliance incidents, thereby improving the cost-effectiveness of the standard.

Improves alignment: The proposed revision will align the SASB standard with existing reporting protocols and regulatory reporting requirements.

Proposed Update #8-7 – **Industry:** Agricultural Products; **Topic Name:** Food Safety & Health Concerns

2017 Technical Agenda Item #8-7 Description

SASB is evaluating splitting the topic to improve the quality and clarity of the standard.

Summary of Change – Split Topic

The SASB proposes splitting the topic Food Safety & Health Concerns into two separate topics: Food Safety and GMO Management.

As a result, the proposed Food Safety topic is proposed to include the following provisional metrics:

- CN0101-13: Global Food Safety Initiative (GFSI) audit conformance: (1) major non-conformance rate and associated corrective action rate and (2) minor non-conformance rate and associated corrective action rate
- CN0101-14: Percentage of agricultural products sourced from suppliers certified to a GFSI scheme
- CN0101-15: Number of recalls issued, total amount of food product recalled

And the proposed GMO Management topic is proposed to include the provisional metric, CN0101-16: Description of strategies to manage the use of genetically modified organisms (GMOs).

Adherence to Principles for Topic Selection

In order to align with the *SASB Conceptual Framework* and based on the updated SASB General Issues Taxonomy, the Food Safety & Health Concerns topic is proposed to be split into Food Safety, which relates to Business Model & Innovation, and GMO Management, which relates to Social Capital.

Because the provisional topic includes different sustainability dimensions, there are different sustainability impacts, financial impacts, and management practices associated with them. While food safety relates to Business Model and Innovation factors such as preventing contamination and managing product recalls and withdrawals, GMO management relates to social capital factors such as managing societal and customer expectations. As a result, these sustainability issues are distinct and are proposed to be incorporated into the standard as distinct topics.

The proposed revision will improve the clarity on how the topics affect corporate value since they impact companies in different ways. Food quality and safety issues can lead to product recalls which in turn can harm brand reputation, reduce revenues, and lead to costly fines. On the other hand, social trends indicate that customers are becoming increasingly interested in perceived health (or other societal) impacts related to GMO products. As a result, future GMO regulations and consumer acceptance of GMOs could impact issuers' revenues, costs, consumer facing strategies, and overall financial performance.

The proposed Food Safety issue description is as follows:

Agricultural products are sold directly to consumers in raw form or are further processed into a wide variety of foods. Maintaining product quality and safety is critical, as contamination by pathogens, chemicals, or spoilage presents serious human and animal health risks. Sources of such contamination include bacteria that

inhabit the surfaces of fruits and vegetables, molds that develop in grains during unusually wet or dry growing periods, poor farming practices such as the disposal of solid waste on land, and damage and stress during harvesting or storage, among others. Food quality and safety issues can lead to consumer-driven demand changes and regulatory action. Product recalls can harm brand reputation, reduce revenues, and lead to costly fines. Obtaining food safety certifications may help companies in the industry ensure product safety and communicate the quality of their products to buyers. Major non-conformances with the Global Food Safety Initiative (GFSI) scheme, which benchmarks farm assurance standards, may indicate systemic governance risks, which could affect risk premiums.

The proposed “GMO Management” issue description is as follows:

Agricultural products companies increasingly work toward finding effective ways to communicate the quality of GMO products to consumers and regulators. Social trends indicate that customers are increasingly interested in perceived health (or other societal) impacts related to GMO products. As a response to these trends, companies in the industry, as well as other food and beverage companies that the industry sells agricultural products to, are seeking effective means of assessing GMO-related risks, or the lack thereof, and communicating with customers on the topic. Such risks and opportunities may relate to nutritional value, health, and environmental impacts, among others. Furthermore, companies in the industry may seek related risk-mitigation strategies or growth opportunities based on non-GMO products. Therefore, agricultural products companies that are able to accurately and effectively communicate with consumers, as well as meet changing consumer trends and demands, may reduce revenue and regulatory risks, as well as capture increased market share.

Supporting Analysis

The *SASB Agricultural Products Research Brief* thoroughly addresses the significance of food safety to companies in the industry. Evidence supporting the financial impacts of the topic is provided in the brief, such as a discussion and examples of costs (and opportunities) associated with safety-related recalls, trade restrictions, product demand, and regulations. Examples of corporate disclosures in the brief further highlight the significance of the topic. A review of the evidence provided also indicates that such evidence is distinct in terms of supporting the significance of food safety versus risks and opportunities related to GMOs.

In regards to GMOs, while some consumers are concerned with potential safety implications of consuming GMO products, such concerns have not been supported by consensus views in scientific research. The Food and Drug Administration (FDA) is responsible for regulating the safety of genetically modified (GM) crops that are consumed by humans or animals. According to a policy established in 1992, FDA considers most GM crops as “substantially equivalent” to non-GM crops. The FDA regards most GMO foods as presumptively falling within the category of “generally regarded as safe,” thus not needing premarket approval, but a GMO product “that differs significantly in structure, function, or composition from substances found currently in food” requires premarket approval as a food additive. Nevertheless, there are unique sustainability benefits and risks associated with the use of GMO ingredients.

While such benefits associated with the use of GMOs include improving crop yields and resilience, global demand for non-GMO food and beverage products, estimated at \$550 billion in 2014, is expected to double by 2019 at a compound annual growth rate of 15 percent. Companies including some of the largest food and beverage companies in the U.S. have introduced non-GMO versions of their products to satisfy consumer demand in Europe. Meanwhile, in the U.S., verification by the Non-GMO Project is backlogged because of a surge of verification requests from manufacturers.

A review of corporate disclosures indicates that companies in the industry are acutely aware of potential changes in consumer expectations, demands, as well as regulations on the topic. For example, a leading South American agricultural and dairy company stated in its 2014 Form 10-K that “the use of GMOs in food has been met with varying degrees of acceptance in the markets in which we operate . . . It is possible that new restrictions on GMO products will be imposed in major markets for some of our products or that our customers will decide to purchase fewer GMO products or not buy GMO products at all, which could have a material adverse effect on our business, results of operations, financial condition or prospects.” An additional example from a key global ingredient solutions provider’s 2016 Form 10-K acknowledges the uncertainty around the public’s acceptance of GMO products, including the potential impacts on the business:

The uncertainty of acceptance of products developed through biotechnology could affect our profitability. The commercial success of agricultural products developed through biotechnology, including genetically modified corn, depends in part on public acceptance of their development, cultivation, distribution, and consumption. Public attitudes can be influenced by claims that genetically modified products are unsafe for consumption or that they pose unknown risks to the environment, even if such claims are not based on scientific studies. These public attitudes can influence regulatory and legislative decisions about biotechnology. The sale of the Company’s products which may contain genetically modified corn could be delayed or impaired because of adverse public perception regarding the safety of the Company’s products and the potential effects of these products on animals, human health, and the environment.

Overall, a review of the evidence presented in the *Agricultural Products Research Brief*, in addition to additional evidence and analysis concerning GMO-related risks and opportunities, clearly indicates that food safety is a distinct issue from GMO management. As a result, the corresponding nature of financial impacts and strategies companies use to manage the respective issues differs. Therefore, the proposal to split the provisional topic (and its associated metrics), Food Safety & Health Concerns into two separate topics, Food Safety, and separately, GMO Management, will improve the clarity and accuracy of the standard and ultimately help facilitate the disclosure of information that is likely to be material and decision-useful.

Stakeholder Consultation

Investors: Several investors provided input on the proposed change, and supported the view that food safety should be viewed as a distinct issue from GMO management. Investors indicated interest in further understanding how companies are approaching the use of GMO ingredients and their strategies to address consumer concerns.

Issuers: Issuers in the industry did not provide input on the proposed change. However, it should be noted that the proposed change is more consistent with how companies discuss these issues and provide disclosures on the topic, as there is typically a distinction between food safety and GMOs, including their corresponding types of potential financial impacts.

Benefits

Improves the SASB standard: The proposed topic split would improve the clarity and accuracy of the standards by aligning the topics with SASB’s general sustainability issue categories and improving the clarity on how the topics affect corporate value.

Proposed Update #8-11 – **Industry:** Agricultural Products; **Topic Name:** Environmental & Social Impacts of Ingredient Supply Chains

2017 Technical Agenda Item #8-11 Description

SASB is evaluating the addition of a metric to improve the usefulness, representativeness, and completeness of the metrics associated with the topic, as well as to increase alignment with existing industry standards.

Summary of Change – Add Metric

The SASB proposes adding the following metric to the Environmental & Social Impacts of Ingredient Supply Chains provisional topic: “Suppliers’ social and environmental responsibility audit conformance: (1) major non-conformance rate and associated corrective action rate and (2) minor non-conformance rate and associated corrective action rate.”

Adherence to Criteria for Accounting Metrics

The Agricultural Products industry provisional standard includes a topic, Environmental & Social Impacts of Ingredient Supply Chains, which is focused on a company’s management of its supply chain sustainability risks, including environmental and social issues. The associated metrics describe an individual company’s performance as it relates to this issue. Specifically, provisional metric CN0101-23 describes a company’s sourcing of agricultural raw materials from water-stressed regions, CN0101-24 describes a company’s management strategy for environmental and social risks arising from contract growing and commodity sourcing, and CN0101-25 describes a company’s sourcing of agricultural raw materials that are certified to a third-party environmental or social standard. However, the provisional metrics may not offer sufficiently complete and representative information regarding an issuer’s performance on the topic. The addition of a metric describing a company’s audit conformance of its supply chain code of conduct will better accomplish the core objectives of the standard by providing investors with more complete and representative information. Furthermore, the proposed metric improves the alignment with existing reporting frameworks.

Supporting Analysis

For agricultural companies that are not vertically integrated, many of the issues associated with on-farm operations may be relevant as a result of impacts on their suppliers. Association with suppliers that perform poorly on environmental or social issues may result in reputational damage, which is likely to affect demand from food and beverage companies, whose customers are increasingly concerned with the environmental and social footprint of products. Such risks may also manifest through supply shortages.

Significant portions of agricultural products are grown in emerging markets, where environmental and social regulations may not be as stringent. Agriculture is by far the largest global employer of child laborers, as defined by the International Labour Organization’s Convention No. 138 on Minimum Age (1973) and Convention No. 182 on Worst Forms of Child Labour (1999). Approximately 98 million children aged 5 to 17 are employed in crop and livestock production, or 59 percent of the total number of child laborers. Additionally, approximately 38 percent of the world’s land area is used for agricultural purposes, while agriculture is responsible for approximately three-quarters of global deforestation. With food demand projected to grow by 50 percent by 2030, land clearing for agricultural purposes is likely to continue. In fact, past trends indicate that an additional 10 million square kilometers will be cleared by 2050.

Companies have developed internal supplier code(s) of conduct and/or use external social and environmental standards, and perform audits against these codes and standards to ensure supplier conformance with identified environmental and social issues. Some investors have voiced support for actions to address such issues. For example, a 2014 shareholder resolution filed with a leading agricultural processor and food ingredient provider addressed the need for strong supply chain management in the face of environmental and social risks, highlighting investors' concern with the issues. The proposal was withdrawn after the company agreed to implement strict policies guiding supply chain operations. The company also stated in its 2016 Corporate Social Responsibility Report that it has "established and begun implementation of a No-Deforestation Policy and a Respect for Human Rights Policy," and requires all suppliers to comply with these policies. Furthermore, it outlines on its sustainability website that "farms are subject to audits to help ensure compliance." Meanwhile, another key global ingredient solutions provider stated in its 2016 Sustainability Update that it engages with its suppliers through Sedex, a collaborative platform for sharing responsible sourcing data on supply chains, and continues to "work on implementing Sedex-certified social accountability audits with those key suppliers."

Overall, the provisional metrics associated with the topic are limited in scope in capturing industry suppliers' audit conformance regarding social and environmental issues. The findings from supplier audits on such issues, whether to an internal supplier code of conduct and/or external social and environmental audit standards, are a significant aspect of corporate performance on the topic. Adding the proposed metric will help accomplish the core objectives of the standard by improving the completeness and representativeness of the metrics associated with the topic. Lastly, the proposed metric benefits from being closely aligned with the GRI reporting framework.

Stakeholder Consultation

Investors: Several investors generally noted that corporate sustainability supply chain policies are used as key indicators for analyses, and understanding whether such policies are upheld and enforced provides important information.

Issuers: A limited number of issuers highlighted that, in addition to third-party certifications, supplier audits conducted on internally developed supplier policies and/or code(s) of conduct are an important tool to assess supply chain sustainability issues. In fact, issuers suggested that internal policies are more widely deployed than third-party certifications.

Benefits

Improves the SASB standard: By adding a metric on supplier audit conformance, the proposed revision enables companies to provide additional insight into how they manage supply chain sustainability risks in a quantified manner beyond the use of third-party certifications, thereby improving the completeness and representativeness of the metrics associated with the topic.

Decision-usefulness: The proposed revision improves the decision-usefulness of the standard by enhancing the completeness and representativeness of disclosed information related to the management of social and environmental impacts in the supply chain. This allows investors to quantitatively assess how companies are working to improve performance on the topic in a more comprehensive manner. Through an enhanced understanding, investors will benefit from insight into risks that may result in supply disruptions, reputational harm, and/or challenges to meet customer (food processors) sustainability sourcing policies.

Aligns with other standards: The proposed metric on supplier audit conformance is closely aligned with the GRI's G4-FP1, G4-EN32/33, G4-LA14/15, G4-HR10/11, G4-SO9/10.

Proposed Update #8-12 – **Industry:** Agricultural Products; **Topic Name:** Management of the Legal & Regulatory Environment

2017 Technical Agenda Item #8-12 Description

SASB is evaluating revisions to the topic, including the corresponding metric CN0101-26²⁰, to improve the cost-effectiveness and materiality of the standard.

Summary of Change – Remove Topic and Metric

The SASB proposes removing the provisional topic Management of Legal & Regulatory Environment from the standard, along with the corresponding metric CN0101-26: “Discussion of positions on the regulatory and political environment related to environmental and social factors and description of efforts to manage risks and opportunities presented.”

Adherence to Principles for Topic Selection

The provisional topic Management of the Legal & Regulatory Environment is focused on how companies in the industry engage with regulators and policymakers to influence regulations and policies to align shareholder interests with long-term societal interests, or the lack thereof. Provisional metric CN0101-26 (proposed for removal) relates to corporate positions on environmental and social issues, including efforts around political and regulatory relations and influence. The proposal to remove the topic along with the corresponding metric is based on a lack of industry-specific evidence that demonstrates the overall topic’s potential to affect corporate value in a manner that is systematically relevant across the industry. While the topic may in fact contain material information for various companies in the industry, it does not meet the fundamental tenets of the SASB standards, which require an industry-specific, evidence-based approach, as established by the *SASB Conceptual Framework*. Furthermore, the removal of the topic and corresponding metric will improve the cost-effectiveness of the standard. Lastly, to the extent that contextual information on regulatory or legislative factors and strategies is relevant to the disclosures associated with the other topics in the industry standard, the “Guidance on Accounting for Sustainability Topics” in the standard provides guidance for the disclosure of “a narrative description of any necessary material factors necessary to ensure completeness, accuracy, and comparability of the data reported.”

Supporting Analysis

The Agricultural Products industry is subject to numerous sustainability-related regulations and a rapidly changing legal and regulatory environment. While companies in the industry regularly participate in the regulatory and legislative process, there is insufficient industry-specific evidence that demonstrates that the broadly defined topic generates direct financial impacts systematically across the industry. Such industry-specific evidence of financial impact is required for the inclusion of a topic in the standards, as established by the *SASB Conceptual Framework*. As a result, while the topic may in fact contain material information for certain companies within the industry, the SASB does not view the very broadly defined provisional topic Management of the Legal & Regulatory Environment as one that adequately meets the principles for topic selection, as established by the *SASB Conceptual Framework*. Based on the proposed removal of the topic, the provisional metric CN0101-26 is also proposed for removal.

²⁰ CN0101-26: Discussion of positions on the regulatory and political environment related to environmental and social factors and description of efforts to manage risks and opportunities presented

Stakeholder Consultation

Investors: No direct feedback was received from analysts in the industry regarding the proposed change. However, investors generally provided feedback in support of changes that would improve the cost-effectiveness and materiality of the information generated by the standard.

Issuers: The proposed change was presented to several issuers in the industry. While these issuers provided input on other aspects and suggested revisions to the standard, they did not provide any input or raise any concerns related to this specific proposed change.

Benefits

Improves the SASB standard: The removal of the topic and the associated metric will improve the standard based on the lack of sufficient industry-specific evidence of financial impact that justifies the topic's inclusion. The resulting standard will better adhere to the fundamental tenets of the SASB standards.

Improves cost-effectiveness: The removal of the topic and the associated metric will improve the cost-effectiveness of the standard, as the standard is shorter and, thus, less costly to implement.



FOOD & BEVERAGE SECTOR

MEAT, POULTRY, & DAIRY INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FB0102

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #8-13 and #8-14 – **Industry:** Meat, Poultry, & Dairy; **Topic Name:** Water Withdrawal (and Land Use & Ecological Impacts for #8-14)

2017 Technical Agenda Item Descriptions

#8-13: SASB is evaluating the suitability of the topic name.

#8-14: SASB is evaluating revisions to the topics, including corresponding metrics CN0102-05²¹, CN0102-06²², and CN0102-07²³, to improve the materiality of the standard, the relevance of the topics across the industry, and the applicability of the metrics.

Summary of Change – Revise Topic and Metrics

The SASB proposes the following changes related to the topic in the provisional standard, Water Withdrawal, including its corresponding metrics, which will also affect the topic, Land Use & Ecological Impacts, and a corresponding metric:

- Proposed Update #8-13: Rename the provisional topic Water Withdrawal to Water Management.
- Proposed Update #8-14:
 - Expand the scope of the topic, Water Withdrawal (proposed to be renamed, as described above) to more holistically include water management, including aspects related to the management of wastewater.
 - Move metric CN0102-06, “Number of incidents of non-compliance with water-quality permits, standards, and regulations,” from the Land Use & Ecological Impacts topic to the Water Withdrawal topic (proposed to be renamed, as described above).
 - Consolidate the provisional metric CN0102-05, “Discussion of risks associated with water withdrawal and description of strategies and practices to mitigate those risks,” associated with the provisional Water Withdrawal topic, with the provisional metric CN0102-07, “Discussion of risks associated with water discharges and description of strategies and practices to mitigate those risks,” associated with the Land Use & Ecological Impacts topic, into the following proposed metric to be associated with the Water Withdrawal topic (proposed to be renamed, as described above), “Discussion of water management risks and description of strategies and practices to mitigate those risks.”

Adherence to Principles for Topic Selection and Criteria for Accounting Metrics

The Meat, Poultry, & Dairy industry provisional standard includes a topic, Water Withdrawal, which describes a company’s performance on water consumption. The associated metrics CN0102-04, (1) “Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress,” and

²¹ CN0102-05: Discussion of risks associated with water withdrawal and description of strategies and practices to mitigate those risks

²² CN0102-06: Number of incidents of non-compliance with water-quality permits, standards, and regulations

²³ CN0102-07: Discussion of risks associated with water discharges and description of strategies and practices to mitigate those risks

CN0102-05, “Discussion of risks associated with water withdrawal and description of strategies and practices to mitigate those risks,” describe an individual company’s water efficiency and risks associated with water withdrawal. However, water is relevant to the industry through more than simply withdrawals. The proposed topic revision will include the management of water from withdrawal to discharge, thereby more holistically addressing water management, including aspects related to the management of wastewater. As a result, the topic name is proposed to be revised to better reflect the scope of the topic. Furthermore, the provisional metrics would not offer a complete view of an issuer’s performance on water management overall. The proposal to move metric CN0102-06, as well as to consolidate metrics CN0102-05 and CN0102-07, will better accomplish the core objectives of the standard by providing investors with more complete and applicable disclosures related to the resulting topic.

Supporting Analysis

Wastewater management is a key issue for raising animals at the farm level. However, not all protein segments (e.g., poultry, pork, egg, beef, and dairy) within the industry are vertically integrated (e.g., beef, dairy) and therefore not all companies have direct land use impacts from their wastewater management. Nonetheless, all animal processing operations generate significant volumes of wastewater from the slaughtering, rendering, and processing of various animal proteins. Such production process can create significant volumes of wastewater; effluents can exceed withdrawal in these processes. These processes must comply with a variety of wastewater regulations, including regulatory permits.

Supporting the notion that wastewater is a major concern to animal processing operations beyond land use impacts, the *SASB Meat, Poultry, & Dairy Research Brief* notes that “the EPA fined Smithfield Foods and two of its subsidiaries \$12.6 million for violations of the [Clean Water Act (CWA)]. At the time, it was the largest CWA fine in history. The company allegedly discharged wastewater from its hog slaughtering and processing operations.” In general, the inclusion of wastewater within the proposed, revised Water Management topic (and the resulting proposed revisions to the metrics) will help ensure the metrics provide more complete and applicable disclosures.

Stakeholder Consultation

Investors: A limited number of investors provided input on the proposed change. Input suggests investor support for addressing wastewater management within the proposed and revised Water Management topic, as this approach is better aligned with the industry’s approach and disclosure.

Issuers: A limited number of issuers provided input on the proposed change. Input generally indicated that while wastewater is associated with animal growing operations, not all issuers have direct control of animal growing. Nevertheless, issuers acknowledged that wastewater is relevant to the rendering and processing of animal products. It was further noted that wastewater is associated with operational expenses, capital expenditures, and if not appropriately managed, fines and lawsuits.

Benefits

Improves the SASB Standard: The proposed revisions are more consistent with industry practices and resulting corporate disclosures on the topic of water management. As a result, the information generated by the topic will be more complete and applicable.

Proposed Update #8-15 – **Industry:** Meat, Poultry, & Dairy; **Topic Name:** Land Use & Ecological Impacts

2017 Technical Agenda Item #8-15 Description

SASB is evaluating revisions to the water quality metric CN0102-06²⁴ to improve its decision-usefulness.

Summary of Change – Revise Technical Protocol

The SASB proposes revising the technical protocol for metric CN0102-06, “Number of incidents of non-compliance with water quality and/or quantity permits, standards, and regulations,” to limit the scope of incidents of non-compliance to exclusively those that result in a formal enforcement action.

Adherence to Criteria for Accounting Metrics

The Meat, Poultry, & Dairy industry provisional standard includes a disclosure topic, Water Withdrawal (separately proposed to be renamed, Water Management), that is centered on corporate performance and strategy concerning water-related risks and opportunities. The metrics currently associated with the topic, and separately proposed to be associated with the topic (see Proposed Update #8-13 and #8-14), focus on water consumption, water scarcity, effluent, and regulatory compliance. More specifically, metric CN0102-06 is designed to capture a company’s performance on complying with state- or federal-level water quality regulations, including regulations on water treatment and discharges. Performance on incidents of non-compliance are an indication of the strength of a company’s overall water quality management, its ability to comply with regulation, and its exposure to potential operational impacts associated with non-compliance, including costs related to permitting, penalties, remediation, and capital expenditures. However, the current metric scope, as defined in the technical protocol, is excessively broad as it states, “[a]n incident of non-compliance shall be disclosed regardless of whether it resulted in an enforcement action (e.g., fine, warning letter, etc.).” Incidents of non-compliance vary widely in terms of the nature and severity of impact, and they may or may not result in enforcement actions.

Given the broadly defined scope of non-compliance incidents, the provisional metric does not provide fair representation of corporate performance on the topic and it is less likely to be cost-effective. The proposed revision to the technical protocol for the metric will limit the scope of non-compliance incidents exclusively to those that result in formal enforcement actions—ultimately, improving the signal-to-noise ratio by focusing on those incidents more likely to indicate operational or financial impacts. This proposed revision would improve the representativeness and cost-effectiveness of the metric, as well as the comparability and usefulness of the information it generates.

Supporting Analysis

Water regulations in the U.S., Canada, and many international regions typically address the quality of water discharges from industry facilities. Water-intensive industries, such as the Meat, Poultry, & Dairy industry, may also be affected by state or federal regulations that address water withdrawals, although this is less common than regulations governing water discharges. Companies are generally required to obtain state or federal-level permits that allow them to discharge certain amount of wastewater over a given period. Incidents of non-compliance with water regulations may be the result of a variety of events relating to water quality management, including the failure to meet a reporting deadline or a water discharge above permit limits. The magnitude of the regulatory response will vary depending on the nature of the non-compliance. For example, failure to meet a reporting deadline may result in a

²⁴ CN0102-06: Number of incidents of non-compliance with water-quality permits, standards, and regulations

non-compliance notice or warning letter with little to no financial impact for the issuer. An effluent regulation exceedance could, however, result in a company being issued a formal enforcement action, resulting in remediation costs, fines, and/or reputational damage.

Formal enforcement actions, as defined²⁵ by the U.S. Environmental Protection Agency (EPA) and some state agencies, are statutorily recognized actions to address a violation or threatened violation of water regulations, regulations, policy, or orders, and include administrative penalty orders, administrative orders, and judicial actions, among others. These types of enforcement actions can result in financial penalties and remediation requirements and can be indicative of overall management of water issues over time. Conversely, non-compliance incidents that result in informal enforcement actions—for example, an inspection, phone call, or violation letter—may be issued when no actual violation has occurred, and are significantly less likely to generate financial impacts for companies. Correspondingly, formal enforcement actions are less common than informal actions. According to EPA data, of 5,102 U.S. facilities that received notices of non-compliance with water regulation, only 519 resulted in formal enforcement actions.²⁶

The provisional metric requires reporting of incidents of non-compliance regardless of whether they result in a formal enforcement action. Reporting all incidents of non-compliance does not distinguish between the severity of incidents and the resulting potential for financial impacts to the registrant. This creates an undue cost burden for the registrant related to data collection, tracking, and reporting, and adversely affects the usefulness and fair representation of the resulting disclosures.

As incidents that result in formal enforcement actions are more likely to generate financial impacts on the registrant, they are a relevant indicator to measure performance on the management of water quality. Thus, the proposed revision confines the metric's scope to incidents that result in formal enforcement actions, thereby directly improving the representativeness, comparability, and usefulness of the information generated by the standard, and better adhering to the core objectives of the standard.

Additionally, the proposed SASB metric is aligned with federal and state water quality regulations that employ formal enforcement actions as well as reporting guidelines such as the CDP Water Information Request.

Stakeholder Consultation

Investors: A limited number of investors provided input on the proposed revision. Such input broadly supported the revision, based on improvements to the decision-usefulness of resulting disclosures.

Issuers: A limited number of issuers provided input on the proposed revision. Such input constituted support for revising the scope of this metric to focus on notices of violation that result in formal enforcement actions, as doing so improves the decision-usefulness of the metric.

Others: Several subject matter experts commented that the proposed change would more accurately reflect performance on the aspect of the topic related to regulatory compliance.

²⁵ "Informal and Formal Actions, Summary of Guidance and Portrayal on EPA Websites," U.S. Environmental Protection Agency, last modified July 1, 2010, accessed August 28, 2017, <https://www.epa.gov/sites/production/files/2013-11/documents/actiondefs.pdf>.

²⁶ "Analyze Trends: State Water Dashboard," U.S. Environmental Protection Agency, accessed August 28, 2017, <https://echo.epa.gov/trends/comparative-maps-dashboards/state-water-dashboard?view=performance&state=National>.

Benefits

Improves the SASB standard: The proposed change would result in disclosures more consistent with the guiding criteria of fair representation and comparability.

Improves decision-usefulness: By focusing on incidents of non-compliance that resulted in formal enforcement actions, the proposed change would improve the usefulness of information generated by the standard as it improves the signal-to-noise ratio.

Improves cost-effectiveness: The proposed change narrows the scope of disclosure to a more specific (and more meaningful) subset of non-compliance incidents, thereby improving the cost-effectiveness of the standard.

Improves alignment: The proposed revision will align the SASB standard with existing reporting protocols and regulatory reporting requirements.

Proposed Update #8-16 – **Industry:** Meat, Poultry, & Dairy; **Topic Name:** Land Use & Ecological Impacts

2017 Technical Agenda Item #8-16 Description

SASB is evaluating the revision of metrics CN0102-08²⁷, CN0102-09²⁸, and CN0102-10²⁹ to improve the applicability and decision-usefulness of the metrics associated with the topic.

Summary of Change – Revise Metrics

SASB proposes to update the technical protocols for metrics CN0102-08, CN0102-09, and CN0102-10 within the Land Use & Ecological Impacts topic to expand their scope to include operations outsourced to third parties.

Adherence to Principles for Accounting Metrics

The Meat, Poultry, & Dairy provisional industry standard includes a topic, Land Use & Ecological Impacts (with associated metrics), that is focused on the management of risks and opportunities associated with the generation and discharge of animal waste and other pollutants, as a result of industry activities, and the impacts on the environment due to land use considerations. More specifically, the three metrics covered in this proposal relate to:

- CN0102-08: Amount of animal litter and manure generated, percentage managed according to a nutrient management plan
- CN0102-09: Percentage of pasture and grazing land managed to Natural Resources Conservation Service (NRCS) Conservation Plan criteria
- CN0102-10: Animal protein production from Concentrated Animal Feeding Operations (CAFO)

These three metrics are proposed to be revised to further define and/or expand the scope of the registrant's operations for disclosure. Metric CN0102-08 does not define the scope of corporate activities relevant to disclosure, while metrics CN0102-09 and CN0102-10 exclude contracted operations, while exclusively focusing on owned or operated animal protein production activities. The proposed technical protocol defines and/or expands the scope of the registrant's activities for all three of the above metrics to include contracted operations, as well as operations that "otherwise supply animal protein to the registrant (e.g., for processing by the registrant)." This proposed revision is designed to improve the usefulness and completeness of the information generated by the metrics. Furthermore, the metrics will be better aligned with third-party frameworks and industry initiatives.

Supporting Analysis

The production of animal protein is largely outsourced by companies in the industry to third-party producers. For instance, the largest company in the industry, with \$21B market cap, notes in its 2015 10-K that "contract growers care for and raise the chicks according to our standards, with advice from our technical service personnel, until the broilers reach the desired processing weight. We do not have facilities of our own to raise cattle but employ cattle buyers located throughout cattle producing areas who visit independent feed yards and public auctions and buy live cattle on the open spot market. The majority of our live hog supply is obtained through various procurement

²⁷ CN0102-08: Amount of animal litter and manure generated, percentage managed according to a nutrient management plan

²⁸ CN0102-09: Percentage of pasture and grazing land managed to NRCS Conservation Plan criteria

²⁹ CN0102-10: Animal protein production from concentrated animal feeding operations (CAFO)

relationships with independent producers.” Similarly, another large company in the industry with an \$18 billion market cap notes that 94 percent of its hogs are purchased under supply contracts, while a dairy company notes, “we purchase (milk) primarily from farmers’ cooperatives, as well as from independent farmers.” A review of the top six companies by market capitalization showed that all of them source animal protein from third-party contract farms to varying degrees.

Overall, the structure of the industry’s animal protein production is generally determined by the specific product—namely, chickens are typically owned by issuers but grown by third-parties, cattle are bought on a spot-market shortly before rendering, and hogs are grown through both owned operations as well as bought from independent producers through supply contracts. The proposed revisions better incorporate actual industry structure and operations, which leads to more complete and useful disclosures, by including operations that the registrant contracts with or otherwise obtains supplies from.

Additionally, the proposed change better aligns the SASB standard with The Sustainability Consortium’s (TSC) questionnaire, which considers the impacts of nutrient management and land degradation for both purchased and produced animal products. The TSC is a global organization dedicated to improving the sustainability of consumer products, and its members include manufacturers, retailers, suppliers, and service providers participating in SICCS’s Food & Beverage and Consumer Goods sectors.

The topics and metrics affected by the proposed changes take into consideration the industry’s reliance on third-party growers. For example, the issue description of the Antibiotic Use in Animal Production topic mentions that “in other cases where companies get supplies from third-parties, they can select and specify suppliers that do not use antibiotics in animal raising, as one way to manage the issue.”

Expanding the scope of the metrics would increase the cost of collecting such data, though the resulting metric is still viewed to be consistent with the cost-effectiveness objective of the standard. The scope of reporting would expand significantly to contracted suppliers, and thus, the cost of tracking and reporting such data would increase when compared to reporting on the provisional metrics. However, because the bulk of land use and ecological impacts are associated with the operations of contract growers, the standard would more effectively capture the risks and opportunities associated with the topic, thereby generating more complete and useful information.

Stakeholder Consultation

Investors: A limited number of investors provided input on the proposed changes, all of which suggests that corporate policies on land use impacts associated with contracted animal growing is an important consideration when analyzing sustainability risks and opportunities faced by companies in the industry, and thus, the proposed changes would provide more complete information in terms of such contracted growing activities.

Issuers: A limited number of issuers provided input on the proposed changes. Such input generally indicated the importance of performance on the topic in terms of contracted animal growing operations, especially due to the increasing interest among customers such as large retailers (i.e., customer demand). However, input indicated concerns related to effectively capturing and reporting the proposed data in a cost-effective manner. It was also noted that industry initiatives are actively seeking improvements in the ability to quantify performance related to these metrics, or at least better communicate performance to stakeholders.

Benefits

Improves the SASB standard: The proposal to expand the scope of the metrics in the Land Use & Ecological Impacts topic to align with the actual operations of companies in the industry will improve the applicability and completeness of the metrics associated with the topic.

Improves decision-usefulness: Expanding the scope of metrics in this topic would significantly improve decision usefulness as the bulk of impact, risks, and opportunities associated with land use and ecological impacts is associated with contracted growing. Thus, expanding the scope improves investors' insight into the degree to which companies are exposed to such impacts and ability to manage this exposure.

Improves alignment: The proposed disclosure aligns well with other initiatives such as The Sustainability Consortium's questionnaire that considers the impacts of nutrient management and land degradation for both purchased and produced animal products.



FOOD & BEVERAGE SECTOR

PROCESSED FOODS INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FB0103

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #8-17 – **Industry:** Processed Foods; **Topic Name:** Health & Nutrition

2017 Technical Agenda Item #8-17 Description

SASB is evaluating the removal of metric CN0103-11³⁰ to improve the cost-effectiveness and applicability of the metrics associated with the topic.

Summary of Change – Remove Metric

The SASB proposes removing metric CN0103-11, “Revenue from products that meet Smart Snacks in School criteria or foreign equivalent.”

Adherence to Criteria for Accounting Metrics

The Processed Foods industry provisional standard includes a topic centered on Health & Nutrition, which describes a company’s risks and opportunities associated with managing the health and nutritional characteristics of its products to capture shifting customer demand. The associated metrics describe an individual company’s performance as it relates to this issue. More specifically, metric CN0103-10 describes revenue from products that promote health and nutrition attributes, CN0103-11 describes revenue from products that meet Smart Snacks in School criteria or equivalent foreign programs, and CN0103-12 describes the process to identify and manage products to address emerging dietary preferences. Metric CN0103-11 does not comply with the criteria of fair representation of company performance nor applicability to most of the industry, based on how the industry’s sales to schools represent a very small subset of overall industry sales. In addition, the metric largely overlaps with metric CN0103-10, which is also focused on the health and nutrition profile of companies’ product portfolio. The removal of the metric will therefore retain the decision-usefulness of the set of disclosures associated with the topic while improving the cost-effectiveness of the standard by removing an overlapping metric.

Supporting Analysis

Sales to schools represent a very small subset of overall industry sales. SASB research shows that this figure is approximately 4 percent; moreover, the figure is rarely significantly higher for any single company. Additionally, the Smart Snacks in School criteria sets requirement on calories, fat, saturated fat, sugar content and cholesterol. Most of these aspects concerning nutrition are covered by the FDA’s Food Labeling Guide for the use of the term “healthy” and other related terms covered by metric CN0103-10. Among the largest five U.S.-listed companies by market capitalization in the industry, no companies currently report the metric proposed for removal nor do any of these companies provide any other disclosures specifically on sales to schools.

Stakeholder Consultation

Investors: The SASB received limited investor input on this proposed change. Input indicated that the metric proposed for removal would add little value to the information that is captured elsewhere in the standards, as information is better generated by the provisional metric CN0103-10. Additionally, investors confirmed that industry sales to schools represents a small portion of the industry’s overall revenues and do not warrant separate disclosure as this segment does not present fundamentally distinct nor exceptionally attractive growth opportunities.

³⁰ CN0103-11: Revenue from products that meet Smart Snacks in School criteria or foreign equivalent.

Issuers: A few issuers provided input, which confirmed that sales to schools are minimal (and sometimes non-existent among certain companies). While issuers supported that health and nutrition is an extremely important issue, it was expressed that the proposed removal of the provisional metric CN0103-11 is appropriate. Issuers further noted that tracking and reporting on potentially semi-duplicative information would not be cost-effective.

Benefits

Improves the SASB standard: The proposal improves the applicability and fair representation of the standard by removing a metric that is not based on an issuers' typical operating context while retaining metrics that are aligned with the actual operations of companies in the industry.

Improves cost-effectiveness: The proposal would improve the cost-effectiveness of the standard, as it would remove a semi-duplicative metric, which would otherwise require tracking and reporting costs.

Proposed Update #8-18 – **Industry:** Processed Foods; **Topic Name:** Product Labeling & Marketing

2017 Technical Agenda Item #8-18 Description

SASB is evaluating the revision of metric CN0103-13³¹ to improve its representativeness.

Description of Change – Revise Metric

The SASB proposes revising provisional metric CN0103-13 from “Number of child advertising impressions made, percentage promoting products meeting the Children’s Food and Beverage Initiative (CFBAI) Uniform Nutrition Criteria” to “(1) Percent of total advertising impressions made on children and (2) percent thereof promoting products that meet the CFBAI’s Uniform Nutritional Criteria.”

Adherence to Criteria for Accounting Metrics

The Processed Food industry provisional standard includes a topic, Product Labeling & Marketing, which is focused on a company’s management of risks and opportunities associated with responsible labeling and marketing of its products. Specifically, provisional metric CN0103-13 captures the degree to which children are targeted by advertisements and the percentage of such advertising efforts that conform to regulatory requirements. However, disclosing data on the “number of advertising impressions” may expose an issuer’s competitive information. The revision of the metric improves its applicability by employing a methodology more appropriate for companies in a competitive industry, while also retaining the decision-usefulness of the set of disclosures with respect to advertising aimed at children thereby better accomplishing the core objectives of the standard.

Supporting Analysis

The CFBAI sets out that “participants will commit that all ‘advertising primarily directed to children under the age of 12’ will be for healthy dietary choices or better-for-you foods. As of December 31, 2013, these foods must meet the CFBAI’s category-specific Uniform Nutrition Criteria.” The initiative further defines that “for certain media, such as TV, radio, print, and third-party websites, ‘advertising primarily directed to children under the age of 12’ generally means advertising for which children ages 2-11 constitute at least 35 percent of the expected audience (viewers, listeners, readers, or visitors) at the time of the media buy, depending upon the participant.” Despite these efforts, studies have found that children are nevertheless exposed to a significant amount of “junk food” advertising. For example, research supported by the Robert Wood Johnson Foundation found that “despite these promises [CFBAI], children aged six to 11 saw 53 percent more TV ads in 2014 than [in] 2010 for snack foods that companies pledged they would not advertise directly to children under 12.” The 2015 CFBAI Compliance report notes that the incidence rate is generally below 1 percent of total ads for a company. Thus, a standard based solely on compliance with the CFBAI would not fulfill the “distributive” criterion for accounting metrics from the SASB Conceptual Framework.

As such, SASB developed a provisional standard that sought to capture the degree to which children are advertised to and the percentage of this advertising featuring products that conform to CFBAI’s Uniform Nutritional Criteria. The metric, as formulated, may expose competitive information as it focuses on the aggregate number of child advertising impressions, as opposed to a percentage. To reduce the likelihood of the disclosure of competitive information while

³¹ CN0103-13: Number of child advertising impressions made, products meeting the Children’s Food and Beverage Initiative Uniform Nutrition Criteria.

maintaining the metric's usefulness, the metric is proposed to be revised to focus on the percentage of advertising impressions made on children.

Stakeholder Consultation

Investors: Multiple investors have expressed interest in the information that would result from disclosures associated with the relevant topic and metric. However, it was also recognized that such disclosure may reveal competitive information.

Issuers: The proposed revision was initially recommended by a few issuers in the industry, as issuers noted that disclosing data on the number of impressions would release competitive information.

Benefits

Improves the SASB standard: The proposed revision would improve the applicability of the metrics associated with the topic by addressing issuer concerns that provisional metric would release competitive information.

Proposed Update #8-19 – **Industry:** Processed Foods; **Topic Name:** Water Management

2017 Technical Agenda Item #8-19 Description

SASB is evaluating revisions to the water quality metric CN0103-04³² to improve its decision-usefulness.

Summary of Change – Revise Technical Protocol

The SASB proposes revising the technical protocol for metric CN0103-04, “Number of incidents of non-compliance with water quality and/or quantity permits, standards, and regulations,” to limit the scope of incidents of non-compliance to exclusively those that result in a formal enforcement action.

Adherence to Criteria for Accounting Metrics

The Processed Food industry provisional standard includes a disclosure topic, Water Management, which is centered on corporate performance and strategy concerning water-related risks and opportunities. The metrics currently associated with the topic, and separately proposed to be associated with the topic (see Proposed Update #8-13 and 8-14), focus on water consumption, water scarcity, effluent, and regulatory compliance. More specifically, metric CN0103-04 is designed to capture a company’s performance on complying with state- or federal-level water quality regulations, including regulations on water treatment and discharges. Performance on incidents of non-compliance are an indication of the strength of a company’s overall water quality management, its ability to comply with regulation, and its exposure to potential operational impacts associated with non-compliance, including costs related to permitting, penalties, remediation, and capital expenditures. However, the current metric scope, as defined in the technical protocol, is excessively broad as it states, “[a]n incident of non-compliance shall be disclosed regardless of whether it resulted in an enforcement action (e.g., fine, warning letter, etc).” Incidents of non-compliance vary widely in terms of the nature and severity of impact, and they may or may not result in enforcement actions.

Given the broadly defined scope of non-compliance incidents, the provisional metric does not provide fair representation of corporate performance on the topic and it is less likely to be cost-effective. The proposed revision to the technical protocol for the metric will limit the scope of non-compliance incidents exclusively to those that result in formal enforcement actions—ultimately, improving the signal-to-noise ratio by focusing on those incidents more likely to indicate operational or financial impacts. This proposed revision would improve the representativeness and cost-effectiveness of the metric, as well as the comparability and usefulness of the information it generates.

Supporting Analysis

Water regulations in the U.S., Canada, and many international regions typically address the quality of water discharges from industry facilities. Water-intensive industries, such as the Processed Foods industry, may also be affected by state or federal regulations that address water withdrawals, although this is less common than regulations governing water discharges. Companies are generally required to obtain state or federal-level permits that allow them to discharge certain amount of wastewater over a given period. Incidents of non-compliance with water regulations may be the result of a variety of events relating to water quality management, including the failure to meet a reporting deadline or a water discharge above permit limits. The magnitude of the regulatory response will vary depending on the nature of the non-compliance. For example, failure to meet a reporting deadline may result in a non-compliance notice or warning letter with little to no financial impact for the issuer. An effluent regulation

³² CN0103-04: Number of incidents of non-compliance with water-quality permits, standards, and regulations

exceedance could, however, result in a company being issued a formal enforcement action, resulting in remediation costs, fines, and/or reputational damage.

Formal enforcement actions, as defined³³ by the U.S. Environmental Protection Agency (EPA) and some state agencies, are statutorily recognized actions to address a violation or threatened violation of water regulations, regulations, policy, or orders, and include administrative penalty orders, administrative orders, and judicial actions, among others. These types of enforcement actions can result in financial penalties and remediation requirements and can be indicative of overall management of water issues over time. Conversely, non-compliance incidents that result in informal enforcement actions – for example, an inspection, phone call, or violation letter - may be issued when no actual violation has occurred, and are significantly less likely to generate financial impacts for companies. Correspondingly, formal enforcement actions are less common than informal actions. According to EPA data, of 5,102 U.S. facilities that received notices of non-compliance with water regulation, only 519 resulted in formal enforcement actions.³⁴

The provisional metric requires reporting of incidents of non-compliance regardless of whether they result in a formal enforcement action. Reporting all incidents of non-compliance does not distinguish between the severity of incidents and the resulting potential for financial impacts to the registrant. This creates an undue cost burden for the registrant related to data collection, tracking, and reporting, and adversely affects the usefulness and fair representation of the resulting disclosures.

As incidents that result in formal enforcement actions are more likely to generate financial impacts on the registrant, they are a relevant indicator to measure performance on the management of water quality. Thus, the proposed revision confines the metric's scope to incidents that result in formal enforcement actions, thereby directly improving the representativeness, comparability, and usefulness of the information generated by the standard, and better adhering to the core objectives of the standard.

Additionally, the proposed SASB metric is aligned with federal and state water quality regulations that employ formal enforcement actions as well as reporting guidelines such as the CDP Water Information Request.

Stakeholder Consultation

Investors: A limited number of investors provided input on the proposed revision. Such input broadly supported the revision, based on improvements to the decision-usefulness of resulting disclosures.

Issuers: A limited number of issuers provided input on the proposed revision. Such input constituted support for revising the scope of this metric to focus on notices of violation that result in formal enforcement actions, as doing so improves the decision-usefulness of the metric.

Others: Several subject matter experts commented that the proposed change would more accurately reflect performance on the aspect of the topic related to regulatory compliance.

³³ "Informal and Formal Actions, Summary of Guidance and Portrayal on EPA Websites," last modified July 2010, accessed August 28, 2017, <https://www.epa.gov/sites/production/files/2013-11/documents/actiondefs.pdf>.

³⁴ "Analyze Trends: State Water Dashboard" U.S. Environmental Protection Agency, accessed August 29, 2017, <https://echo.epa.gov/trends/comparative-maps-dashboards/state-water-dashboard?view=performance&state=National>.

Benefits

Improves the SASB standard: The proposed change would result in disclosures more consistent with the guiding criteria of fair representation and comparability.

Improves decision-usefulness: By focusing on incidents of non-compliance that resulted in formal enforcement actions, the proposed change would improve the usefulness of information generated by the standard as it improves the signal-to-noise ratio.

Improves cost-effectiveness: The proposed change narrows the scope of disclosure to a more specific (and more meaningful) subset of non-compliance incidents, thereby improving the cost-effectiveness of the standard.

Improves alignment: The proposed revision will align the SASB standard with existing reporting protocols and regulatory reporting requirements.



FOOD & BEVERAGE SECTOR

NON-ALCOHOLIC BEVERAGES INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FB0201

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #8-20 – **Industry:** Non-Alcoholic Beverages; **Topic Name:** Product Labeling & Marketing

2017 Technical Agenda Item #8-20 Description

SASB is evaluating the revision of metric CN0201-07³⁵ to improve its representativeness.

Description of Change – Revise Metrics

The SASB proposes revising provisional metric CN0201-07 from “Number of child advertising impressions made, percentage promoting products meeting the Children’s Food and Beverage Initiative (CFBAI) Uniform Nutrition Criteria” to “(1) Percent of total advertising impressions made on children and (2) percent thereof promoting products that meet the Children’s Food and Beverage Initiative (CFBAI) Uniform Nutritional Criteria.”

Adherence to Criteria for Accounting Metrics

The Non-Alcoholic Beverages industry provisional standard includes a topic for Product Labeling & Marketing with associated metrics to describe a company’s management of risks and opportunities associated with responsible labeling and marketing of their products. Specifically, metric CN0201-07 captures the degree to which children are targeted by advertisements and the percentage of such marketing efforts that conform to regulatory requirements. However, disclosing data on the number of impressions would expose an issuer’s competitive information. The revision of the metric improves its applicability by employing a methodology more appropriate for companies in a competitive industry, while also retaining the decision-usefulness of the set of disclosures with respect to advertising aimed at children thereby better accomplishing the core objectives of the standard.

Supporting Analysis

The CFBAI sets out that “participants will commit that all ‘advertising primarily directed to children under the age of 12’ will be for healthy dietary choices or better-for-you foods. As of December 31, 2013, these foods must meet the CFBAI’s category-specific Uniform Nutrition Criteria.” The initiative further defines that “for certain media, such as TV, radio, print, and third-party websites, ‘advertising primarily directed to children under the age of 12’ generally means advertising for which children ages 2-11 constitute at least 35 percent of the expected audience (viewers, listeners, readers or visitors) at the time of the media buy, depending upon the participant.” Despite these efforts, studies have found that children are nevertheless exposed to a significant amount of “junk food” advertising. For example, research supported by the Robert Wood Johnson Foundation found that “despite these promises (CFBAI), children aged six to 11 saw 53 percent more TV ads in 2014 than 2010 for snack foods that companies pledged they would not advertise directly to children under 12.” The 2015 CFBAI Compliance report notes that the incidence rate is generally below 1 percent of total ads for a company. Thus, a standard based solely on compliance with the CFBAI would not fulfill the “distributive” criterion for accounting metrics from the SASB Conceptual Framework.

As such SASB developed a provisional standard that sought to capture the degree to which children are advertised to and the percentage of this advertising that conforms to CFBAI Uniform Nutritional Criteria. The metric, as formulated, may expose competitive information as it focuses on the aggregate number of child advertising impressions, as opposed to a percentage. To reduce the likelihood of the disclosure of competitive information while maintaining the

³⁵ CN0201-07: Number of child advertising impressions made, percentage promoting products meeting the Children’s Food and Beverage Initiative (CFBAI) Uniform Nutrition Criteria.

metric's usefulness, the metric is proposed to be revised to focus on the percentage of advertising impressions made on children.

Stakeholder Consultation

Investors: Multiple investors have expressed interest in the information that would result from disclosures associated with the relevant topic and metric. However, it was also recognized that such disclosure may reveal competitive information.

Issuers: The SASB did not receive input from issuers in the industry on the proposed change. However, the proposed revision was initially recommended by issuers in a related industry, where the relevant metric appears in that provisional industry standard – these issuers noted that disclosing data on the number of impressions would release competitive information. This concern applies in an identical way to the relevant metric in the Non-Alcoholic Beverages industry standard.

Benefits

Improves the SASB standard: The proposed revision would improve the applicability of the metrics associated with the topic by addressing issuer concerns that provisional metric would release competitive information.



FOOD & BEVERAGE SECTOR

ALCOHOLIC BEVERAGES INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FB0202

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #8-21 – **Industry:** Alcoholic Beverages; **Topic Name:** Responsible Drinking & Marketing

2017 Technical Agenda Item #8-21 Description

SASB is evaluating the revision of metric CN0202-04³⁶ to improve its representativeness.

Summary of Change – Revise Metric:

The SASB proposes revising provisional metric CN0202-04 from “Number of advertising impressions, percentage made on individuals above the legal drinking age” to “Percentage of advertising impressions made on individuals above the legal drinking age.”

Adherence to Criteria for Accounting Metrics

The Alcoholic Beverages industry provisional standard includes a topic, Responsible Drinking & Marketing, with associated metrics, to describe a company’s management of financial risks and opportunities related to social externalities associated with alcohol misuse. Specifically, provisional metric CN0202-04 captures the degree to which the underage population is advertised to. However, disclosing data on the “number of advertising impressions” may expose an issuer’s competitive information. The revision of the metric improves its applicability by employing a methodology more appropriate for companies in a competitive industry, while also retaining the decision-usefulness of the information disclosure with respect to advertising aimed at individuals above the legal drinking age, thereby better accomplishing the core objectives of the standard.

Supporting Analysis

An industry initiative called the Beer, Wine, and Spirits Producers’ Commitments (Producers’ Commitments) sets out that producers who are signatories to the commitments will “take independently verifiable measures so that print, electronic, broadcast, and digital media where alcohol products are advertised have a minimum 70 percent adult audience.” Despite these efforts, studies have found that those below the legal drinking age are still significantly exposed to alcohol advertising. One study found that even if the threshold was increased from 70 percent to 75 percent, only 16.4 percent of programs would be precluded from alcohol advertising. Additional studies have found that from 2014 to 2016, “youth” were exposed to a total of 31.9 billion alcoholic beverage advertising impressions, and only 10.8 percent of those were out of compliance with the Producers Commitments.³⁷ Thus, a standard based solely on compliance with the Producers’ Commitments would not fulfill the “distributive” criterion for accounting metrics from the SASB Conceptual Framework.

As such, SASB developed a provisional standard that sought to capture the degree to which the underage population is advertised to and the percentage of this advertising that conforms to the Producers’ Commitments. The metric, as formulated, may expose competitive information as it focuses on the aggregate number of advertising impressions, as opposed to a percentage. To reduce the likelihood of the disclosure of competitive information while maintaining the metric’s usefulness, the metric is proposed to be revised to focus on the percentage of advertising impressions made on individuals above the legal drinking age.

³⁶ CN0202-04: Number of advertising impressions, percentage made on individuals above the legal drinking age

³⁷ “Alcohol Advertising Compliance on Cable Television, January – March (Q1) 2016” Johns Hopkins Bloomberg School of Public Health, last modified March 6, 2017, accessed August 29, 2017, http://www.camya.org/docs/resources/reports/alcohol-advertising-monitoring/CAMY_CableTV_2016_Q1.pdf.

Stakeholder Consultation

Investors: A number of investors have communicated significant interest in understanding the number of advertising impressions made on the underage population throughout the standards development process, as provided by the provisional metric. However, there is recognition that such disclosure may reveal competitive information. While a very limited amount of input was received from investors on the proposed change within the industry standard, investors have noted it would still be useful to be able to assess the degree to which a company's marketing efforts are reaching the underage population.

Issuers: The SASB received limited input from issuers in the industry on the proposed change. However, the proposed revision was initially recommended by issuers in a related industry, where a structurally similar metric appears in that provisional industry standard – these issuers noted that disclosing data on the number of impressions would release competitive information. This concern applies in an identical way to the relevant metric in the Alcoholic Beverages industry standard.

Benefits

Improves the SASB standard: The proposal would improve the applicability of the metrics associated with the topic by addressing issuer concerns that disclosure would release competitive information.

Proposed Update #8-22 – **Industry:** Alcoholic Beverages; **Topic Name:** Responsible Drinking & Marketing

2017 Technical Agenda Item #8-22 Description

SASB is evaluating the technical protocol associated with metric CN0202-05³⁸ to improve its completeness and relevance.

Summary of Change – Revise Technical Protocol:

SASB proposes revising the technical protocol associated with metric CN0202-05, “Notices of violations received for non-conformance with industry and regulatory marketing and/or labeling codes,” as follows:

- Add the Beer Institute Advertising & Marketing Code to the list of laws and industry self-regulatory initiatives covered by technical protocol .02: “The scope of disclosure includes notices of violations received due to non-conformance with both laws and industry self-regulations, including the following . . .”
- Revise technical protocol .03 from “The registrant may disclose any other non-conformances with internal code(s) of practice on marketing and/or labeling” to “The registrant may disclose any other non-conformances of published media with internal code(s) of practice on marketing and/or labeling.”

Furthermore, the SASB proposes revising the wording of the metric to improve its clarity (a revision of “industry and regulatory” to “industry or regulatory”).

Adherence to Attributes of Technical Protocols

The current Alcoholic Beverages industry provisional standard includes a topic, Responsible Drinking & Marketing, which is focused on a company’s management of financial risks and opportunities related to social externalities associated with alcohol misuse. Specifically, provisional metric CN0202-05 captures the degree to which a company violates industry and/or regulatory marketing or labeling codes. Technical protocol .02 in the provisional standard references several regulations and industry self-regulatory bodies, including the Federal Alcohol Administration Act, The Alcoholic Beverage Labeling Act, and The Distilled Spirits Council of the United States (DISCUS), among others. However, it does not include reference to the Beer Institute’s Advertising & Marketing Code. This code is directly relevant to the intent of the metric and is therefore appropriate to incorporate into the list of cited industry codes, initiatives, and regulations. Therefore, the proposed revision would improve the completeness of the criteria associated with the metric, while also improving the alignment with a widely-used industry initiative. Additionally, the revision to technical protocol .03 clarifies the scope of the technical protocol by focusing on other non-conformances with internal code(s) of practice of “published media.” This proposed revision further improves the completeness of the technical protocol associated with provisional metric CN0202-05.

Supporting Analysis

The Beer Institute is a national trade association that represents the \$252.6 billion beer industry. Its Advertising & Marketing Code represents the industry’s efforts to self-regulate advertising and marketing and is one of the most widely accepted industry self-regulations relating to the advertising and marketing of alcoholic beverages. The

³⁸ CN0202-05: Notices of violations received for non-conformance with industry and regulatory marketing and/or labeling codes

industry's self-regulatory efforts are similar to those by DISCUS; furthermore, the Beer Institute publicly provides a listing of non-compliances with its advertising and marketing code.³⁹

Stakeholder Consultation

Investors: The SASB did not receive direct investor input on the proposed change. However, investor input throughout the standards development process generally supported the topic and relevant metric, while the proposed revision improves the completeness of the technical protocol metric without reducing the usefulness of the information generated by the metric.

Issuers: A limited number of issuers provided input, which highlighted that one of the most widely accepted industry self-regulations relating to the advertising and marketing of alcoholic beverages is put forth in the Beer Institute's Advertising & Marketing Code. When it comes to internal codes of marketing, it was noted that there are controls in place to ensure non-compliances do not arise. Thus, it was suggested that the SASB should clarify how disclosure relates to non-compliances with internal codes that resulted in external publication, as this is the source of potential reputational harm and financial impact.

Benefits

Improves the SASB standard: The proposal would improve the SASB standard by improving the completeness of the technical protocol, as well as the technical accuracy and clarity of the standard.

Improves alignment: The proposed changes further align the standard with The Beer Institute's Advertising and Marketing Code, widely used in the industry.

³⁹ "Responsibility: Advertising & Marketing Code," Beer Institute, accessed August 29, 2017, <http://www.beerinstitute.org/responsibility/advertising-marketing-code/>.



FOOD & BEVERAGE SECTOR

TOBACCO INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #FB0301

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #8-23 – **Industry:** Tobacco; **Topic Name:** Activity Metric

2017 Technical Agenda Item #8-23 Description

SASB is evaluating the revision of activity metric CN0301-A⁴⁰ to improve its alignment with existing industry metrics.

Summary of Change – Revise Metric

The SASB proposes revising provisional activity metric CN0301-A from “Cigarette sales volume” to “(1) cigarette, (2) cigar, and (3) other smoked tobacco sales volume⁴¹.”

Adherence to Criteria for Accounting Metrics

The current Tobacco industry provisional standard includes two activity metrics that accompany the sustainability accounting metrics to help provide investors with contextual information on company activities and operations, including the normalization of the disclosures resulting from the standard for further analysis. Specifically, metric CN0301-A assists in the accurate evaluation and comparability of disclosure on smoked tobacco products while metric CN0301-B focuses on smokeless tobacco products. Companies in the industry sell other smoked tobacco products in addition to cigarettes. Therefore, the revision of the activity metric to include additional smoked tobacco products, such as cigars and other smoked tobacco products, is aligned with the industry product lines and would improve investors’ ability to understand the volumes of relevant products sold, which in turn, improves the overall decision-usefulness of the information generated by the standard.

Supporting Analysis

Analysis of the Tobacco industry’s product segments corroborates the segmentation described above. All three of the largest global tobacco companies use a similar segmentation in their respective financial statements. One of the largest global tobacco companies notes that “Our other tobacco products (“OTP”) primarily include tobacco for roll-your-own and make-your-own cigarettes, pipe tobacco, cigars and cigarillos . . . Total shipment volume of OTP, in cigarette equivalent units, increased by 3.4 percent to 33.8 billion cigarette equivalent units.” Similarly, the second largest company in the U.S. tobacco industry by sales states, “Our core tobacco product range includes cigarettes, Fine Cut (roll-your-own and make-your-own tobacco) and Swedish style snus.” Further, the largest U.S. tobacco company by sales states that its “subsidiaries include smokeable tobacco products, consisting of cigarettes . . . , machine-made large cigars and pipe tobacco . . . and premium cigars.” Thus, the proposed revision is better aligned with existing industry disclosures, and seeks to standardize such contextual disclosures.

2015 global tobacco sales totaled \$770 billion, with cigarettes representing 90 percent of sales and all other tobacco products representing 10 percent of sales. While cigarettes clearly represent a majority of product sales, given the size of overall industry sales, the standardization of other smoked tobacco products provides valuable information for understanding and processing the overall information generated by the standard.

⁴⁰ CN0301-A: Cigarette sales volume

⁴¹ CN0301-A: Cigar sales volume includes product sales of cigars, cigarillos, and little cigars. Other smoked tobacco includes products sold by the registrant such as pipe tobacco, loose leaf tobacco, bidis, and kreteks or clove cigarettes.

Stakeholder Consultation

Investors: Limited investor input was obtained; however, it suggested that the SASB should incorporate information beyond exclusively cigarette tobacco products in the standard.

Issuers: Issuer input was obtained from a limited number of companies in the industry, though input was received from a significant portion of the industry, by market cap. Issuers concurred that, given the scope of non-cigarette tobacco products, the SASB should consider the wider array of products that companies in the industry sell.

Benefits

Improves the SASB standard: The proposal would improve the SASB standard by aligning with existing industry product segmentation practices and their corresponding activity metrics. As a result, information generated by the activity metrics would improve the decision-usefulness of the overall standard.

Proposed Update #8-24 – **Industry:** Tobacco; **Topic Name:** Marketing Practices

2017 Technical Agenda Item #8-24 Description

SASB is evaluating the revision of metrics CN0301-04⁴² and CN0301-05⁴³ to improve the cost-effectiveness, representativeness, and applicability of the metrics associated with the topic.

Summary of Change – Revise Metrics:

The SASB proposes consolidating the metrics CN0301-04 and CN0301-05 in the provisional industry standard, and revising the resulting metric to focus on companies' positions on the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) and relevant corporate marketing policies, as opposed to specific alignment with the WHO FCTC.

More specifically, the SASB proposes consolidating the following provisional metrics:

- CN0301-04: Description of alignment of tobacco advertising, promotion, and sponsorship (TAPS) activities with Article 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)
- CN0301-05: Description of alignment of tobacco labeling and packaging practices with Article 11 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)

into the following metric:

- Discussion of positions on Articles 11 and 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) and description of the company's marketing policy

Adherence to Criteria for Accounting Metrics

The Tobacco industry provisional standard includes a topic, Marketing Practices, with associated metrics to describe a company's management of risks and opportunities associated with tobacco product marketing under the industry's strict regulatory environment. Specifically, provisional metrics CN0301-04 and CN0301-05 describe a company's alignment with specific articles of the WHO FCTC that relate to the marketing of tobacco products. Because the implementation of the WHO FCTC occurs at the country-level, and thus, relevant regulations occur at the country-level, the provisional metrics, as currently structured, may result in highly voluminous disclosures that erode the usefulness of the metrics and the cost-effectiveness of the standard. Therefore, structuring the metric to focus on companies' corporate-level positions on the relevant articles of the WHO FCTC (Articles 11 and 13), as well as relevant corporate marketing policies, improves the usefulness of the metrics and the cost-effectiveness of the standard, while preserving the integrity of the concept intended to be measured by the provisional metrics.

⁴² CN0301-04: Description of alignment of tobacco advertising, promotion, and sponsorship (TAPS) activities with Article 13 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)

⁴³ CN0301-05: Description of alignment of tobacco labeling and packaging practices with Article 11 of the World Health Organization Framework Convention on Tobacco Control (WHO FCTC)

Supporting Analysis

The WHO FCTC is an international treaty adopted by the World Health Assembly on May 21, 2003, with entry into force on February 27, 2005. To date, 180 of the 193 Member States in the United Nations have ratified the WHO FCTC, but a few countries including the U.S., Switzerland, Argentina, and Malawi have not. Countries that have ratified the WHO FCTC—referred to as the Parties—are legally obligated to implement measures to reduce smoking and exposure to tobacco smoke. However, the Treaty text does not describe explicitly the measures to be introduced and thus countries have interpreted and implemented the Treaty in different ways. In fact, the Treaty itself recognizes that the Parties should determine which specific measures are appropriate, in accordance with national circumstances and law. This has resulted in varying levels of implementation of the FCTC at the country-level. As a result, corporate marketing policies must adhere to widely varying country-specific regulations, even among the Parties to the WHO FCTC.

The structure of the provisional metrics may have required voluminous disclosures for many (or potentially) every country that the companies operate in. For example, the technical protocol for metric CN0301-04 states, “The registrant shall describe the degree to which its tobacco advertising, promotion, and sponsorship (TAPS) practices are aligned with Article 13: Tobacco advertising, promotion, and sponsorship . . .” However, such disclosure can only effectively take place at the country-level. Companies may have country-specific marketing policies that are considerably stricter or less strict than the relevant portions of the WHO FCTC. It is more useful and cost-effective, however, for companies to provide disclosure on the corporate-level positions on the relevant articles of the WHO FCTC, as well as relevant aspects of corporate marketing policies, consistent with the proposed revision. Overall, the proposed consolidated and revised metric preserves the integrity of the metric by continuing to focus on the relevant aspects of corporate marketing positions and strategies while improving the viability of the standard.

Stakeholder Consultation

Investors: While several investors have expressed support for the topic and the concept being measured by the provisional metrics throughout the standards development process, limited input was received from investors on this proposed change. The change does not fundamentally alter the concept being measured by the metrics, but rather, improves the viability of implementing decision-useful, cost-effective metrics.

Issuers: The proposed change was initially raised by issuers. It was highlighted that issuers would have difficulty providing disclosure on the current metrics as it may require separate disclosure on each country where business is conducted. It was noted that because national law supersedes the WHO FCTC, there might be instances where companies cannot align with the WHO FCTC. Thus, there was support for a metric that allows discussion on the company’s position to the WHO FCTC and corporate marketing codes.

Benefits

Improves decision-usefulness: The proposed revision would improve the usefulness of the metrics associated with the topic. Because the structure of the provisional metrics proposed for revision may have resulted in highly voluminous disclosures on a country-specific basis, the usability of the information generated would be eroded. The proposed revision focuses on corporate-level marketing policies in an effort to narrow the focus, and improve the usefulness of the resulting metric.

Improves cost-effectiveness: The proposed revision would improve the cost-effectiveness of the standard, as the proposed metric is less likely to run the risk of highly voluminous, country-specific disclosures. As a result, the

information generated by the standard would be more streamlined and more narrowly focused on corporate approaches and strategies on the topic.

Proposed Update #8-25 – **Industry:** Tobacco; **Topic Name:** Public Health

2017 Technical Agenda Item #8-25 Description

SASB is evaluating the revision of metric CN0301-01⁴⁴ to improve its representativeness and applicability.

Summary of Change – Revise Metric

The SASB proposes revising metric CN0301-01 from “Revenue from (1) smokeless tobacco products, (2) non-tobacco nicotine-delivery products, and (3) other ‘tobacco harm-reduction’ products” to “Revenue from (1) traditional smokeless products, (2) non-tobacco nicotine products, and (3) heat-not-burn products,” with an additional clarification that sales should be reported “gross and net of excise taxes.”

Adherence to Criteria for Accounting Metrics

The current Tobacco industry provisional standard includes a topic for Public Health with associated metrics to describe a company’s management of risks and opportunities associated with a company’s reduced-risk products portfolio aimed at reducing the negative health impacts from tobacco use. The FDA has set forth strict guidance on labeling tobacco products as reduced risk and harm reduction, suggesting a conflict in SASB’s use of the term “tobacco harm-reduction” and what the industry is currently allowed to call “heat-not-burn” products. The proposed revision improves the applicability of the metric. Additionally, understanding sales net of excise taxes provides investors with a more direct, and thus useful, understanding of the bottom line impact. Overall, the proposed revision of the metric improves the applicability of the metric to measure company performance, as it is more consistent with appropriate terminology, while also improving the usefulness of the metric.

Supporting Analysis

The FDA has set forth strict guidance on the terminology associated with reduced risk and harm reduction as they relate to labeling and selling non-traditional tobacco products such as “heat-not-burn cigarettes.” Per FDA guidance, “manufacturers must demonstrate that such products meet a series of rigorous criteria, and will benefit the health of the population as a whole before marketing tobacco products for use to reduce harm or the risk of tobacco-related disease or to reduce exposures to harmful substances associated with tobacco products.” Because studies supporting such products are currently being reviewed by the FDA, there is a conflict in SASB’s use of the term “tobacco harm-reduction” and what the industry is currently allowed to call “heat-not-burn” products. Rather than focusing on the highly dynamic area of “harm reduction,” the proposed metric focuses on three, generally accepted categories of products that have different risk profiles.

Additionally, disclosure of sales gross and net of excise taxes provides investors with more useful information, as this affords greater insight into financial risks and opportunities. While the provisional metric did not explicitly clarify this, it may be implied that such disclosure resulting from the provisional metric would be gross of excise taxes. However, including revenue net of excise taxes increases the usefulness of the metric as this information has a more direct link to financial impact.

⁴⁴ CN0301-01: Revenue from (1) smokeless tobacco products, (2) non-tobacco nicotine-delivery products, and (3) other “tobacco harm-reduction” products

Stakeholder Consultation

Investors: The SASB did not receive direct input on the proposed change. However, multiple investors have provided support for the importance of the topic, as well as the concept behind the metrics associated with the topic.

Issuers: The proposed change was raised by issuers, as such issuers pointed out that the standard should use terms in a manner that is consistent with regulations and industry terminology. It was raised that disclosure should be net of excise taxes – the proposed revision focuses on both gross sales and sales net of excise taxes.

Benefits

Improves the SASB standard: The proposal would improve the applicability of the metric by aligning with regulatory and industry nomenclature.

Improves decision-usefulness: The decision-usefulness of the standard would be improved by providing investors an understanding of sales gross and net of excise taxes associated with such products, enabling greater insight into total sales volumes, as well as the more direct financial implications (net of excise taxes).