



# PROPOSED CHANGES TO PROVISIONAL STANDARDS

## **BASIS FOR CONCLUSIONS**

Health Care Sector

Biotechnology & Pharmaceuticals

Medical Equipment & Supplies

Health Care Delivery

Health Care Distributors

Managed Care

Drug Retailers

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 (SEC) filings such as Forms 8-K, 10-K, 20-F, and 40-F. Based on a rigorous process that includes evidence-based research and broad, balanced stakeholder participation, the SASB currently maintains provisional standards for 79 industries across 11 sectors.<sup>1</sup>

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

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<sup>1</sup> 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.<sup>2</sup> 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:

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<sup>2</sup> TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976).

## SASB Sector Committees

<p><b>Health Care</b>  <u>Industries:</u>                      Biotechnology &amp; Pharmaceuticals; Medical Equipment &amp; Supplies; Health Care Delivery; Health Care Distributors; Managed Care; Drug Retailers  <u>Committee Members:</u>                      Lloyd Kurtz*, Bob Hirth, Jean Rogers</p>	<p><b>Renewable Resources &amp; Alternative Energy</b>  <u>Industries:</u>                      Biofuels; Solar Technology &amp; Project Developers; Wind Technology &amp; Project Developers; Fuel Cells &amp; Industrial Batteries; Forestry Management; Pulp &amp; Paper Products  <u>Committee Members:</u>                      Stephanie Tang*, Jeff Hales, Kurt Kuehn</p>	<p><b>Food &amp; Beverage</b>                      (formerly Consumption I)  <u>Industries:</u>                      Agricultural Products; Meat, Poultry, &amp; Dairy; Processed Foods; Non-Alcoholic Beverages; Alcoholic Beverages; Tobacco; Food Retailers &amp; Distributors; Restaurants  <u>Committee Members:</u>                      Stephanie Tang*, Elizabeth Seeger, Lloyd Kurtz</p>
<p><b>Financials</b>  <u>Industries:</u>                      Commercial Banks; Investment Banking &amp; Brokerage; Asset Management &amp; Custody Activities; Consumer Finance; Mortgage Finance; Security &amp; Commodity Exchanges; Insurance  <u>Committee Members:</u>                      Jeff Hales*, Dan Goelzer, Verity Chegar</p>	<p><b>Transportation</b>  <u>Industries:</u>                      Automobiles; Auto Parts; Car Rental &amp; Leasing; Airlines; Air Freight &amp; Logistics; Marine Transportation; Cruise Lines; Rail Transportation; Road Transportation  <u>Committee Members:</u>                      Kurt Kuehn*, Jean Rogers, Jeff Hales</p>	<p><b>Consumer Goods</b>                      (formerly Consumption II)  <u>Industries:</u>                      Apparel, Accessories &amp; Footwear; Appliance Manufacturing; Household &amp; Personal Products; Building Products &amp; Furnishings; Toys &amp; Sporting Goods; Multiline and Specialty Retailers &amp; Distributors; E-Commerce  <u>Committee Members:</u>                      Elizabeth Seeger*, Stephanie Tang, Kurt Kuehn</p>
<p><b>Technology &amp; Communications</b>  <u>Industries:</u>                      Electronic Manufacturing                      Services &amp; Original Design                      Manufacturing; Software &amp; IT Services; Hardware; Semiconductors; Telecommunication Services; Internet Media &amp; Services  <u>Committee Members:</u>                      Bob Hirth*, Lloyd Kurtz, Verity Chegar</p>	<p><b>Services</b>  <u>Industries:</u>                      Education; Professional &amp; Commercial Services; Hotels &amp; Lodging; Casinos &amp; Gaming; Leisure Facilities; Advertising &amp; Marketing; Media &amp; Entertainment  <u>Committee Members:</u>                      Dan Goelzer*, Jeff Hales, Bob Hirth</p>	<p><b>Infrastructure</b>  <u>Industries:</u>                      Electric Utilities &amp; Power                      Generators; Gas Utilities &amp; Distributors; Water Utilities &amp; Services; Waste Management; Engineering &amp; Construction Services; Home Builders; Real Estate; Real Estate Services  <u>Committee Members:</u>                      Jean Rogers*, Kurt Kuehn, Verity Chegar</p>
<p><b>Extractives &amp; Minerals Processing</b>                      (formerly Non-Renewable Resources)  <u>Industries:</u>                      Oil &amp; Gas - Exploration &amp; Production; Oil &amp; Gas – Midstream; Oil &amp; Gas - Refining &amp; Marketing; Oil &amp; Gas – Services; Coal Operations; Iron &amp; Steel Producers; Metals &amp; Mining; Construction Materials  <u>Committee Members:</u>                      Verity Chegar*, Elizabeth Seeger, Bob Hirth</p>	<p><b>Resource Transformation</b>  <u>Industries:</u>                      Chemicals; Aerospace &amp; Defense; Electrical &amp; Electronic Equipment; Industrial Machinery &amp; Goods; Containers &amp; 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](mailto: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 Health Care sector. Changes may be related to content, including adding, removing, or reframing a topic or adding, removing, or revising a metric. Changes may also be technical in nature, including updates to a metric's scope, definitions, third-party references, or harmonization across SASB's standards and/or with external initiatives. Typographical and other editorial changes have not been included below but can be provided to interested parties or reviewed in the redline Public Comment Standard.

### Guidance Used to Determine Proposed Updates

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

#### Topic-Level Proposed Updates

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

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

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

### Metric-Level Proposed Updates

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

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

### Technical-Protocol Proposed Updates

Proposed updates that relate to the revision of technical protocols are based on the following attributes, designed to enable the technical protocols to serve as the basis for “suitable criteria,” as defined by the PCAOB’s AT Section 101<sup>3</sup> 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.

<sup>3</sup> 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*.



HEALTH CARE SECTOR

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# BIOTECHNOLOGY & PHARMACEUTICALS INDUSTRY

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #HC0101

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

### **Proposed Changes to Provisional Standard - Basis for Conclusion**

# Proposed Update #1-1 – **Industry:** Biotechnology & Pharmaceuticals; **Topic Name:** Drug Safety and Side Effects

## **2017 Technical Agenda Item #1-1 Description**

SASB is evaluating the suitability of the topic name.

## **Summary of Change – Revise Topic Name**

The SASB proposes renaming the provisional topic Drug Safety and Side Effects to Drug Safety.

## **Supporting Rationale**

Drug Safety and Side Effects, the topic name used in the Provisional Standard, may be perceived as being inaccurate, as the associated metrics relate to drug safety, but not side effects. A core objective of the standard is to generate decision-useful information. As established in the *SASB Conceptual Framework*, the decision-usefulness of sustainability information is enhanced when it meets numerous criteria, including fair representation. While the proposed change will not impact the information generated by the standard, the presentation of such information may be enhanced by removing terminology that is not directly related to the topic's four associated disclosure metrics.

## **Benefits**

Improves the SASB standard: The proposed revision improves the fair representation of the standard.

# Proposed Update #1-2 – **Industry:** Biotechnology & Pharmaceuticals; **Topic Name:** Safety of Clinical Trial Participants

## 2017 Technical Agenda Item #1-2 Description

SASB is evaluating a revision of metrics HC0101-09 / HC0102-09<sup>4</sup> to ensure the comparability of the metrics associated with the topic.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0101-09 / HC0102-09 from:

- Description of legal and regulatory fines and settlements associated with clinical trials in World Bank Low-income and Lower middle-income Countries (LICs and LMICs) and UN HDI Medium-High Development Countries (MHDCs) that are not captured by the World Bank’s LIC or LMIC rankings
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Total amount of losses as a result of legal proceedings associated with clinical trials in developing countries

### Adherence to Criteria for Accounting Metrics

The Biotechnology & Pharmaceuticals industry provisional standards include a topic, Safety of Clinical Trial Participants, with three associated metrics intended to capture company performance on managing the risks and opportunities associated with clinical trials, an essential component of the pharmaceutical product approval process. Specifically, provisional metrics HC0101-09 and HC0102-09 describe the amount of legal and regulatory fines and settlements associated with clinical trials conducted in developing countries. The provisional metric description combines both qualitative and quantitative aspects and therefore may be unclear for issuers when preparing disclosures. The proposed change would improve the clarity of the standard and make the metric construction more consistent with the construction of other SASB metrics, where the details of the disclosure methods are included in the technical protocol rather than incorporated into the metric.

### Supporting Analysis

The SASB standards were developed to include sustainability factors that are reasonably likely to have material impacts on companies in a given industry. In the Biotechnology & Pharmaceuticals industries, evidence<sup>5,6</sup> shows that the safety of clinical trial participants is such a factor. The standards also include metrics intended to communicate company performance with respect to the risks and opportunities associated with a given topic. Each metric description

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<sup>4</sup> HC0101-09 / HC0102-09: Description of legal and regulatory fines and settlements associated with clinical trials in World Bank Low-income and Lower middle-income Countries (LICs and LMICs) and UN HDI Medium-High Development Countries (MHDCs) that are not captured by the World Bank’s LIC or LMIC rankings. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>5</sup> Biotechnology Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

<sup>6</sup> Pharmaceuticals Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

provides a headline summary of the information to be disclosed. Each metric is further defined by a technical protocol, which provides guidance on the scope, compilation, and presentation of the data associated with the metric.

The proposed change would improve the quality and clarity of the standard by revising the metric description to provide a headline summary of the information called for by the standard—the “total amount of losses as a result of legal proceedings associated with clinical trials in developing countries.” Information related to the scope, compilation, and presentation of the data, which had been included in the description of the metric in the Provisional Standard, would be moved to the technical protocol. Specifically, the references to the definition of “developing countries,” as well as issuer discussion of the nature of such fines/settlements and subsequent corrective actions taken, would be moved to the technical protocol. The overall scope of the disclosure would remain unchanged, but the revision would clarify the metric, allowing for more comparable and useful disclosure.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors, however, investors have been generally supportive of changes which improve the comparability and clarity of the information produced by the standard.

**Issuers:** The metric revision was not specifically addressed with issuers, however, issuers that provided broad comments agreed that the metric could be clarified.

## **Benefits**

**Improves the SASB standard:** The provisional metric combines both qualitative and quantitative aspects. As a result, the scope of the disclosure may be unclear for issuers and investors. By moving the qualitative aspects to a specific note in the technical protocol, the disclosure guidance will be clearer and the resulting information will be more comparable and useful for investors.

# Proposed Update #1-3 – **Industry:** Biotechnology & Pharmaceuticals; **Topic Name:** Affordability and Fair Pricing

## 2017 Technical Agenda Item #1-3 Description

SASB is evaluating the revision of metrics HC0101-11 / HC0102-11<sup>7</sup> to ensure the usefulness and alignment with current industry practices of the metrics associated with the topic.

## Summary of Change – Revise Metrics

The SASB proposes revising metric HC0101-11 / HC0102-11 from:

- Ratio of weighted average rate of net price increases (for all products) to the annual increase in the U.S. Consumer Price Index

to the following:

- Percent change in a) average list price and b) average net price across U.S. product portfolio compared to previous year
- Percent change in a) list price and b) net price of product with largest increase compared to previous year

## Adherence to Criteria for Accounting Metrics

The current Biotechnology & Pharmaceuticals SASB industry standard includes a topic for Affordability and Fair Pricing with two associated quantitative metrics to measure performance related to drug pricing. Metric HC0101-11 / HC0102-11 currently includes a ratio of weighted average of net price increases for all products compared to the annual increase in the U.S. Consumer Price Index. While this metric captures critical aspects of performance on the issue, its current construction, including a ratio to a specific price index, does not provide a complete view of performance. The revision of the metric to include the percent change in average list price will improve the completeness of the set of disclosures associated with the topic, as the list price is an important aspect of how the risks and opportunities associated with drug affordability and pricing are managed. The removal of the ratio also improves the usefulness of the disclosures by allowing investors to develop their own ratios based on the reported data. Finally, the inclusion of the percent change in both list and net price for the product with the single largest increase will enhance completeness by providing a view of significant increases that may not have been reflected by the average, but may still result in material financial impacts for issuers. In general, the revision of the metric will improve the standard by offering investors a more decision-useful combined set of disclosures.

## Supporting Analysis

Drug pricing has emerged as one of most important sustainability issues in the Biotechnology & Pharmaceuticals industry. In 2016, concerns over pricing practices contributed to an 87 percent decrease in one company's stock price, representing a loss of \$85 billion in market value from its 2015 peak.<sup>8</sup> Further, another company was forced to pay

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<sup>7</sup> HC0101-11 / HC0102-11: Ratio of weighted average rate of net price increases (for all products) to the annual increase in the U.S. Consumer Price Index.

<sup>8</sup> Jared Hopkins, "Valeant's 2016 Has Been All Pain, No Gain Amid Record Stock Drop," Bloomberg Markets, December 16, 2016, accessed August 10, 2017, <https://www.bloomberg.com/news/articles/2016-12-16/valeant-s-2016-has-been-all-pain-no-gain-amid-record-stock-drop>.

\$465 million to settle allegations that it overcharged Medicaid for a drug.<sup>9</sup> These examples demonstrate the reputational and financial risks associated with a business model that is predicated on raising drug prices.

The topic has emerged as a bipartisan political concern in the United States, and legislation has been introduced to address this issue. For example, in May 2017, Senators McCain and Baldwin reintroduced the Fair Accountability and Innovative Research Drug Pricing Act, which would require drug manufacturers to submit a justification 30 days before increasing the price of certain drugs that cost at least \$100 by more than 10 percent in one year or 25 percent over three years to the U.S. Department of Health and Human Services. Additional legislation has been introduced that would allow the government to negotiate the prices of drugs covered by Medicare, allow Americans to import cheaper drugs from outside the U.S., and speed up the approval process for generic drugs.<sup>10</sup>

The issue has also become a focal point for shareholder advocacy. For example, the Interfaith Center on Corporate Responsibility, which represents 300 organizations with over \$200 billion in invested capital, filed a resolution asking pharmaceutical companies to disclose the rates of price increases year-to-year, including the rationale and criteria used for these increases.<sup>11</sup>

As this issue has received increased attention, the role that negotiated discounts play in pharmaceutical pricing has become a focal point for investors and stakeholders. An analysis by Bloomberg of 39 medicines with global sales of more than \$1 billion a year indicated that between 2009 and 2015, 30 had price increases of more than double the rate of inflation even after estimated discounts were factored in. The same study found that 27 of the drugs had discounted prices that rose 25 percent or more in six years, while discounts on the 39 medicines rose from an average of 20 percent in 2009 to 37 percent in 2015.<sup>12</sup>

The inclusion of both the list price and the net price, which includes discounts and rebates, in the revised metric will therefore provide a more complete view of issuer management of this issue, as it allows investors to understand the magnitude of price increases independent of and including rebates and discounts. Further, a metric relating to the single product with the largest price increase will allow investors to understand potential risks associated with the single product increase that may otherwise be obscured by an overall average across the portfolio.

In response to stakeholder concerns over pricing, two companies announced that they would no longer raise individual drug prices by more than 10 percent within a year. Two additional companies released reports on their pricing practices to enhance transparency. A fifth company announced that it would report on pricing practices and limit price increases to the National Health Expenditure growth rate. Although an industry standard describing how pricing information should be reported does not currently exist, both companies that released transparency reports utilize “percent change in a) average list price and b) average net price across U.S. product portfolio compared to previous year” in stand-alone reports on drug pricing. Company use of this metric supports the usefulness of the disclosure when describing performance on the Affordability and Fair Pricing topic.

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<sup>9</sup> Katie Thomas, “Mylan to Settle EpiPen Overpricing Case for \$465 Million,” *The New York Times*, October 7, 2016, accessed August 10, 2017, <https://www.nytimes.com/2016/10/08/business/epipen-mylan-justice-department-settlement.html?mcubz=3>

<sup>10</sup> Katie Thomas, “A Look at Major Drug-Pricing Proposals,” *The New York Times*, May 29, 2017, accessed August 10, 2017, <https://www.nytimes.com/2017/05/29/health/a-look-at-major-drug-pricing-proposals.html?mcubz=3>

<sup>11</sup> Ed Silverman, “Interfaith Investor Coalition Pushes Shareholder Resolutions on Drug Prices,” *STAT*, October 24, 2016, accessed August 10, 2017, <https://www.statnews.com/pharmalot/2016/10/24/interfaith-coalition-drug-prices/>

<sup>12</sup> Robert Langreth, “Decoding Big Pharma’s Secret Drug Pricing Practices,” *Bloomberg*, June 29, 2016, accessed August 10, 2017, <https://www.bloomberg.com/graphics/2016-drug-prices/>

## Stakeholder Consultation

**Investors:** Investors supported revising the existing metric to provide more detail on pricing practices. Investors generally supported disclosures that enable companies to report on price increases at a product level, however, they recognized that companies would be unlikely to provide that information. Investors also noted the importance of capturing information on both list and net prices.

**Issuers:** Based on feedback received prior to consultation, SASB proposed a revision that asked issuers to provide product-level disclosure across a company's portfolio for all products that increased by more than 10 percent. Issuers indicated that they would be unwilling to disclose pricing information on this product level. Issuers indicated that to report on the product level for each product with a 10 percent increase would disclose proprietary information. Issuers suggested that a portfolio level disclosure on change in list and price on an annual basis would be more appropriate. Issuers also agreed that the metric should not be tied to the Consumer Price Index.

## Benefits

**Improves the SASB standard:** The revised metrics improve the quality of the standard by offering investors a more useful and complete set of disclosures related to the topic. First, it provides useful data by eliminating the use of a specific pricing index and rather directly provides changes in drug prices between reporting periods. Second, the addition of a metric that captures the largest price increase in a company's portfolio provides investors with a view of product-specific risks that could be obfuscated by a portfolio-wide disclosure. Finally, adding a component related to "list price" enhances transparency and takes into account the impacts of discounts, rebates, and other pricing effects.

**Improves alignment:** Although few issuers publicly report this information, those that do report the proposed metrics. The proposed changes would therefore improve alignment with existing industry reporting norms.

# Proposed Update #1-4 – **Industry:** Biotechnology & Pharmaceuticals; **Topic Name:** Ethical Marketing

## 2017 Technical Agenda Item #1-4 Description

SASB is evaluating a revision of metrics HC0101-12 / HC0102-12<sup>13</sup> to ensure the comparability of the metrics associated with the topic.

### Summary of Change – Revise Metrics

The SASB proposes revising metric HC0101-12 / HC0102-12 from:

- Description of legal and regulatory fines and settlements associated with false marketing claims, including Federal Food, Drug, and Cosmetic Act violations for off-label marketing prosecuted under the False Claims Act
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Total amount of losses as a result of legal proceedings associated with false marketing claims

### Adherence to Criteria for Accounting Metrics

The Biotechnology & Pharmaceuticals industry provisional standards include a topic, Ethical Marketing, with two associated metrics intended to capture company performance on managing risks and opportunities associated with product marketing, including off-label promotion. Specifically, provisional metrics HC0101-12 and HC0102-12 describe the amount of legal and regulatory fines and settlements associated with false marketing claims. The current metric description combines both qualitative and quantitative aspects and therefore may be unclear for issuers when preparing disclosures. The proposed change would improve the clarity of the standard and make the metric construction more consistent with the construction of other SASB metrics, where the details of the disclosure methods are included in the technical protocol rather than incorporated into the metric.

### Supporting Analysis

SASB standards were developed to include sustainability factors that are reasonably likely to have material impacts on companies in a given industry. In the Biotechnology & Pharmaceuticals industry, evidence<sup>14,15</sup> shows that ethical marketing is such a factor. The standards also include metrics, which are intended to communicate company performance with respect to the risks and opportunities associated with a given topic. Each metric description provides a headline summary of the information to be disclosed. Each metric is further defined by a technical protocol, which provides guidance on the scope, compilation, and presentation of the data associated with the metric.

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<sup>13</sup> HC0101-12 / HC0102-12: Description of legal and regulatory fines and settlements associated with false marketing claims, including Federal Food, Drug, and Cosmetic Act violations for off-label marketing prosecuted under the False Claims Act. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>14</sup> Biotechnology Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

<sup>15</sup> Pharmaceuticals Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

The proposed change would improve the quality and clarity of the standard by revising the metric description to provide a headline summary of the information called for by the standard—the “total amount of losses as a result of legal proceedings associated with false marketing claims.” Information related to the scope, compilation, and presentation of the data, which had been included in the description of the metric in the Provisional Standard, would be moved to the technical protocol. Specifically, the discussion of the nature of such fines/settlements and subsequent corrective actions taken would be moved to the technical protocol. The overall scope of the disclosure would remain unchanged, but the revision would clarify the metric, allowing for more comparable and useful disclosure.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors. However, investors have been generally supportive of changes that improve the clarity of the standard and the comparability of the information produced by the standard.

**Issuers:** This change in metric construction was not specifically addressed with issuers. However, the change is intended to clarify expectations for disclosure.

## **Benefits**

**Improves the SASB standard:** The provisional metric combines both qualitative and quantitative aspects. As a result, the scope of disclosure may be unclear for issuers and investors. By moving the qualitative aspects to a specific note in the technical protocol, the disclosure guidance will be clearer and the resulting information will be more useful and comparable for investors.

# Proposed Update #1-5 – **Industry:** Biotechnology & Pharmaceuticals; **Topic Name:** Corruption and Bribery

## 2017 Technical Agenda Item #1-5 Description

SASB is evaluating a revision of metrics HC0101-27 / HC0102-27<sup>16</sup> to ensure the comparability of the metrics associated with the topic.

## Summary of Change – Revise Metrics

The SASB proposes revising provisional metric HC0101-27 / HC0102-27 from:

- Description of legal and regulatory fines and settlements associated with corruption or bribery, including Foreign Corrupt Practices Act and False Claims Act violations
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Total amount of losses as a result of legal proceedings associated with corruption and bribery

## Adherence to Criteria for Accounting Metrics

The Biotechnology & Pharmaceuticals industry provisional standards include a topic, Corruption and Bribery, with two associated metrics intended to capture company performance on managing risks associated with violations of laws intended to prevent fraud, including payments made for the purpose of obtaining or retaining business. Specifically, provisional metrics HC0101-27 and HC0102-27 describe the amount of legal and regulatory fines and settlements associated with bribery and corruption. The provisional metric description combines both qualitative and quantitative aspects in the same metric and therefore may be unclear for issuers when preparing disclosures. The proposed change would clarify the wording of the metric to enhance the quality and clarity of the standard.

## Supporting Analysis

SASB standards were developed to include sustainability factors that are reasonably likely to have material impacts on companies in a given industry. In the Biotechnology & Pharmaceuticals industry, evidence<sup>17,18</sup> shows that risks related to Corruption and Bribery represent such a factor. The standards also include metrics, which are intended to communicate company performance with respect to the risks and opportunities associated with a given topic. Each metric description provides a headline summary of the information to be disclosed. Each metric is further defined by a technical protocol, which provides guidance on the scope, compilation, and presentation of the data associated with the metric.

The proposed change would improve the quality and clarity of the standard by revising the metric description to provide a headline summary of the information called for by the standard—the “total amount of losses as a result of

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<sup>16</sup> HC0101-27 / HC0102-27 Description of legal and regulatory fines and settlements associated with bribery, corruption, or other unethical business practices, including violations of the Foreign Corrupt Practices Act and those associated with providing kickbacks to physicians. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>17</sup> Biotechnology Research Brief, Sustainability Accounting Standards Board, August 2013, ([www.sasb.org](http://www.sasb.org))

<sup>18</sup> Pharmaceuticals Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

legal proceedings associated with corruption and bribery.” Information related to the scope, compilation, and presentation of the data, which had been included in the description of the metric in the Provisional Standard, would be moved to the technical protocol. Specifically, the discussion of the nature of such fines/settlements and subsequent corrective actions taken would be moved to the technical protocol. The overall scope of the disclosure would remain unchanged, while the proposed change would improve the clarity of the standard and make the metric construction more consistent with the construction of other SASB metrics, where the details of the disclosure methods are included in the technical protocol rather than incorporated into the metric.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors. However, investors have been generally supportive of changes that improve the clarity of the standard and the comparability of the information produced by the standard.

**Issuers:** This change in metric construction was not specifically addressed with issuers. However, the change is intended to clarify expectations for disclosure.

## **Benefits**

**Improves the SASB standard:** The provisional metric combines both qualitative and quantitative aspects. As a result, the scope of the disclosure may be unclear for issuers and investors. By moving the qualitative aspects to a specific note in the technical protocol, the disclosure guidance will be clearer and the resulting information will be more useful and comparable for investors.

# Proposed Update #1-6 – **Industry:** Biotechnology & Pharmaceuticals; **Topic Name:** Activity Metrics

## 2017 Technical Agenda Item #1-6 Description

SASB is evaluating adding activity metrics to the Biotechnology & Pharmaceuticals industry standard.

## Summary of Change – Add Activity Metrics

The SASB proposes adding the following activity metrics to the Biotechnology & Pharmaceuticals industry standard:

- Number of patients treated
- Number of drugs (1) in portfolio and (2) in research and development (Phases 1-3)

## Adherence to Criteria for Accounting Metrics

The Provisional Standard for the Biotechnology & Pharmaceuticals industry does not include activity metrics. Activity metrics are intended to measure the scope of a company's operational performance and provide additional context that is not otherwise apparent in SASB disclosures. The addition of the proposed activity metrics will better accomplish the core objectives of the standard by providing investors with a useful normalization basis for interpretation of the SASB accounting metrics.

## Supporting Analysis

Biotechnology & Pharmaceuticals companies offer a variety of products across numerous therapeutic categories, including internal medicine, vaccines, oncology, inflammation and immunology, and rare diseases. There is increasing pressure from payers, regulators, and stakeholders for companies in the industry to demonstrate the societal value of their products and to distinguish between patient care and revenue. The addition of an activity metric relating to the number of patients treated would allow investors to understand exposure to several topics in the standard, including Access to Medicines and Affordability and Fair Pricing. This metric is tracked by numerous companies for their access programs, suggesting that this data is available and relevant.

There is also concern on the part of investors and stakeholders that companies in the industry are increasingly reliant upon raising prices on a limited portfolio of drugs rather than developing new drugs to increase revenue. For example, a recent analysis by Bloomberg of 39 medicines with global sales of more than \$1 billion, found that between 2009 and 2015, 30 had price increases more than double the rate of inflation during those years.<sup>19</sup> Further, there has been a recent shift to distinguish between companies that engage in research and development and those that do not. In 2017, The Pharmaceutical Research and Manufacturers of America, this industry's largest association, expelled 22 companies after it established new research and development investment requirements.<sup>20</sup> The addition of an activity metric relating to the number of products in the portfolio and in development will allow investors to understand the scope of a company's operations and their exposure to topics raised in the standard, including "Safety of Clinical Trial Participants" and "Drug Safety". Companies typically provide sales figures by medication and a list of drugs in development, however not in any aggregated or consistent format.

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<sup>19</sup> Robert Langreth, "Decoding Big Pharma's Secret Drug Pricing Practices," *Bloomberg*, June 29, 2016, accessed August 10, 2017, <https://www.bloomberg.com/graphics/2016-drug-prices/>.

<sup>20</sup> Eric Palmer, "PhRMA Expels 22 Members with New R&D Rules as it Works to Burnish its Image," *FiercePharma*, May 10, 2017, accessed August 10, 2017, <http://www.fiercepharma.com/pharma/phrma-expels-22-members-new-r-d-rules-as-its-works-to-burnish-its-image>.

## Stakeholder Consultation

Investors: Investors indicated that the activity metrics would be helpful as this information is often presented, but not consistently aggregated in the suggested format.

Issuers: Issuers agreed that the activity metrics would be useful, without comprising information that is believed to be proprietary.

## Benefits

Improves the SASB standard: The addition of activity metrics to the Biotechnology & Pharmaceuticals industry standard will improve the quality of the information generated by the standard by providing investors with operational context to facilitate normalization of the data generated by the standard that is reflective of industry activity levels.

Improves decision-usefulness: The addition of activity metrics will allow investors to analyze SASB disclosures on a relative basis, thereby improving the decision-usefulness of the SASB standard.



HEALTH CARE SECTOR

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# MEDICAL EQUIPMENT & SUPPLIES INDUSTRY

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #HC0201

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

### **Proposed Changes to Provisional Standard - Basis for Conclusion**

# Proposed Update #1-7 – **Industry:** Medical Equipment & Supplies; **Topic Name:** Ethical Marketing

## 2017 Technical Agenda Item #1-7 Description

SASB is evaluating a revision of metric HC0201-04<sup>21</sup> to ensure the comparability of the metrics associated with the topic.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0201-04 from:

- Description of legal and regulatory fines and settlements associated with false marketing claims, including Federal Food, Drug, and Cosmetic Act violations for off-label marketing prosecuted under the False Claims Act
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Total amount of losses as a result of legal proceedings associated with false marketing claims

### Adherence to Criteria for Accounting Metrics

The Medical Equipment & Supplies industry provisional standard includes a topic, Ethical Marketing, with two associated metrics intended to capture company performance on managing risks associated with product marketing, including off-label promotion. Specifically, provisional metric HC0201-04 describes the amount of legal and regulatory fines and settlements associated with false marketing claims. The provisional metric description combines both qualitative and quantitative aspects in the same metric and therefore may be unclear for issuers when preparing disclosures. The proposed change would clarify the wording of the metric to enhance the quality and clarity of the standard.

### Supporting Analysis

SASB standards were developed to include sustainability factors that are reasonably likely to have material impacts on companies in a given industry. In the Medical Equipment & Supplies industry, evidence<sup>22</sup> shows that risks related to ethical marketing represent such a factor. The standards also include metrics, which are intended to communicate company performance with respect to the risks and opportunities associated with a given topic. Each metric description provides a headline summary of the information to be disclosed. Each metric is further defined by a technical protocol, which provides guidance on the scope, compilation, and presentation of the data associated with the metric.

The proposed change would improve the quality and clarity of the standard by revising the metric description to provide a headline summary of the information called for by the standard—the “total amount of losses as a result of

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<sup>21</sup> HC0201-04: Description of legal and regulatory fines and settlements associated with false marketing claims, including Federal Food, Drug, and Cosmetic Act violations for off-label marketing prosecuted under the False Claims Act. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>22</sup> Medical Equipment and Supplies Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

legal proceedings associated with false marketing claims.” Information related to the scope, compilation, and presentation of the data, which had been included in the description of the metric in the Provisional Standard, would be moved to the technical protocol. Specifically, the references to issuer discussion of the nature of such fines/settlements and of subsequent corrective actions taken would be moved to the technical protocol. The overall scope of the disclosure would remain unchanged, but the proposed change would improve the clarity of the standard and make the metric construction more consistent with the construction of other SASB metrics, where the details of the disclosure methods are included in the technical protocol rather than incorporated into the metric.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors. However, investors have been generally supportive of changes that improve the clarity of the standard and the comparability of the information produced by the standard.

**Issuers:** This change in metric construction was not specifically addressed with issuers. However, the change is intended to clarify expectations for disclosure.

## **Benefits**

**Improves the SASB standard:** The provisional metric combines both qualitative and quantitative aspects. As a result, the scope of the disclosure may be unclear for issuers and investors. By moving the qualitative aspects to a specific note in the technical protocol, the disclosure guidance will be clearer and the resulting information will be more useful and comparable for investors.

# Proposed Update #1-8 – **Industry:** Medical Equipment & Supplies; **Topic Name:** Energy, Water, and Waste Efficiency

## 2017 Technical Agenda Item #1-8 Description

SASB is evaluating the removal of the topic, including the corresponding metrics, based on the limited evidence that performance on the topic will significantly impact valuation.

## Summary of Change – Remove Topic

The SASB proposes removing the topic, Energy, Water, and Waste Efficiency, from the Medical Equipment & Supplies industry standard, including its corresponding metrics:

- Total annual energy consumed (gigajoules) and percentage renewable (e.g., wind, biomass, solar)
- Total water withdrawals and percentage from water-stressed regions—High or Extremely High Baseline Water Stress as defined by the Water Risk Atlas; percentage of process water recycled
- Amount of waste (metric tons); percentage that is recycled, incinerated, and landfilled

## Adherence to Principles for Topic Selection

This topic, included in the Provisional Standard, relates to the sustainability impacts of manufacturing medical equipment and supplies, including the financial risks and opportunities associated with the management of energy, water, and waste. The proposal to remove this topic and the three associated quantitative metrics is based on a lack of evidence of current or future financial impact as well as input from issuers and investors suggesting that this issue is not likely to be material. The removal of the topic and the associated metrics will improve the cost-effectiveness of the standard and provide a more fair representation of the topics that are likely to be material to companies in the industry.

## Supporting Analysis

Companies in the Medical Equipment & Supplies industry rely primarily on owned or leased manufacturing facilities. However, research conducted since the Provisional Standards were released suggests that the three aspects of this topic, energy, water, and waste, are unlikely to be material for most companies in the industry.

According to the Energy Information Administration, the “miscellaneous manufacturing” industry, which includes companies participating in the Medical Equipment & Supplies industry as defined by SASB, uses 43 trillion Btu of energy annually in the U.S. compared to a total of 18,817 trillion Btu across all manufacturing industries, or 0.02 percent. The U.S. Census Bureau’s Annual Survey of Manufacturers indicates that, for the Medical Equipment & Supplies Manufacturing industry, purchased fuel and purchased electricity account for 0.33 percent and 1.58 percent of the total cost of materials respectively.<sup>23</sup> Given that the industry’s operating margin of approximately seven percent and the average cost of goods sold is 41 percent of revenue -including labor, material costs, rental and utility costs- sustainability risks or opportunities related to energy access and use is unlikely to be material.

A review of data available from providers such as CDP indicates that the Medical Equipment & Supplies industry is not among the most water-intensive nor does it face a considerably elevated risk from increasing water scarcity. Available

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<sup>23</sup> “Annual Survey of Manufacturers,” U.S. Census Bureau

corporate reporting supports the conclusion that the industry does not face material risks with respect to water use or scarcity.

Data published by the Environmental Protection Agency also indicates that the “miscellaneous manufacturing” industry is not among the top 50 industries with respect to hazardous waste generation.<sup>24</sup> Further, the U.S. Census Bureau’s Annual Survey of Manufacturers suggests that waste removal accounts for 0.46 percent of the total cost of materials for the Medical Equipment & Supplies industry.<sup>25</sup> Given that the industry’s average cost of goods sold is 41 percent of revenue -including labor, material costs, rental and utility costs- risks or opportunities related to waste management are unlikely to be material.

An analysis of disclosures in SEC filings support the conclusion that this topic is not likely to be material. Currently, 50 percent of the top ten companies by market capitalization do not identify any of the angles covered by this topic as material, and an additional 30 percent provide boilerplate disclosure. This level of disclosure is lower than all topics in the provisional Medical Equipment & Supplies industry standard, except one. This indicates that a significant percentage of companies in the industry do not view disclosure related to the topic as appropriate for annual SEC filings.

## Stakeholder Consultation

Investors: Several investors agreed that energy, water, and waste management were not likely to result in material financial impacts.

Issuers: Multiple issuers agreed that energy, water, and waste management were not likely to be material to this industry.

## Benefits

Improves the SASB standard: The removal of the topic and the associated metrics improves the standard based on the lack of sufficient evidence justifying materiality and the limited relevance across the industry. In addition, the proposed revision is reflective of investor and issuer views.

Improves cost-effectiveness: The removal of the topic and the associated metrics will reduce the costs of implementing the standard.

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<sup>24</sup> “Fifty Largest Quantities of Hazardous Waste Generated, by Primary NAICS Code in the U.S., 2011” United States Environmental Protection Agency, modified September 2009, accessed September 7, 2017, [https://rcrainfo.epa.gov/rcrainfo/help/dataentry/report\\_br\\_generation\\_-\\_top\\_fifty\\_quantities\\_by\\_naics.htm](https://rcrainfo.epa.gov/rcrainfo/help/dataentry/report_br_generation_-_top_fifty_quantities_by_naics.htm)

<sup>25</sup> “Annual Survey of Manufacturers,” U.S. Census Bureau

# Proposed Update #1-9– **Industry:** Medical Equipment & Supplies; **Topic Name:** Corruption and Bribery

## 2017 Technical Agenda Item #1-9 Description

SASB is evaluating a revision of metric HC0201-13<sup>26</sup> to ensure the comparability of the metrics associated with the topic.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0201-13 from:

- Description of legal and regulatory fines and settlements associated with corruption or bribery, including Foreign Corrupt Practices Act and False Claims Act violations
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Total amount of losses as a result of legal proceedings associated with bribery and corruption

### Adherence to Criteria for Accounting Metrics

The Medical Equipment & Supplies industry provisional standard includes a topic, Corruption and Bribery, with two associated metrics intended to capture company performance on managing risks associated with violations of laws intended to prevent fraud, including payments made for the purpose of obtaining or retaining business. Specifically, provisional metric HC0201-13 describes the amount of legal and regulatory fines and settlements associated with corruption and bribery. The provisional metric description combines both qualitative and quantitative aspects in the same metric and may therefore be unclear for issuers when preparing disclosures. The proposed change would improve the clarity of the standard and make the metric construction more consistent with the construction of other SASB metrics, where the details of the disclosure methods are included in the technical protocol rather than incorporated into the metric.

### Supporting Analysis

SASB standards were developed to include sustainability factors that are reasonably likely to have material impacts on companies in a given industry. In the Medical Equipment & Supplies industry, evidence<sup>27</sup> shows that corruption and bribery represent such factors. The standards also include metrics, which are intended to communicate company performance with respect to the risks and opportunities associated with a given topic. Each metric description provides a headline summary of the information to be disclosed. Each metric is further defined by a technical protocol, which provides guidance on the scope, compilation, and presentation of the data associated with the metric.

The proposed change would improve the quality and clarity of the standard by revising the metric description to provide a headline summary of the information called for by the standard—the “total amount of losses as a result of

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<sup>26</sup> HC0201-13: Description of legal and regulatory fines and settlements associated with corruption or bribery, including Foreign Corrupt Practices Act and False Claims Act violations. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>27</sup> Medical Equipment and Supplies Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

legal proceedings associated with bribery and corruption.” Information related to the scope, compilation, and presentation of the data, which had been included in the description of the metric in the Provisional Standard, would be moved to the technical protocol. Specifically, the discussion of the nature of such fines/settlements and of subsequent corrective actions taken would be moved to the technical protocol. The overall scope of the disclosure would remain unchanged, but the revision would clarify the metric, allowing for more comparable and useful disclosure.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors. However, investors have been generally supportive of changes that improve the clarity of the standard and the comparability of the information produced by the standard.

**Issuers:** This change in metric construction was not specifically addressed with issuers. However, the change is intended to clarify expectations for disclosure.

## **Benefits**

**Improves the SASB standard:** The provisional metric combines both qualitative and quantitative aspects. As a result, the scope of the disclosure may be unclear for issuers and investors. By moving the qualitative aspects to a specific note in the technical protocol, the disclosure guidance will be clearer and the resulting information will be more useful and comparable for investors.

# Proposed Update #1-10 – **Industry:** Medical Equipment & Supplies; **Topic Name:** Activity Metric

## 2017 Technical Agenda Item #1-10 Description

SASB is evaluating adding activity metrics to the Medical Equipment & Supplies industry standard.

### Summary of Change – Add Activity Metrics

The SASB proposes adding the following activity metric to the Medical Equipment & Supplies industry standard: "Number of units sold by product category."

### Adherence to Criteria for Accounting Metrics

The Provisional Standard for the Medical Equipment & Supplies industry does not include activity metrics. Activity metrics are intended to measure the scope of a company's operational performance and provide additional context that is not otherwise apparent in SASB disclosures. The addition of the proposed activity metric will better accomplish the core objectives of the standard by providing investors with a useful normalization basis for interpretation of the SASB accounting metrics.

### Supporting Analysis

Companies participating in the Medical Equipment & Supplies industry typically disclose revenue by operating segment and product category in their annual SEC filings. For example, one of the industry's largest companies discloses this information by cardiac and vascular group, minimally-invasive therapies group, restorative therapies group, and diabetes group.<sup>28</sup> Another company discloses sales by the following segments: orthopedics, MedSurg, neurotechnology and spine.<sup>29</sup> The company further breaks down reporting within each segment by product category. However, companies do not disclose the number of units sold. Given that companies in this industry are engaged in manufacturing and selling a variety of products, ranging from highly-specialized to disposable, sales information by volume will allow investors to better normalize and understand company management of and performance related to the SASB disclosure topics. For example, a company that sells a higher volume of products that do not require clinical trials are less likely to be exposed to topics related to false marketing and product safety. Sales volumes can also help normalize company activity given that revenue numbers are not necessarily a good proxy for volume given how pricing across the industry's products varies significantly. In general, this activity metric will provide a sense of scale and exposure to different product types. A note will be added to the activity metric to broadly define the product categories.

### Stakeholder Consultation

**Investors:** Investors provided feedback indicating that the proposed activity metric would be helpful when comparing performance on the topics in the SASB standard among companies in this industry. The feedback supported the importance of normalizing performance along product lines due to the dependency of associated risks and opportunities on the type of product manufactured and sold.

**Issuers:** The SASB contacted 11 issuers in the industry during consultation to obtain input on either this proposed change, or other potential revisions to the standard. Briefings on the standard were provided to four of these issuers,

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<sup>28</sup> Medtronic, FY2016 Form 10-K for the Period Ending April 28, 2017 (filed June 27, 2017), p. 40.

<sup>29</sup> Stryker Corp, FY2016 Form 10-K for the Period Ending December 31, 2016 (filed February 9, 2017), p. 1.

and consultative feedback was received from three issuers. The proposed activity metrics reflect comments received from these issuers. The SASB did not include activity metrics in the Provisional Standard, and therefore did not receive comments from issuers during standards development.

## **Benefits**

Improves the SASB standard: The addition of activity metrics to the Medical Equipment & Supplies industry standard will improve the quality of the information generated by the standard by providing investors with operational context. This will facilitate normalization of the data generated by the standard that is reflective of industry activity levels.



HEALTH CARE SECTOR

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# HEALTH CARE DELIVERY INDUSTRY

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #HC0301

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

### **Proposed Changes to Provisional Standard - Basis for Conclusion**

# Proposed Update #1-11 – **Industry:** Health Care Delivery; **Topic Name:** Quality of Care and Patient Satisfaction

## 2017 Technical Agenda Item #1-11 Description

SASB is evaluating a revision of metric HC0301-01<sup>30</sup> to align with current regulation and industry reporting practices.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0301-01 from “Hospital Values Based Purchasing Total Performance score, broken down by Clinical Process Domain score, Outcome Domain score, and Patient Experience Domain score” to “Mean 1) Hospital Value-Based Purchasing Total Performance Score, 2) and Domain score, across all facilities”.

### Adherence to Criteria for Accounting Metrics

The Health Care Delivery industry provisional standard includes a topic, Quality of Care and Patient Satisfaction, with four associated metrics intended to help investors measure the ability of industry companies to provide quality care to their patients. The SASB has incorporated existing metrics, established under the Hospital Value-Based Purchasing Program, to measure performance and the potential for financial impact. The Provisional Standard currently refers to performance scores in three domains: Clinical Process, Outcome, and Patient Experience. However, the Centers for Medicare & Medicaid Services (CMS) has revised the Program by redefining the previous domains as well as adding a fourth. For FY2017, the domains include: Patient and Caregiver-Centered Experience of Care/Care Coordination; Safety; Clinical Care; and Efficiency and Cost Reduction. Although these domains are scheduled to remain the same for FY2018, they could be revised in future years. The proposed revision to the metric would align with current rulemaking as well as accommodate changes to the Program that may occur in the future. The proposed revision will thereby better accomplish the core objectives of the standard by ensuring the alignment of the metric with applicable industry regulations.

### Supporting Analysis

The Hospital Value-Based Purchasing Program went into effect in 2012 as part of the U.S. Affordable Care Act. The program is designed to increase the government’s ability to pay for health care based on the quality of care provided rather than quantity of procedures performed. The system reduces diagnosis-related group payments by two percent to fund an estimated \$1.8 billion in incentive payments. The CMS indicated that in FY2017 more than 1,600 hospitals will receive a positive payment adjustment while roughly 1,300 hospitals will receive a payment reduction. The highest performing hospitals will receive a net increase in payments of more than four percent in FY2017, while the worst performing hospitals will incur a net decrease of two percent.<sup>31</sup> The mean Hospital Value-Based Purchasing Total Performance Score and domain score provide investors with a clear way to measure quality of care as well as a direct linkage to financial performance.

The revision of the metric would ensure that SASB’s standard remains aligned with current as well as potential future CMS rulemaking related to the Hospital Value-Based Purchasing Program. This, in turn, would ensure the continued

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<sup>30</sup> HC0301-01: Hospital Values Based Purchasing Total Performance score, broken down by Clinical Process Domain score, Outcome Domain score, and Patient Experience Domain score.

<sup>31</sup> Elizabeth Whitman, “Fewer Hospitals Earn Medicare Bonuses Under Value-Based Purchasing,” *Modern Healthcare*, November 1, 2016, accessed August 10, 2017, <http://www.modernhealthcare.com/article/20161101/NEWS/161109986>

usefulness of the metric in describing the ability of hospitals to deliver a higher quality of care and to capture incentive payments rather than incurring penalties.

## **Stakeholder Consultation**

Investors: The proposed change was not specifically addressed with investors, however, the rules established by CMS are an industry standard that is incorporated into the SASB standard by reference as a result of prior SASB research into industry best practices and based on industry working group feedback.

Issuers: The proposed change was not specifically addressed with issuers, however, the rules established by CMS are an industry standard that is incorporated into the SASB standard by reference as a result of prior SASB research into industry best practices and based on industry working group feedback.

## **Benefits**

Improves the SASB standard: The proposed revision would ensure the metric is aligned with current CMS rulemaking related to the Hospital Value-Based Purchasing Program. In addition, the revision will accommodate potential changes to the Program and ensure the usefulness of the information generated by the standard.

Improves alignment: The proposed revision will better align the metric with current and potential changes to CMS rulemaking related to the Hospital Value-Based Purchasing Program.

# Proposed Update #1-12 – **Industry:** Health Care Delivery; **Topic Name:** Quality of Care and Patient Satisfaction

## 2017 Technical Agenda Item #1-12 Description

SASB is evaluating a revision of metric HC0301-03<sup>32</sup> to align with current regulation and industry reporting practices.

### Summary of Change – Revise Metric

The SASB proposes revising metric HC0301-03 from “Health care-acquired infections, as defined by the Centers for Disease Control and Prevention’s National Healthcare Safety Network, for: (1) Central Line-associated Bloodstream Infections (CLABSIs); (2) Surgical Site Infections (SSIs); and (3) Catheter-associated Urinary Tract Infections (CAUTIs)” to “Hospital-Acquired Condition (HAC) Score by facility”.

### Adherence to Criteria for Accounting Metrics

The Health Care Delivery industry provisional standard includes a topic, Quality of Care and Patient Satisfaction, with four associated quantitative metrics intended to help investors measure the ability of industry companies to provide quality care to their patients. The SASB has incorporated metrics established under the Hospital-Acquired Condition (HAC) Reduction Program to measure performance and the potential for financial impact. The Provisional Standard refers to a previous version of the program’s rules, which accounts for three types of hospital-acquired infections. The Centers for Medicare & Medicaid Services (CMS) has revised the program to now cover five types of infections and the Patient Safety Indicators 90 Composite.

The proposed change to the metric would align it with current rulemaking as well as accommodate future changes. The proposed revision will thereby better accomplish the core objectives of the standard by ensuring the alignment of the metric with applicable industry regulations.

### Supporting Analysis

The HAC Reduction Program was developed under the U.S. Affordable Care Act to help ensure that the government is paying for high performance rather than high volume. The program ranks the performance of roughly 3,308 hospitals on two domains: patient safety and hospital-acquired infections. Hospitals ranked in the worst performing quartile will lose one percent of their Medicare payments, which is estimated to be \$430 million for FY2017.<sup>33</sup> The HAC Reduction Program provides investors with a clear way to measure quality of care and link it to financial performance.

The revision of the metric would ensure the SASB standard remains aligned with current and future CMS rulemaking related to the HAC Reduction Program. This, in turn, will ensure the continued usefulness of the metric in describing the extent to which hospitals are able to deliver more effective care and avoid reductions in Medicare reimbursements.

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<sup>32</sup> HC0301-03: Health care-acquired infections, as defined by the CDC’s National Healthcare Safety Network, for: (1) Central Line-associated Bloodstream Infections (CLABSIs); (2) Surgical Site Infections (SSIs); (3) Catheter-associated Urinary Tract Infections (CAUTIs).

<sup>33</sup> Morgan Haefner, “769 Hospitals See Medicare Payments Cut Over High HAC Rates: 7 Things to Know,” *Becker’s Hospital Review*, December 22, 2016, accessed August 10, 2017, <http://www.beckershospitalreview.com/quality/769-hospitals-see-medicare-payments-cut-over-high-hac-rates-7-things-to-know.html>.

## Stakeholder Consultation

Investors: The proposed change was not specifically addressed with investors, however, the rules established by CMS are an industry standard that is incorporated into the SASB standard by reference as a result of prior SASB research into industry best practices and based on industry working group feedback.

Issuers: The proposed change was not specifically addressed with issuers, however, the rules established by CMS are an industry standard that is incorporated into the SASB standard by reference as a result of prior SASB research into industry best practices and based on industry working group feedback.

## Benefits

Improves the SASB standard: The proposed revision would ensure the metric is aligned with current CMS rulemaking related to the HAC Reduction Program. In addition, the revision would accommodate potential changes to the Program. This would ensure the quality and usefulness of the information generated by the standard.

Improves alignment: The proposed revision would better align the metric with current and potential changes to CMS rulemaking related to the HAC Reduction Program.

# Proposed Update #1-13 – **Industry:** Health Care Delivery; **Topic Name:** Quality of Care and Patient Satisfaction

## 2017 Technical Agenda Item #1-13 Description

SASB is evaluating a revision of metric HC0301-04<sup>34</sup> to align with current regulation and industry reporting practices.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0301-04 from:

- Excess readmission ratio for pneumonia, acute myocardial infarction, and heart failure, as defined by the CMS Readmissions Payment Adjustment Amount as part of the Hospital Readmissions Reduction Program

to the following:

- Excess readmission ratio per hospital
- Magnitude of readmissions payment adjustment as part of the Hospital Readmissions Reduction Program (HRRP)

### Adherence to Criteria for Accounting Metrics

The Health Care Delivery industry provisional standard includes a topic, Quality of Care and Patient Satisfaction, with four associated quantitative metrics intended to help investors measure the ability of industry companies to provide quality care to their patients. The SASB has incorporated metrics, established under the Hospital Readmission Reduction Program (HRRP), to measure performance and the potential for financial impact. The Provisional Standard refers to readmissions associated with three conditions: pneumonia, acute myocardial infarction, and heart failure. However, the Centers for Medicare & Medicaid Services (CMS) has revised the Program to now cover readmissions for six conditions. The proposed revision to the metric would align it with current rulemaking as well as accommodate changes to the Program that may occur in the future. The proposed revision would thereby better accomplish the core objectives of the standard by ensuring the alignment of the standard with applicable industry regulations.

### Supporting Analysis

The HRRP was established under the U.S. Affordable Care Act to incentivize hospitals to reduce readmissions through reduced Medicare payments to those hospitals with relatively high readmissions rates for patients. In 2013, the Program became a permanent component of Medicare's inpatient hospital payment system. For FY2017, CMS estimates that total penalties across all hospitals in the program will reach \$528 million, compared to \$420 million in FY2016. Further, an estimated 79 percent of hospitals will be penalized, and two percent will receive the maximum penalty of three percent.<sup>35</sup> The HRRP provides investors with a clear way to measure quality of care as well as a direct linkage to financial performance.

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<sup>34</sup> HC0301-04: Excess readmission ratio for pneumonia, acute myocardial infarction, and heart failure, as defined by the Centers for Medicare & Medicaid Services (CMS). Readmissions Payment Adjustment amount as part of the Hospital Readmissions Reduction Program.

<sup>35</sup> Christina Boccuti, "Aiming for Fewer Hospital U-turns: The Medicare Hospital Readmission Reduction Program," *The Henry J. Kaiser Family Foundation*, March 10, 2017, accessed August 10, 2017, <http://www.kff.org/medicare/issue-brief/aiming-for-fewer-hospital-u-turns-the-medicare-hospital-readmission-reduction-program/>.

The proposed change to the metric would ensure that the SASB standard remains aligned with current and potential future CMS rulemaking related to the HRRP. This, in turn, would ensure the continued usefulness of the metric in describing the ability of hospitals to deliver more cost-effective care and to avoid incurring penalties.

## **Stakeholder Consultation**

Investors: The proposed change was not specifically addressed with investors. However, the rules established by CMS are an industry standard that is incorporated into the SASB standard by reference as a result of prior SASB research into industry best practices and based on industry working group feedback.

Issuers: The proposed change was not specifically addressed with issuers. However, the rules established by CMS are an industry standard that is incorporated into the SASB standard by reference as a result of prior SASB research into industry best practices and based on industry working group feedback.

## **Benefits**

Improves the SASB standard: The proposed revision would ensure the existing metric is aligned with current CMS rulemaking related to the HRRP. In addition, the revision will accommodate potential changes to the program. This change will ensure the usefulness of the information generated by the standard.

Improves alignment: The proposed revision would better align the metric with current and potential changes to CMS rulemaking related to the HRRP.

# Proposed Update #1-14 – **Industry:** Health Care Delivery; **Topic Name:** Pricing and Billing Transparency

## 2017 Technical Agenda Item #1-14 Description

SASB is evaluating splitting metric HC0301-10<sup>36</sup> into two distinct metrics.

### Summary of Change – Revise Metric

The SASB proposes revising metric HC0301-10 from:

- Description of how pricing information for services (including inpatient and outpatient) is made publicly available, including the number of the registrant's 25 most common services for which pricing information is publicly available, and the percentage of total services performed (by volume) that these represent

to the following:

- Discussion of how pricing information for services (including inpatient and outpatient) is made publicly available
- Number of the registrant's 25 most common services for which pricing information is publicly available and the percentage of total services performed (by volume) that these represent

### Adherence to Criteria for Accounting Metrics

The Provisional Standard for the Health Care Delivery industry includes a Pricing and Billing Transparency disclosure topic. The two associated metrics are intended to help companies communicate performance to investors with respect to how they disclose pricing information to patients. Specifically, metric HC0301-10 asks for a description of how pricing information is made publicly available as well as the number of the 25 most common services for which pricing information is made available. The current metric description combines both qualitative and quantitative aspects in the same metric and therefore may be unclear for issuers when preparing disclosures. The proposed change will clarify the wording of the metric to enhance the quality and clarity of the standard.

### Supporting Analysis

SASB standards were developed to include topics that are likely to be material to a given industry. In the Health Care Delivery industry, evidence<sup>37</sup> shows that the management of Pricing and Billing Transparency is likely to be material. SASB standards also include metrics that are intended to communicate specific, distinct aspects of company performance with respect to the risks and opportunities associated with a given topic.

The proposed change will improve the quality and clarity of the standard by separating the metric into two distinct metrics with separate technical protocols. Specifically, the qualitative element of the disclosure related to how pricing information is made available will be one metric, while the quantitative element of the disclosure including the number of the 25 most common services for which pricing information is available and the percentage of total

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<sup>36</sup> HC0301-10: Description of how pricing information for services (including inpatient and outpatient) is made publicly available, including the number of the registrant's 25 most common services for which pricing information is publicly available, and the percentage of total services performed (by volume) that these represent.

<sup>37</sup> Health Care Delivery Industry Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

services that this represents will be a separate metric. Overall, the information generated by the standard for investors will remain unchanged.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors. However, investors have been generally supportive of changes that improve the comparability and clarity of the information produced by the standard.

**Issuers:** This change in metric construction phrasing was not specifically addressed with issuers. However, it is intended to clarify expectations for disclosure.

## **Benefits**

**Improves the SASB standard:** The current metric combines both qualitative and quantitative aspects. As a result, the scope of the disclosure may be unclear for issuers and investors. By separating the metric into two distinct qualitative and quantitative metrics, the disclosure guidance will be clear and the resulting information will be more useful and comparable for investors.

**Improves decision-usefulness:** Separating the metrics and associated technical protocols will ensure greater consistency in issuer disclosures, thereby improving the decision-usefulness of the information provided by the standard.

# Proposed Update #1-15 – **Industry:** Health Care Delivery; **Topic Name:** Patient Privacy and Electronic Health Records

## 2017 Technical Agenda Item #1-15 Description

SASB is evaluating a revision of metric HC0301-17<sup>38</sup> to ensure the usefulness of the metrics associated with the topic.

### Summary of Change – Revise Metric

The SASB proposes splitting provisional metric HC0301-17 into three separate metrics, from:

- Description of legal and regulatory fines and settlements associated with Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy and Security Rules violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Discussion of policies and practices to secure customers' protected health information (PHI) records and other personally identifiable information (PII)
- Number of data security breaches, percentage involving (1) only customers' PII and (2) customers' PHI, number of customers affected in each category
- Total amount of losses as a result of legal proceedings associated with data security and privacy

### Adherence to Criteria for Accounting Metrics

The Provisional Standard for the Health Care Delivery industry includes a Patient Privacy and Electronic Health Records disclosure topic. The topic addresses the adoption and use of electronic health records as well as risks associated with data privacy and security. Specifically, metric HC0301-17 asks for qualitative disclosure on legal and regulatory fines associated with HIPAA violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations, and corrective actions implemented. In addition, the metric asks for a quantitative disclosure on the amount of associated fines and settlements. Although the disclosure addresses many of the key aspects of this topic, the combination of qualitative and quantitative aspects into a single metric will not allow for comparable or complete disclosure. Further, the existing metric does not delineate between breaches that result in a loss of PHI, which is protected through HIPAA and HITECH, and PII, which is not always protected. Finally, the existing metric does not provide investors with a sense of the frequency or magnitude of security breaches.

The proposed changes to the metric would ensure that the resulting disclosure is more complete by capturing the scope of breaches with respect to the number of customers affected, while also providing for more comparability by separating the qualitative aspects from the quantitative aspects. The revisions will allow for a more thorough

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<sup>38</sup> HC0301-17: Description of legal and regulatory fines and settlements associated with Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy and Security Rules violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

disclosure on preparedness for cyber threats thereby ensuring a more fair representation of this issue and performance.

## Supporting Analysis

Cybersecurity is a rapidly growing issue for the Health Care Delivery industry. Data breaches in U.S. health care cost the sector \$6.2 billion per year, while 90 percent of U.S. hospitals have reported a breach in the last two years. Estimates suggest that with each data breach, health care organizations lose an average of \$3.7 million in revenue.<sup>39</sup> According to the Ponemon Institute, the health care sector faces the highest cost per compromised record at \$355.<sup>40</sup> A Symantec study suggests that electronic health records sell for \$50 per chart on the black market, compared to \$1 for a stolen credit card or social security number.<sup>41</sup>

In 2016, the number of health care data breaches originated by hackers increased by 320 percent compared to the previous year, with 325 large-scale PHI breaches, compromising over 16 million individual patient records.<sup>42</sup> This growth in health care directed cyber-attacks and the rise in associated costs is the result of several key factors. In recent years, the industry has undergone an increasing digitization of patient health records. However, patient records often have weak or outdated cybersecurity. The Ponemon Institute suggests that 50 percent of health care organizations were without adequate human or financial resources to detect or manage data breaches. The same analysis found that only eight percent assessed the vulnerability of their systems on a quarterly, or more frequent, basis.<sup>43</sup>

A KPMG survey of 223 U.S.-based health care executives, representing organizations with at least \$500 million in revenues, found that 65 percent believed their greatest vulnerability in data security came from external attackers, while only 53 percent of the providers in the group believed that they were ready to defend against a cyber-attack.<sup>44</sup> In addition, CEOs from major hospital groups throughout the country have recently spoken about the importance of this issue and the need to enhance management. For example, the President and CEO of the 14th largest health care system in U.S., recently wrote “there’s no such thing as total security anymore. You must make every effort to strengthen security as much as possible, but operating under the assumption that your organization is completely immune to or protected from a breach is negligent.”<sup>45</sup> The American Hospital Association suggests that “hospitals can prepare and manage such risks by viewing cybersecurity not as a novel issue, but rather by making it part of the hospital’s existing governance, risk management, and business continuity framework”.<sup>46</sup> Despite these risks there is not a standardized way for the industry to report performance and management of cybersecurity to investors.

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<sup>39</sup> Erin Dietsche, “Healthcare Breaches Cost \$6.2B Annually,” *Becker’s Hospital Review*, January 19, 2017, accessed August 10, 2017, <http://www.beckershospitalreview.com/healthcare-information-technology/healthcare-breaches-cost-6-2b-annually.html>

<sup>40</sup> Elizabeth Snell, “Healthcare Data Breach Cost Still Highest Among Industries,” *HealthIT Security*, June 25, 2016, accessed August 10, 2017, <https://healthitsecurity.com/news/healthcare-data-breach-costs-still-highest-among-industries>

<sup>41</sup> “Cybersecurity in Healthcare: Why It’s Not Enough, Why It Can’t Wait,” *Symantec* 2016, accessed August 10, 2017, <https://www.symantec.com/content/dam/symantec/docs/infographics/symantec-healthcare-it-security-risk-management-study-en.pdf>

<sup>42</sup> Elizabeth Snell, “Healthcare Cybersecurity Attacks Rise 320% from 2015 to 2016,” *HealthIT Security*, February 15, 2017, accessed August 10, 2017, <https://healthitsecurity.com/news/healthcare-cybersecurity-attacks-rise-320-from-2015-to-2016>

<sup>43</sup> “Sixth Annual Benchmark Study on Privacy & Security of Healthcare Data,” *Ponemon Institute*, May 2016, accessed August 10, 2017, [https://www.ponemon.org/local/upload/file/Sixth Annual Patient Privacy %26 Data Security Report FINAL 6.pdf](https://www.ponemon.org/local/upload/file/Sixth%20Annual%20Patient%20Privacy%20Data%20Security%20Report%20FINAL%206.pdf)

<sup>44</sup> Greg Bell, “Health Care and Cyber Security,” *KPMG*, September 2015, accessed August 10, 2017, <https://assets.kpmg.com/content/dam/kpmg/pdf/2015/09/cyber-health-care-survey-kpmg-2015.pdf>

<sup>45</sup> Michael Dowling, “The CEO’s Role in Tech and Cybersecurity,” *Becker’s Hospital Review*, January 18, 2017, accessed August 10, 2017, <http://www.beckershospitalreview.com/hospital-management-administration/michael-dowling-the-ceo-s-role-in-tech-and-cybersecurity.html>

<sup>46</sup> “Cybersecurity,” *American Hospital Association*, accessed August 10, 2017, <http://www.aha.org/advocacy-issues/cybersecurity/cybersecurity.shtml>

The risk for the industry is heightened by the fact that there are strict national standards for the protection of certain health information as established by the HIPAA Privacy Rule. In addition to establishing standards and procedures, the rule provides the Department of Health and Human Services the enforcement authority through monetary penalties. For example, in August 2016, an Illinois-based health system agreed to pay \$5.5 million to settle HIPAA violation claims. The claims arose from three different data breach reports in which the PHI of 4 million individuals, including names, demographic information, addresses, credit card numbers, dates of birth, clinical information, and health insurance information were compromised.<sup>47</sup>

The SASB Provisional Standard currently includes a single metric that combines qualitative and quantitative aspects into a single disclosure. The SASB standard would be enhanced by splitting this disclosure into three distinct metrics. The separation of the quantitative and qualitative aspects of the provisional metric will ensure that the resulting disclosure is more comparable. Further, the number of breaches and customers affected will allow investors to have a more complete understanding of the scope of the breaches and alleviate confusion as to whether a breach is a single event or a single record lost. Finally, the discussion metric will provide issuers with more clear guidance on the types of disclosure that are expected for ongoing preparedness for cyber threats, thereby ensuring a more fair representation of this issue and performance.

## Stakeholder Consultation

Investors: Multiple investors agreed that this issue deserves increased attention across multiple sectors and industries.

Issuers: The SASB contacted 10 issuers in the industry during consultation to obtain input on either this proposed change, or other potential revisions to the standard. Briefings on the standard were provided to two of these issuers, however, consultative feedback was not received. Issuer input obtained during the development of the Provisional Standard generally supported the materiality of information related to the Patient Privacy and Electronic Health Records topic and metrics.

## Benefits

Improves the SASB standard: The current provisional standard metric combines quantitative and qualitative aspects, and does not allow for a clear representation of the scope of security breaches. The proposed revision would separate the quantitative and qualitative aspects to ensure that the resulting disclosure is more representative and comparable. Further, by including the number of breaches and the number of customers affected, rather than just fines and settlements, the proposed revision will yield a more complete disclosure on the scope of the breaches.

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<sup>47</sup> Erica Teichert, "Advocate Health to Pay Largest HIPAA Settlement," *Modern Healthcare*, August 4, 2016, accessed August 10, 2017, <http://www.modernhealthcare.com/article/20160804/NEWS/160809941>

# Proposed Update #1-16 – **Industry:** Health Care Delivery; **Topic Name:** Employee Health and Safety

## 2017 Technical Agenda Item #1-16 Description

SASB is evaluating the addition of the disclosure topic, including corresponding metrics, due to its potential to affect corporate value.

## Summary of Change – Add Topic and Metric

The SASB proposes adding the disclosure topic Employee Health and Safety to the standard, along with the following, corresponding metric:

- (1) Total recordable case rate and (2) days away from work case rate

## Description of Topic

The Health Care Delivery industry is heavily dependent on a skilled workforce and employees are routinely exposed to injury, illness, and infection during their regular duties. Relative to other industries, Health Care Delivery has one of the highest rates of injury and illness. These risks result from continuous exposure to sick patients and physical demands associated with caring for patients. Although injury and illness are inherent risks for this industry, companies that manage this issue more effectively can reduce costs associated with workers' compensation, productivity, morale, and employee retention. Companies can mitigate risks by implementing proactive health and safety management protocols, developing training requirements for employees, and conducting regular audits of their own practices.

## Evidence

An October 2016 report by the U.S. Bureau of Labor Statistics, the U.S. Department of Labor found that the 'Health Care and Social Assistance' industry, as defined by the Bureau of Labor Statistics, had the highest number of injuries and second highest number of illnesses in absolute terms compared to 18 other industries. The same report found that the industry ranked third in rate of nonfatal occupational injuries and illnesses, and fourth with respect to days away from work case rate.<sup>48</sup>

A 2013 report by the Occupational Safety and Health Administration (OSHA) indicated that hospitals are one of the most hazardous places to work. The report, based on 2011 statistics, found that the injury and illness rate in hospitals is nearly double the rate in private industry, and more than the construction and manufacturing industries.<sup>49</sup> Although hospitals have improved performance over time, their rate of improvement has been slower than other industries. The report concludes that hospitals face direct costs associated with workers' compensation costs, but also hidden costs due to the impact on productivity, morale, and employee retention.

These statistics indicate that the Health Care Delivery industry faces above average employee health and safety risks. Given widely recognized shortages and the high fixed costs associated with employees in the Health Care Delivery industry, this issue is likely to be a material risk. Companies that implement strong management programs and policies can reduce the risk of injury and illness, and the associated costs. A review of earnings call transcripts and 10-Ks from

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<sup>48</sup> "Nonfatal Occupational Injuries and Illnesses Requiring Days Away from Work, 2015," *Bureau of Labor Statistics*, November 10, 2016, accessed August 10, 2017, <https://www.bls.gov/news.release/pdf/osh2.pdf>.

<sup>49</sup> "Employer-Reported Workplace Injuries and Illnesses – 2013," *Bureau of Labor Statistics*, December 4, 2014, accessed August 10, 2017, [https://www.bls.gov/news.release/archives/osh\\_12042014.pdf](https://www.bls.gov/news.release/archives/osh_12042014.pdf).

several of the largest Health Care Delivery companies found that firms do not currently report any information on this topic.

## **Stakeholder Consultation**

**Investors:** Investors noted that the Health Care Delivery industry has high rates of injury and illness relative to other industries, and that the topic should be considered for addition to the standard.

**Issuers:** This issue was not discussed with issuers.

**Others:** Several third-party experts pointed to the risk and high rates of injury and illness in this industry.

## **Benefits**

**Improves the SASB standard:** The addition of this disclosure topic will improve the materiality of the information generated by the industry standard by including information related to the management of employee health and safety.

**Improves alignment:** The proposed metric aligns with those used by the U.S. Bureau of Labor Statistics, the U.S. Department of Labor, and the Occupational Safety and Health Administration.

# Proposed Update #1-17 – **Industry:** Health Care Delivery; **Topic Name:** Management of Controlled Substances

## 2017 Technical Agenda Item #1-17 Description

SASB is evaluating the addition of the topic, including corresponding metrics, due to its potential to impact value creation and the role that the industry can play in addressing the opioid epidemic.

## Summary of Change – Add Topic and Metrics

The SASB proposes adding the disclosure topic Management of Controlled Substances to the Health Care Delivery industry standard, along with the following corresponding metrics:

- Discussion of policies and practices to reduce the number of prescriptions issued for controlled substances
- Percentage of controlled substance prescriptions written for which a prescription drug monitoring program (PDMP) database was queried

## Description of Topic

The Health Care Delivery industry is in a unique position with respect to the nation’s evolving opioid epidemic. As one of the largest prescribers of opioids, the industry has contributed to an increase in the use of these substances and subsequently to a rise in addiction levels. As the providers of care, the industry also treats individuals who are suffering from addiction and related health concerns. Although Health Care Delivery companies do not typically face direct costs associated with the prescription of opioids, they face significant costs in addressing the health care needs of those suffering from addiction. Companies can address the issue by evaluating their approach to pain management and addressing the number of prescriptions issued. This can be achieved through the development of new policies, training, and oversight.

## Evidence

In the mid-1990s there was a shift in how physicians treated pain and how patients viewed the issue. As a result, the number of opioid prescriptions supplied by retail pharmacies increased from 76 million in 1991 to 219 million in 2011.<sup>50</sup> In 2015, one in three Medicare beneficiaries and one in four Medicaid beneficiaries received at least one prescription for an opioid painkiller.<sup>51, 52</sup> The same year, nearly two-thirds of the 52,000 drug overdoses in the U.S. were attributed to opioids, including prescription painkillers. Hospitals are the third largest issuers of opioid prescriptions.<sup>53</sup>

The increase in use of prescription opioids has led to considerable growth in the number of hospitalizations associated with the use of and dependence on opioids. In 2002 there were roughly 302,000 such hospitalizations and in 2014

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<sup>50</sup> Dan Nolan, “How Bad is the Opioid Epidemic?,” *PBS Frontline*, February 23, 2016, accessed August 10, 2017, <http://www.pbs.org/wgbh/frontline/article/how-bad-is-the-opioid-epidemic/>.

<sup>51</sup> Lenny Bernstein, “Half a Million Medicare Recipients Were Prescribed Too Many Opioids Last Year,” *The Chicago Tribune*, July 14, 2017, accessed August 10, 2017, <http://www.chicagotribune.com/lifestyles/health/ct-medicare-recipients-opioids-20170714-story.html>.

<sup>52</sup> Michelle Cortez, “Opioids Given to Almost 1 in 4 Medicaid Patients, Study Finds,” *Bloomberg*, June 21, 2017, accessed August 10, 2017, <https://www.bloomberg.com/news/articles/2017-06-21/opioids-given-to-almost-1-in-4-medicare-patients-study-finds>.

<sup>53</sup> “America’s Opioid Epidemic is Worsening,” *The Economist*, March 6, 2017, accessed August 10, 2017, <https://www.economist.com/blogs/graphicdetail/2017/03/daily-chart-3>.

there were 1.27 million—a 13 percent compounded annual growth rate.<sup>54</sup> In 2012, hospitals charged almost \$15 billion for opioid-related inpatient care. In the same year, costs for an average hospital stay for an opioid abuse patient were \$28,000 with an average of 20 percent covered by insurance. The number rose to \$107,000 when there was an associated infection, with insurance covering 14 percent.<sup>55</sup> Given that a majority of opioid patients are on Medicaid, this can present a direct financial impact for the Health Care Delivery industry through an increase in uncompensated care.

The high rate of addiction for those taking opioids for pain (8-12 percent) has prompted efforts by numerous stakeholders, including federal and state legislators, government agencies, the American Hospital Association, the American Medical Association, and individual health systems to reduce the number of opioid prescriptions.<sup>56</sup> Actions taken by the Health Care Delivery industry typically focus on physician and patient education, addiction treatment, prescription drug monitoring programs, alternatives to opioids, and protecting against opioid prescription diversion. Companies that manage this issue effectively will be able to reduce the potential for dependency and addiction and limit the costs associated with opioid-related inpatient care.

A review of 10-Ks from five of the largest Health Care Delivery companies found that these firms do not currently report on this topic. However, disclosure on how companies are implementing aspects of the recommendations made by industry groups and government agencies will provide investors with a better understanding of how they are minimizing their role in the epidemic and limiting the potential for future costs associated with treatment.

## Stakeholder Consultation

Investors: This issue was not discussed with investors.

Issuers: This issue was not discussed with issuers.

## Benefits

Improves the SASB standard: The addition of this disclosure topic will improve the materiality of the information generated by the industry standard by including information related to the management of controlled substances.

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<sup>54</sup> Joel Achenbach, "In Just One Year, Nearly 1.3 Million Americans Needed Hospital Care for Opioid-Related Issues," *The Washington Post*, June 20, 2017, accessed August 10, 2017, [https://www.washingtonpost.com/news/to-your-health/wp/2017/06/20/in-just-one-year-nearly-1-3-million-americans-needed-hospital-care-for-opioid-related-issues/?utm\\_term=.416d4ac16bf1](https://www.washingtonpost.com/news/to-your-health/wp/2017/06/20/in-just-one-year-nearly-1-3-million-americans-needed-hospital-care-for-opioid-related-issues/?utm_term=.416d4ac16bf1).

<sup>55</sup> Marty Stempniak, "Opioids Add to a Sharp Rise in Hospitalizations, Costs," *Hospitals and Health Networks*, May 15, 2016, accessed August 10, 2017, <http://www.hhnmag.com/articles/7231-opioids-contribute-to-a-sharp-rise-in-hospitalizations-health-care-costs>.

<sup>56</sup> Maia Szalavitz, "Opioid Addiction Is a Huge Problem, but Pain Prescriptions Are Not the Cause," *Scientific American*, May 10, 2016, accessed August 10, 2017, <https://blogs.scientificamerican.com/mind-guest-blog/opioid-addiction-is-a-huge-problem-but-pain-prescriptions-are-not-the-cause/>.

# Proposed Update #1-18 – **Industry:** Health Care Delivery; **Topic Name:** Climate Change Impacts on Human Health and Infrastructure

## 2017 Technical Agenda Item #1-18 Description

SASB is evaluating a revision of metric HC0301-14<sup>57</sup> to ensure the usefulness of the metrics associated with the topic.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0301-14 from:

- Description of the strategy to address the effects of climate change on business operations, physical infrastructure, and facility design
- Discussion of specific risks (such as physical risks) presented by changes in the frequency and intensity of extreme weather events and changes to the morbidity and mortality of illnesses and diseases

to the following:

- Discussion of policies and practices to address changes in (1) the frequency and intensity of extreme weather events, and (2) the morbidity and mortality rates of illnesses and diseases, associated with climate change

And SASB proposes adding a new metric as well:

- Percentage of health care facilities that comply with CMS's Emergency Preparedness Rule

### Adherence to Criteria for Accounting Metrics

The Provisional Standard for the Health Care Delivery industry includes a Climate Change Impacts on Human Health and Infrastructure disclosure topic. The associated qualitative metric is intended to help investors analyze how companies in the industry are addressing the physical and health risks associated with climate change. Although the technical protocol provides guidance on key elements of the expected disclosure, the current metric may result in disclosures that are incomplete or not comparable. The revision of the qualitative discussion to increase specificity as well as the addition of a quantitative metric will ensure that the resulting disclosure is more complete and comparable.

Further, the addition of a quantitative metric will enhance alignment, as all health care facilities participating in Medicaid and Medicare programs are required to comply with the Centers for Medicare & Medicaid Services' (CMS') newly established Emergency Preparedness Rule by November 2017. The rule therefore captures the majority of the facilities owned and operated by companies in this industry. These improvements will better accomplish the core objectives of the standards by offering investors a more decision-useful set of disclosures related to the topic.

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<sup>57</sup> HC0301-14: Description of the strategy to address the effects of climate change on business operations, physical infrastructure, and facility design. Discussion of specific risks (such as physical risks) presented by changes in the frequency and intensity of extreme weather events and changes to the morbidity and mortality of illnesses and diseases.

## Supporting Analysis

Extreme weather events are predicted to increase in both frequency and intensity as a result of climate change. Recent examples, including Hurricane Sandy, which caused \$3.1 billion in damages to health care facilities in New York, demonstrate the financial impact and operational disruptions that the physical risks associated with climate change can present.<sup>58</sup> For example, 300 patients, including 20 babies in neonatal intensive care had to be evacuated from one of New York City's hospitals after a backup generator located in the hospital's basement failed. Another New York City hospital remained closed for more than 10 weeks after the storm due to extensive damage.<sup>59</sup> Although different companies will face different risks depending in part on the physical location of their facilities and the patients they serve, there is a clear need for investors to understand how the physical risks associated with climate change are being managed.

Climate change is also expected to lead to an increase in the morbidity and mortality rates of certain illnesses and disease. A 2011 study found that the direct health care costs of six climate change related events were \$740 million, representing more than 760,000 encounters with the health care system.<sup>60</sup> Further, the World Health Organization states that between 2030 and 2050, climate change is expected to cause approximately 250,000 additional deaths per year from malnutrition, malaria, diarrhea, and health stress, resulting in billions of dollars in direct damage to health.<sup>61</sup>

The Health Care Delivery industry recognizes the potential for financial impact associated with the impacts of climate change. Currently, 100 percent of the top 10 companies address climate change in their annual SEC filings, however, this disclosure is largely boilerplate. The revised qualitative metric will encourage a more complete discussion of both the physical and health risks associated with climate change. Specifically, it will clarify the key aspects of the disclosure and move supporting language to the technical protocol.

The proposed quantitative metric will align with how companies in the industry measure and manage their preparedness. Specifically, it will allow investors to understand the percentage of an issuer's facilities that comply with the CMS' Emergency Preparedness Rule. The Rule, which covers the vast majority of health care facilities, requires health care providers to establish preparedness plans for risks, including flooding, loss of power, and care-related emergencies. These plans will be incorporated into each facility's certification process. The resulting disclosure will be more comparable and complete as the CMS Rule covers the key aspects of climate-related risks, including hurricanes, severe weather, flooding, and wild fires.

## Stakeholder Consultation

Investors: The metric revision was not discussed with investors.

Issuers: The metric revision was not discussed with issuers.

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<sup>58</sup> "Hurricane Sandy Costs New York \$3.1B in Healthcare Damages," *Fierce Healthcare*, November 29, 2012, accessed August 10, 2017, <http://www.fiercehealthcare.com/healthcare/hurricane-sandy-costs-new-york-3-1b-healthcare-damages>

<sup>59</sup> Kyle Tafuri, "Climate Change Puts Healthcare in Harm's Way," *Becker's Hospital Review*, June 19, 2017, accessed August 10, 2017, <http://www.beckershospitalreview.com/population-health/climate-change-puts-healthcare-in-harm-s-way.html>

<sup>60</sup> Kim Knowlton, "Six Climate Change-Related Events in the United States Accounted for About \$14 Billion in Lost Lives and Health Costs," *Health Affairs*, November 2011, accessed August 10, 2017, <http://content.healthaffairs.org/content/30/11/2167.full>

<sup>61</sup> "Climate Change and Health," *World Health Organization*, July, 2017, accessed August 10, 2017, <http://www.who.int/mediacentre/factsheets/fs266/en/>

## Benefits

Improves the SASB standard: The current metric as it was written for the Provisional Standard combines several different aspects and could yield non-standardized disclosure. The revision, including the addition of a quantitative metric, will ensure that the resulting disclosure is more comparable and complete.

Improves alignment: The addition of a quantitative metric related to the percentage of facilities that are in compliance with CMS's Emergency Preparedness Rule will ensure that the SASB Standard better aligns with existing regulatory requirements related to the physical risk climate change poses to the Health Care Delivery industry.

# Proposed Update #1-19 – **Industry:** Health Care Delivery; **Topic Name:** Activity Metrics

## **2017 Technical Agenda Item #1-19 Description**

SASB is evaluating adding activity metrics to the Health Care Delivery industry standard.

## **Summary of Change – Add Activity Metrics**

The SASB proposes adding the following activity metrics to the Health Care Delivery industry standard:

- Number of (1) facilities and (2) beds; by type, including general acute care, psychiatric, rehabilitation, and outpatient
- Number of (1) inpatient admissions and (2) outpatient visits

## **Adherence to Criteria for Accounting Metrics**

The Provisional Standard for the Health Care Delivery industry does not include activity metrics. Activity metrics are intended to measure the scope of a company's operational performance and provide additional context that is not otherwise apparent in SASB disclosures. The addition of the proposed activity metrics will better accomplish the core objectives of the standard by providing investors with a useful normalization basis for interpretation of the SASB accounting metrics.

## **Supporting Analysis**

Health Care Delivery companies typically disclose the number of facilities they own and operate, and the total number of licensed beds. However, there is not a consistent approach to providing the number of facilities and licensed beds at each facility by type. The inclusion of this data per the proposed activity metric will allow investors to normalize the SASB disclosures, which would facilitate better understanding of associated sustainability risks and opportunities. For example, a firm that operates rehabilitation facilities is likely to have a different risk profile with respect to performance on the Quality of Care and Patient Satisfaction and Energy and Waste Efficiency topics. The proposed metrics align with the general categories that companies currently use to report on facilities and beds.

Health Care Delivery revenues are largely driven by the volume of patients served. The nature of a hospital's business, as well as its exposure to risks and opportunities related to topics including Quality of Care and Patient Satisfaction, is directly impacted by the type of patients it serves and procedures it performs. To communicate this at a high level, reporting the number of inpatient admissions and outpatient visits will help contextualize disclosure on these sustainability topics in a representative and useful way for investors. The Health Care Delivery industry is dominated by four companies providing traditional hospital services. Each of these companies discloses data on inpatient admissions in their annual SEC filings, but each uses Equivalent Admissions as an estimate for the total number of combined inpatient admissions and outpatient visits. Equivalent Admissions is typically calculated by multiplying admissions (inpatient volume) by the sum of gross inpatient revenue and gross outpatient revenue and then dividing the resulting amount by gross inpatient revenue. The equivalent admissions computation "equates" outpatient revenue to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume. Although it is not filed in annual SEC Filings, the total number of outpatient visits is frequently referenced by companies in investor presentations, suggesting that this data is tracked by companies and of interest to investors. By ensuring that the number of inpatient admissions and outpatient visits are disclosed in SEC filings,

investors will have a consistent way of normalizing performance on SASB disclosures to an appropriate indicator of a company's overall activity levels.

## **Stakeholder Consultation**

**Investors:** Investors provided feedback that indicated that the proposed activity metrics would be useful when analyzing company performance on the topics in the SASB standard.

**Issuers:** The SASB contacted 10 issuers in the industry during consultation to obtain input on either this proposed change, or other potential revisions to the standard. Briefings on the standard were provided to two of these issuers, however consultative feedback was not received. The SASB did not include activity metrics in the Provisional Standard, and therefore did not receive comments from issuers during standards development.

## **Benefits**

**Improves the SASB standard:** The addition of activity metrics to the Health Care Delivery industry standard will improve the quality of the information generated by the standard by providing investors with operational context to facilitate normalization of the data generated by the standard that is reflective of industry activity levels.

**Improves decision-usefulness:** The addition of activity metrics will allow investors to analyze SASB disclosures on a relative basis, thereby improving the decision-usefulness of the SASB standard.



HEALTH CARE SECTOR

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# HEALTH CARE DISTRIBUTORS INDUSTRY

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #HC0302

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

### **Proposed Changes to Provisional Standard - Basis for Conclusion**

# Proposed Update #1-20 – **Industry:** Health Care Distributors; **Topic Name:** Corruption and Bribery

## 2017 Technical Agenda Item #1-20 Description

SASB is evaluating a revision of metric HC0302-11<sup>62</sup> to ensure the comparability of the metrics associated with the topic.

### Summary of Change – Revise Metric

The SASB proposes revising provisional metric HC0302-11 from:

- Description of legal and regulatory fines and settlements associated with corruption or bribery, including Foreign Corrupt Practices Act and False Claims Act violations
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events

to the following:

- Total amount of losses as a result of legal proceedings associated with bribery, corruption, or other unethical business practices

### Adherence to Criteria for Accounting Metrics

The Health Care Distributors industry provisional standard includes a topic, Corruption and Bribery, with two associated metrics intended to capture company performance on managing the risks associated with violations of laws intended to prevent fraud, including payments made for the purpose of obtaining or retaining business. Specifically, provisional metric HC0302-11 describes the amount of legal and regulatory fines and settlements associated with corruption and bribery. The provisional metric description combines both qualitative and quantitative aspects and therefore may be unclear for issuers when preparing disclosures. The proposed change would improve the clarity of the standard and make the metric construction more consistent with the construction of other SASB metrics, where the details of the disclosure methods are included in the technical protocol rather than incorporated into the metric.

### Supporting Analysis

The SASB standards were developed to include sustainability factors that are reasonably likely to have material impacts on companies in a given industry. In the Health Care Distributors industry, evidence<sup>63</sup> shows that corruption and bribery represent such factors. The standards also include metrics, which are intended to communicate company performance with respect to the risks and opportunities associated with a given topic. Each metric description provides a headline summary of the information to be disclosed. Each metric is further defined by a technical protocol, which provides guidance on the scope, compilation, and presentation of the data associated with the metric.

The proposed change will improve the quality and clarity of the standard by revising the metric description to provide a headline summary of the information called for by the standard—the “total amount of losses as a result of legal

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<sup>62</sup> HC0302-11: Description of legal and regulatory fines and settlements associated with corruption or bribery, including Foreign Corrupt Practices Act and False Claims Act violations. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>63</sup> Health Care Distributors Research Brief, Sustainability Accounting Standards Board, August 2013 ([www.sasb.org](http://www.sasb.org))

proceedings associated with bribery, corruption, or other unethical business practices.” Information related to the scope, compilation, and presentation of the data, which had been included in the description of the metric in the Provisional Standard, would be moved to the technical protocol. Specifically, the discussion of the nature of such fines/settlements and of subsequent corrective actions taken would be moved to the technical protocol. The overall scope of the disclosure would remain unchanged, but the revision would clarify the metric, allowing for more comparable and useful disclosure.

## **Stakeholder Consultation**

**Investors:** The change in metric construction was not specifically addressed with investors. However, investors have been generally supportive of changes that improve the clarity of the standard and the comparability of the information produced by the standard.

**Issuers:** This change in metric construction was phrasing was not specifically addressed with issuers. However, the change is intended to clarify expectations for disclosure.

## **Benefits**

**Improves the SASB standard:** The provisional metric combines both qualitative and quantitative aspects. As a result, the scope of the disclosure may be unclear for issuers and investors. By moving the qualitative aspects to a specific note in the technical protocol, the disclosure guidance will be clearer and the resulting information will be more useful and comparable for investors.

# Proposed Update #1-21 – **Industry:** Health Care Distributors; **Topic Name:** Activity Metrics

## **2017 Technical Agenda Item #1-21 Description**

SASB is evaluating adding activity metrics to the Health Care Distributors industry standard.

### **Summary of Change – Add Activity Metrics**

The SASB proposes adding the following activity metrics to the Health Care Distributors industry standard:

- Number of pharmaceutical units sold by product category
- Number of medical devices sold by product category

### **Adherence to Criteria for Accounting Metrics**

The Provisional Standard for the Health Care Distributors industry does not include activity metrics. Activity metrics are intended to measure the scope of a company's operational performance and provide additional context that is not otherwise apparent in SASB disclosures. The addition of the proposed activity metrics will better accomplish the core objectives of the standard by providing investors with a useful normalization basis for interpretation of the SASB accounting metrics.

### **Supporting Analysis**

Health Care Distributors typically disclose revenue by operating segment in their annual SEC filings. For example, one of the industry's largest companies provides this information for the following segments: North American Pharmaceutical Distribution and Services, International Pharmaceutical Distribution and Services, and Medical-Surgical Distribution and Services.<sup>64</sup> However, companies do not disclose the number of units sold. Given that companies in this industry are engaged in distributing and selling a variety of products, ranging from highly specialized to disposable, sales information by volume will allow investors to better normalize and understand company management of and performance related to the SASB disclosure topics. For example, a company that sells higher volumes of products that are susceptible to counterfeiting is more likely to be exposed to the Counterfeit Drugs topic. Sales volume can also help normalize company activity given that revenue numbers are not necessarily a good proxy for volume given how pricing across the industry's products varies significantly. In general, this activity metric will provide a sense of scale and exposure to different product types. A note will be added to the activity metric to broadly define the product categories.

### **Stakeholder Consultation**

Investors: SASB did not get feedback on the activity metrics.

Issuers: The SASB contacted 5 issuers in the industry during consultation to obtain input on either this proposed change, or other potential revisions to the standard. Briefings on the standard were provided to two of these issuers, however, consultative feedback was not received. The SASB did not include activity metrics in the Provisional Standard, and therefore did not receive comments from issuers during standards development.

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<sup>64</sup> McKesson, FY2016 Form 10-K for the Period Ending March 31, 2017 (filed May 22, 2017), p. 34.

## Benefits

Improves the SASB standard: The addition of activity metrics to the Health Care Distributors industry standard will improve the quality of the information generated by the standard by providing investors with operational context to facilitate normalization of the data generated by the standard that is reflective of industry activity levels.

Improves decision-usefulness: The addition of activity metrics will allow investors to analyze SASB disclosures on a relative basis, thereby improving the decision-usefulness of the SASB standard.



HEALTH CARE SECTOR

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# MANAGED CARE INDUSTRY

## Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #HC0303

Prepared by the  
Sustainability Accounting Standards Board®

October 2017

### **Proposed Changes to Provisional Standard - Basis for Conclusion**

# Proposed Update #1-22 – **Industry:** Managed Care; **Topic Name:** Customer Privacy and Technology Standards

## 2017 Technical Agenda Item #1-22 Description

SASB is evaluating a revision of metric HC0303-13<sup>65</sup> and HC0303-14<sup>66</sup> to ensure the usefulness of the metrics associated with the topic.

## Summary of Change – Revise Metrics

The SASB proposes revising metrics HC0303-13 and HC0303-14 from:

- Description of legal and regulatory fines and settlements related to HIPAA violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations
- Dollar amount of fines and settlements and a description of corrective actions implemented in response to events
- Discussion of implementation of technology and management standards to maintain security, privacy, and availability of customer data. Number of breaches of customer data security, including the number of HIPAA-mandated breach notifications

to the following, respectively:

- Discussion of policies and practices to secure customers' protected health information (PHI) records and other personally identifiable information (PII)
- Number of data security breaches, percentage involving (1) only customers' PII and (2) customers' PHI, and number of customers affected in each category
- Total amount of losses as a result of legal proceedings associated with data security and privacy

## Adherence to Criteria for Accounting Metrics

The Provisional Standard for the Managed Care industry includes a Customer Privacy and Technology Standards disclosure topic. The two associated metrics focus on company policies and practices related to the management of risks associated with cyber breaches, the number of breaches that have occurred, and the amount of legal and regulatory fines paid as a result of HIPAA violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations.

The proposed revision will improve the quality of the standard in three ways: First, the current metric descriptions combine both qualitative and quantitative aspects into the same metric and therefore may be unclear for issuers when preparing disclosures. The proposed revision will separate these elements. Second, the existing metric does not

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<sup>65</sup> HC0303-13: Description of legal and regulatory fines and settlements related to Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy and Security Rules violations or The Health Information Technology for Economic and Clinical Health (HITECH) Act violations. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.

<sup>66</sup> HC0303-14: Discussion of implementation of technology and management standards to maintain security, privacy, and availability of customer data. Number of breaches of customer data security, including the number of HIPAA-mandated breach notifications.

delineate between breaches that result in a loss of PHI, which is protected through HIPAA and HITECH, and PII, which is only protected in certain cases. Third, the existing metrics do not clearly capture the full scope or magnitude of breaches, as they do not identify the number of customers affected. The addition of the number of customers affected to the metric will therefore ensure that the resulting disclosure is a more fair and complete representation of company performance and their management of the issue.

## Supporting Analysis

Cybersecurity is a rapidly growing issue for the Managed Care industry. Breaches in U.S. health care cost the sector \$6.2 billion per year, and 89 percent of health care organizations (which included Managed Care companies) have reported a breach in the last two years. Estimates suggest that with each data breach, health care organizations lose an average of \$3.7 million in revenue.<sup>67</sup> According to the Ponemon Institute, the health care sector faces the highest cost per compromised record at \$355.<sup>68</sup> A Symantec study suggests that electronic health records sell for \$50 per chart on the black market, compared to \$1 for a stolen credit card or social security number.<sup>69</sup>

In 2016, the number of health care data breaches that were originated by hackers increased by 320 percent, with 325 large-scale PHI breaches, compromising over 16 million individual patient records.<sup>70</sup> This growth in health care directed cyber-attacks and the rise in associated costs is the result of several key factors. In recent years, the industry has undergone an increasing digitization of patient health records. However, patient records often have weak or outdated cybersecurity. The Ponemon Institute suggests that 50 percent of health care organizations were without adequate human or financial resources to detect or manage data breaches. The same analysis found that eight percent assessed the vulnerability of their systems on a quarterly, or more frequent, basis.<sup>71</sup>

The risk for the industry is heightened by the fact that there are strict national standards for the protection of certain health information as established by the HIPAA Privacy Rule. In addition to establishing standards and procedures, the rule provides the Department of Health and Human Services the authority to enforce the rule through monetary penalties. For example, in 2015, a large managed care company suffered a breach that exposed more than 78 million records. The company was forced to spend in excess of \$260 million for security improvements and remedial actions.<sup>72</sup> A KPMG survey of 223 U.S.-based health care executives, representing organizations with at least \$500 million in revenues, found that 65 percent believed their greatest vulnerability in data security came from external attackers, while only 66 percent of the payers in the group believed that they were ready to defend against a cyber-attack.<sup>73</sup> The Managed Care industry provisional standard currently includes two metrics that both combine qualitative and quantitative aspects into single metrics. To improve the quality and clarity of the standard, the qualitative and quantitative aspects of the recommended disclosure will be split into independent metrics.

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<sup>67</sup> Erin Dietsche, "Healthcare Breaches Cost \$6.2B Annually," *Becker's Hospital Review*, January 19, 2017, accessed August 10, 2017, <http://www.beckershospitalreview.com/healthcare-information-technology/healthcare-breaches-cost-6-2b-annually.html>

<sup>68</sup> Elizabeth Snell, "Healthcare Data Breach Cost Still Highest Among Industries," *HealthIT Security*, June 25, 2016, accessed August 10, 2017, <https://healthitsecurity.com/news/healthcare-data-breach-costs-still-highest-among-industries>

<sup>69</sup> "Cybersecurity in Healthcare: Why It's Not Enough, Why It Can't Wait," *Symantec*, 2016, accessed August 10, 2017, <https://www.symantec.com/content/dam/symantec/docs/infographics/symantec-healthcare-it-security-risk-management-study-en.pdf>

<sup>70</sup> Elizabeth Snell, "Healthcare Cybersecurity Attacks Rise 320% from 2015 to 2016," *HealthIT Security*, February 15, 2017, accessed August 10, 2017, <https://healthitsecurity.com/news/healthcare-cybersecurity-attacks-rise-320-from-2015-to-2016>

<sup>71</sup> "Sixth Annual Benchmark Study on Privacy & Security of Healthcare Data," *Ponemon Institute*, May 2016, accessed August 10, 2017, [https://www.ponemon.org/local/upload/file/Sixth Annual Patient Privacy %26 Data Security Report FINAL 6.pdf](https://www.ponemon.org/local/upload/file/Sixth%20Annual%20Patient%20Privacy%20Data%20Security%20Report%20FINAL%206.pdf)

<sup>72</sup> Susan More, "Anthem Cyberattack Perpetrated by Foreign Government, Officials Say," *Healthcare IT News*, January 6, 2017, accessed August 10, 2017, <http://www.healthcareitnews.com/news/anthem-cyberattack-perpetrated-foreign-government-officials-say>

<sup>73</sup> Greg Bell, "Health Care and Cyber Security," KPMG, September 2015, accessed August 10, 2017, <https://assets.kpmg.com/content/dam/kpmg/pdf/2015/09/cyber-health-care-survey-kpmg-2015.pdf>

The additional revision of the quantitative metric to include the number of customers affected will provide investors with a more complete understanding of the scope of the breaches and alleviate confusion as to whether a breach is a single event or a single record lost. For example, the aforementioned 2015 breach would be considered a single breach, but 78 million individual records were impacted. Both the number of breaches and the scale of impacted consumers are important elements of understanding overall company exposure to associated risks. This will provide a more complete measurement of issuer performance with respect to data privacy as well as offer a more fair representation of the size and scale of the associated risks. By distinguishing between PHI and PII, the investor will better understand the potential for financial impact associated with reported breaches. Finally, regarding ongoing preparedness for cyber threats, the separate qualitative metric will provide issuers clearer guidance on the scope of the recommended disclosure, thereby enhancing the ability of investors to more accurately compare the policies and practices employed by issuers to manage and mitigate data privacy risk.

## **Stakeholder Consultation**

**Investors:** Multiple investors agreed that this issue deserves increased attention across multiple sectors and industries.

**Issuers:** The SASB contacted 9 issuers in the industry during consultation to obtain input on either this proposed change, or other potential revisions to the standard. A briefing on the standard was provided to one of these issuers, however, consultative feedback was not received. Issuer input obtained during the development of the Provisional Standard generally supported the materiality of information related to the Customer Privacy and Technology Standards topic and metrics.

## **Benefits**

**Improves the SASB standard:** Separating the qualitative and quantitative aspects of the provisional metrics into distinct metrics will result in disclosures that are comparable and useful for investors. Further, the proposed revision to add the number of customers affected will yield more complete disclosure regarding company management of risks related to data privacy.

# Proposed Update #1-23 – **Industry:** Managed Care; **Topic Name:** Activity Metrics

## **2017 Technical Agenda Item #1-23 Description**

SASB is evaluating adding activity metrics to the Managed Care industry standard.

## **Summary of Change – Add Activity Metric**

The SASB proposes adding the following activity metric to the Managed Care industry standard: “Number of enrollees by plan type.”

## **Supporting Analysis**

Managed Care companies are typically engaged in several different aspects of the industry, including commercial and government insurance plans. Within the commercial category, companies offer different products, including individual, group, and fee-based insurance. For government plans, companies typically offer Medicare Advantage, Medicaid, and Medicare Supplement products. Each of these plan types can present different sustainability risks and opportunities. For example, companies that rely more heavily on government plans will have a greater exposure to disclosure topics including Improved Outcomes and Plan Performance. However, there is not a standardized method for companies to report on overall enrollment in these plan types.

Some managed care companies provide information in their SEC filings describing the total enrollment by commercial and government plans, while others provide a more detailed breakdown of enrollment within these larger categories proposed in the activity metric. Given that companies have different levels of exposure to different plan types, information on enrollment by plan type would provide investors with a way to normalize and understand management and performance on SASB disclosure. A note will be added to the activity metric to broadly define plan types.

## **Stakeholder Consultation**

**Investors:** Investors indicated that the activity metric would be helpful as this information is often presented, but not in a consistent format.

**Issuers:** The SASB contacted 9 issuers in the industry during consultation to obtain input on either this proposed change, or other potential revisions to the standard. Briefings on the standard were provided to one of these issuers, however, consultative feedback was not received. The SASB did not include activity metrics in the Provisional Standard, and therefore did not receive comments from issuers during standards development.

## **Benefits**

**Improves the SASB standard:** The addition of activity metrics to the Managed Care industry standard will improve the quality of the information generated by the standard by providing investors with operational context to facilitate normalization of the data generated by the standard that is reflective of industry activity levels.

**Improves decision-usefulness:** The addition of activity metrics will allow investors to analyze SASB disclosures on a relative basis, thereby improving the decision-usefulness of the SASB standard.