



PROPOSED CHANGES TO PROVISIONAL STANDARDS

BASIS FOR CONCLUSIONS

Services Sector

Education

Professional & Commercial Services

Hotels & Lodging

Casinos & Gaming

Leisure Facilities

Advertising & Marketing

Media & Entertainment

Prepared by the
Sustainability Accounting Standards Board®

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Contents

Introduction	3
About the SASB	3
Commenting.....	6
Proposed Changes to Provisional Standards: Basis for Conclusion Overview.....	6
Proposed Update #6-1 – Industry: Education; Topic Name: Data Security.....	10
Proposed Update #6-2 – Industry: Professional & Commercial Services; Topic Name: Professional Integrity	14
Proposed Update #6-3 – Industry: Professional & Commercial Services; Topic Name: Data Security.....	16
Proposed Update #6-4 – Industry: Hotels & Lodging; Topic Name: Energy & Water Management.....	19
Proposed Update #6-5 – Industry: Hotels & Lodging; Topic Name: Ecosystem Protection & Climate Adaptation	20
Proposed Update #6-6 – Industry: Hotels & Lodging; Topic Name: Fair Labor Practices.....	21
Proposed Update #6-7 – Industry: Hotels & Lodging; Topic Name: Fair Labor Practices.....	23
Proposed Update #6-8 – Industry: Hotels & Lodging; Topic Name: Fair Labor Practices.....	24
Proposed Update #6-9 – Industry: Casinos & Gaming; Topic Name: Political Spending.....	28
Proposed Update #6-10 – Industry: Casinos & Gaming; Topic Name: Activity Metrics	30
Proposed Update #6-11 – Industry: Casinos & Gaming; Topic Name: Worker Safety	32
Proposed Update #6-12 – Industry: Leisure Facilities; Topic Name: Customer & Worker Safety.....	34
Proposed Update #6-13 – Industry: Leisure Facilities; Topic Name: Customer & Worker Safety.....	35
Proposed Update #6-14 – Industry: Leisure Facilities; Topic Name: Water Management	37
Proposed Update #6-15 – Industry: Advertising & Marketing; Topic Name: Advertising Integrity	39
Proposed Update #6-16 – Industry: Media & Entertainment; Topic Name: Journalistic Integrity & Sponsorship Identification	42

Introduction

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

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

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

About the SASB

Established in 2011, the Sustainability Accounting Standards Board (SASB) is the independent standards-setting organization for sustainability accounting standards that meet the needs of investors by fostering high-quality disclosure of material sustainability information. The standards focus on known trends and uncertainties that are reasonably likely to affect the financial condition or operating performance of a company and therefore would be required to be disclosed under Regulation S-K. The standards are designed to improve the effectiveness and comparability of corporate disclosure on material environmental, social, and governance (ESG) factors in U.S. 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.¹

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

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

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

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

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

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

SASB Sector Committees

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

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

Commenting

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

Proposed Changes to Provisional Standards: Basis for Conclusion Overview

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

Guidance Used to Determine Proposed Updates

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

Topic-Level Proposed Updates

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

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

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

Metric-Level Proposed Updates

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

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

Technical-Protocol Proposed Updates

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

³ PCAOB, AT Section 101 – Attest Engagements

- **Objectivity:** Criteria should be free from bias.
- **Measurability:** Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- **Completeness:** Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- **Relevance:** Criteria should be relevant to the subject matter.

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*.



SERVICES SECTOR

EDUCATION INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #SV0101

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-1 – **Industry:** Education; **Topic Name:** Data Security

2017 Technical Agenda Item #6-1 Description

SASB is evaluating the addition of a topic, including corresponding metrics, based on its potential to affect corporate value, and relevance across the industry.

Summary of Change – Add Topic and Metrics

The SASB proposes adding the disclosure topic Data Security to the standard, along with the following, corresponding metrics:

- Discussion of management approach to identifying and addressing data security risks
- Discussion of policies and practices relating to collection, usage, and retention of customer information
- Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected⁴

Adherence to Criteria for Accounting Metrics

Colleges and universities are frequent and compelling targets for cyber criminals. The industry is likely subject to a high number of breaches due to the large number of personal records processed and stored, the mix of intellectual property and personally identifiable information held (e.g., social security numbers, vaccination records, other information required for admission), and the open, collaborative environment of many campuses. Compromise of sensitive information through cybersecurity breaches, other malicious activities, or student negligence may result in significant social externalities such as identity fraud and theft.⁵ Data breaches may compromise public perception of the effectiveness of a college's security measures,⁶ which could result in reputational damage and difficulty in attracting and retaining students, as well as significant costs to fix the consequences of a breach and prevent future breaches. Enhanced disclosure on the number and nature of security breaches, management strategies to address these risks, and policies and procedures to protect customer information will allow shareholders to understand the effectiveness of management strategies that colleges employ regarding this issue.

Company performance in this area can be analyzed in a cost-beneficial way through the following direct or indirect performance metrics:

- Discussion of management approach to identifying and addressing data security risks
- Discussion of policies and practices relating to collection, usage, and retention of customer information

⁴ Note – Disclosure shall include a description of corrective actions implemented in response to data security breaches or threats.

⁵ Ann Cavoukian, "A Discussion Paper on 'Privacy Externalities, Security Breach Notification and the Role of Independent Oversight,'" Prepared for The Eighth Workshop on the Economics of Information Security University College, London, England, June 24, 2009, November 2009, accessed July 28, 2017, https://www.ipc.on.ca/wp-content/uploads/Resources/privacy_externalities.pdf.

⁶ "How does a data breach affect your business' reputation?" National Cybersecurity Institute at Excelsior College, February 16, 2016, accessed July 28, 2017, <http://www.nationalcybersecurityinstitute.org/general-public-interests/how-does-a-data-breach-affect-your-business-reputation>.

- Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected⁷

The discussion of management's approach to identifying and addressing security risks provides a useful forward-looking indication of the level of risk associated with data security breaches. Similarly, the discussion of policies and practices related to customer information provides a useful forward-looking indication of the robustness of the company's management of the information-handling lifecycle. Finally, the number of data security breaches, those involving personally identifiable information, and the number of customers affected provides a quantitative indication of the historical strength of companies' data security management and systems as well as the potential magnitude of financial impacts from breaches, including systems costs and litigation.

Supporting Analysis

A recent study by IBM and the Ponemon Institute on the global cost of cybercrime found that the cost and probability of cyber-attacks increased for three consecutive years. In 2016, the average annualized cost of cybercrime incurred per organization was \$7 million in the U.S., up from \$6.5 million in 2015, and the Education industry had the second-highest 2016 cost per record lost (\$246) of any industry.⁸ Direct costs may include investigation to determine the scope of the breach, remediation to resolve the cause of the breach, information call centers, free credit and identity monitoring for affected parties, a public relations company to mitigate reputational harm, legal expenses, and potentially regulatory fines or penalties. In addition, indirect costs such as reputational damage may reduce student enrollment or donations.

The Education industry also had the second-highest rate of cyber-attacks in 2016 according to a study from the *Journal of Cybersecurity*.⁹ In addition, of the 7,177 data breaches made public since 2005 across all public and private institutions, Education organizations accounted for 721, or 10 percent of the total.¹⁰ Colleges and universities are likely targets due to the significant amount of personal information they possess on current students, faculty, applicants, administrative staff, alumni, collaborators, research and project participants, vendors, and even parents of students. In addition, their research departments may develop intellectual property used by government agencies, or that may lead to valuable products such as new prescription drugs. (While not a for-profit institution, a major Midwestern public university noted, in 2013, that they received 90,000-100,000 attacks each day on their network, mostly from China).¹¹ College networks may be more difficult to secure than corporate networks due to challenges in monitoring access and controlling student behavior. As noted by a university president with three decades of experience in higher education in testimony before Congress: "Security in a university is very different than data security in the private sector, because a university is an open organization. There are many points of access because it is all about the free exchange of information . . . You cannot [centralize cybersecurity] at a university."¹²

⁷ Note—Disclosure shall include a description of corrective actions implemented in response to data security breaches or threats.

⁸ Ponemon Institute, 2016 Cost of Data Breach Study: Global Analysis, June 2016, accessed May 31, 2017, <https://public.dhe.ibm.com/common/ssi/ecm/se/en/sel03094wwen/SEL03094WWEN.PDF>.

⁹ Sasha Romanosky, "Examining the costs and causes of cyber incidents," *Journal of Cyber Security* 2, no. 2 (August 2016): pp. 121-135, <https://academic.oup.com/cybersecurity/article/2/2/121/2525524/Examining-the-costs-and-causes-of-cyber-incidents>.

¹⁰ Privacy Rights Clearinghouse, Data Breaches, accessed May 24, 2016, <https://www.privacyrights.org/data-breaches>. Note, the 68 high schools in the dataset were subtracted from these totals.

¹¹ Richard Perez-Pena, "Universities Face a Rising Barrage of Cyberattacks," *The New York Times*, July 15, 2013, accessed May 25, 2016, <http://www.nytimes.com/2013/07/17/education/barrage-of-cyberattacks-challenges-campus-culture.html>.

¹² Protecting Personal Consumer Information from Cyber Attacks and Data Breaches: Hearings before the Committee on Commerce, Science, and Transportation, Senate, 113th Congress (2014), accessed June 28, 2017, <https://www.gpo.gov/fdsys/pkg/CHRG-113shrg92594/html/CHRG-113shrg92594.htm>.

Since 2003, associations such as the National Association of College and University Attorneys and the National Association of College and University Business Officers have construed that higher education institutions should comply with the Federal Trade Commission (FTC) “Safeguards Rule.”¹³ This rule requires institutions providing financial products or services to establish a comprehensive written information security program (WISP) with administrative, technical, and physical safeguards to protect customers’ personal information. If colleges fail to establish a WISP, they may be subject to FTC review, which could result in fines or additional regulation that impact long-term profitability, which may ultimately impact the perceived risk of the industry and companies’ cost of capital.

With increasing importance given to data security in higher education, combined with the higher utilization of electronic records and increasing sophistication and frequency of data security threats, the probability and magnitude of these impacts are likely to increase.

Major companies in the industry recognize the risks associated with data breaches in their SEC filings and state that the presence of a reliable security framework is a priority to ensure continued business success. Of the top 10 U.S.-domiciled for-profit education companies by revenue, all 10 mention cybersecurity in their annual security filings. Further, many companies identify material financial impacts of cyber-attacks. According to an information services company’s Form 20-K for fiscal year 2016, “We would suffer economic and reputational damages if a technical failure of our systems or a security breach compromises student data, including identification or contact information, although there has not been any compromise in the past. Any disruption to our computer systems could therefore have a material adverse effect on our on-site operations and ability to retain students and increase student enrollments.”¹⁴

Stakeholder Consultation

Investors: Investors in several sectors agreed that cybersecurity deserves increased attention and that a focus on management indicators is the best way to quantify financial impact. Although general feedback from investors on the proposed change was positive, the SASB received no direct input on the proposed change from investors in the Education industry.

Issuers: The SASB contacted seven issuers in the industry and one industry association during consultation to obtain input on the provisional standard. While one of these issuers and the industry association were provided with briefings on the standard and the industry associated proceeded to provide specific input and suggest one or more revisions, the SASB did not receive direct feedback from issuers in the industry regarding the proposed change.

Others: A subject matter expert indicated that cybersecurity is likely material for the Education industry.

Benefits

Improves the SASB standard: The inclusion of the Data Security topic addresses a meaningful shortfall in the provisional standard. The topic is likely to result in significant direct and indirect financial impacts. It is relevant across the industry, actionable by companies, and has the potential to affect corporate value.

Improves alignment: The proposed metrics limit reporting to data security incidences that trigger state-level reporting requirements, with which companies are already required to comply.

¹³ Charles Harris and Laura Hammargren, “Higher education’s vulnerability to cyber attacks,” *University Business*, September 6, 2016, accessed June 28, 2017, <https://www.universitybusiness.com/article/0816-wisp>.

¹⁴ TALEducation Group, FY2016 Form 10-K for the Period Ending February 28, 2017 (filed June 28, 2017), p. 15.



SERVICES SECTOR

PROFESSIONAL & COMMERCIAL SERVICES INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #SV0102

Prepared by the
Sustainability Accounting Standards Board®

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-2 – **Industry:** Professional & Commercial Services; **Topic Name:** Professional Integrity

2017 Technical Agenda Item #6-2 Description

SASB is evaluating the revision of the technical protocol for metric SV0102-02¹⁵ to improve clarity.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric SV0102-02 from “Amount of legal and regulatory fines and settlements associated with professional integrity or duty of care” to “Total amount of losses as a result of legal proceedings associated with professional integrity or duty of care” to improve the metric structure, and proposes updating the technical protocol to clarify what is included in the scope of the metric.¹⁶

Adherence to Criteria for Accounting Metrics

The current Professional & Commercial Services provisional industry standard includes a topic, Professional Integrity, with two associated metrics to describe a company’s management of risks and opportunities associated with the development and maintenance of client trust and loyalty. Specifically, provisional metric SV0102-02 specifies that issuers should disclose the fines and settlements associated with professional integrity and duty of care. While the current technical protocol notes that this amount includes fines and settlements associated to negligence and malpractice, some industry issuers have sought additional guidance on what types of losses are within the scope of the metric. Thus, to improve the metric structure and to improve comparability, the technical protocol will be updated to specify the inclusion of losses as a result of legal proceedings associated with negligence, malpractice, fraud, corruption, and bribery.

Supporting Analysis

Professional Services companies must operate with integrity and provide services that meet the highest professional standards in order to attract and retain clients and maintain their reputation. Reputational harm may result not only from negligence and malpractice but also from fraud, corruption, and bribery. For example, the U.S. sued a large credit rating agency in February 2013 for \$5 billion for issuing inflated ratings of collateralized debt obligations (CDOs).¹⁷

Such fines can significantly affect a corporation’s value and have progressive long-term negative effects, as reputational damage may result in reduced market share over time. In addition, there may be social externalities if the client is harmed by receiving poor quality information or biased advice. Thus, the clarification of the technical protocol will improve the comparability of this metric.

Stakeholder Consultation

Investors: No direct feedback was received from investors regarding the proposed change. However, investors generally provided feedback in support of changes which would improve the fair representation of the information generated by the standard.

¹⁵ SV0102-02: Amount of legal and regulatory fines and settlements associated with professional integrity or duty of care

¹⁶ Note to **SV0102-02**—The registrant shall briefly describe the nature, context, and any corrective actions taken as a result of the losses.

¹⁷ Aruna Viswanatha and Lauren Tara Lacapra, “U.S. government slams S&P with \$5 billion fraud lawsuit,” Reuters, February 5, 2013, accessed December 2, 2014, <http://www.reuters.com/article/2013/02/05/us-mcgrawhill-sandp-civilcharges-idUSBRE9130U120130205>.

Issuers: A number of issuers in the industry expressed confusion about which fines and settlements are within the scope of the metric.

Benefits

Improves the SASB standard: The updated technical protocol clarifies the scope of the metric, thereby improving the comparability of the reported data.

Proposed Update #6-3 – **Industry:** Professional & Commercial Services; **Topic Name:** Data Security

2017 Technical Agenda Item #6-3 Description

SASB is evaluating the revision of metric SV0102-05¹⁸ to improve comparability and completeness.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric SV0102-05 from “Number of data security breaches and percentage involving customers’ confidential business information or personally identifiable information,” to “Number of data security breaches, percentage involving customers’ confidential business information (CBI) or personally identifiable information (PII), number of customers affected.”

Adherence to Criteria for Accounting Metrics & Attributes of Technical Protocols

The Professional & Commercial Services provisional industry standard includes a topic, Data Security, with associated metrics that describe a company’s management of risks related to the storage and protection of its users’ sensitive data. The provisional metric is ambiguous in terms of what data are being asked for. Specifically, the technical protocol of the provisional metric does not satisfy two technical protocol attributes, including measurability and completeness. The proposed revision will eliminate ambiguity regarding what data are being asked for by clarifying that the number of unique data security breaches shall be disclosed, thereby improving the measurability and completeness of the metric. Furthermore, the proposed revised metric will provide more useful information by including the number of customers affected by such data security breaches—a critical element to understand the magnitude of breaches. The proposed metric benefits from being more aligned with current corporate disclosures on the topic than the current metric. Overall, the proposed metric will better accomplish the core objectives of the standard by clarifying that the number of unique incidents is to be disclosed, which improves the measurability and completeness of the associated technical protocol, as well as the inclusion of the number of customers affected by such incidents, which will improve the usefulness of the metric.

Supporting Analysis

The technical protocol associated with the provisional metric does not satisfy the measurability and completeness attributes of a technical protocol, as it does not specify what is intended to be measured by “number of data security breaches.” This may include number of unique instances of breaches, or it may include the number of exposed customer records. For example, if a company faced two cyber-attacks during the reporting period, with one exposing 200,000 customer records, and another exposing 50,000 customer records, the provisional metric is unclear whether the company would report this as “2” or “250,000.” Evidence shows that both the number of incidents and the number of customers affected are useful data points for understanding the frequency and magnitude of data security breaches.

For example, after their own major breaches, some of the largest publicly listed companies¹⁹ in the Financials and Technology & Communications sectors revealed, for the respective incidents, the number of customers affected. One

¹⁸ SV0102-05: Number of data security breaches and percentage involving customers’ confidential business information or personally identifiable information

¹⁹ Brad Arkin, “Important Customer Security Announcement,” *Adobe*, October 3, 2013, accessed August 8, 2017, <https://blogs.adobe.com/conversations/2013/10/important-customer-security-announcement.html>.

such company's public disclosure after a data breach that came to light in 2016 provides an illustrative example of the alignment of the proposed change with current corporate disclosures on the topic. In 2016, the company disclosed an unauthorized data breach associated with more than one billion users, the largest known data breach to date. The firm's disclosure distinguished between unique incidents and number of customers' accounts compromised, consistent with the proposed metric.²⁰

Of the top five U.S.-domiciled companies in the Professional & Commercial Services industry by industry revenue, all five companies qualitatively discuss performance in the context of the proposed metric. For example, a major tax and accounting firm reports: "A security breach resulting in third-party access to our sensitive customer and employee information and data could materially disrupt our businesses, result in the disclosure of confidential information, significantly damage our reputation, subject us to costly litigation and cause material losses."²¹ While the proposed metric is not already used, qualitative discussions of the associated sustainability issue indicate that the revised metric would apply to the industry based on its operating context.

Stakeholder Consultation

Investors: Three investors across multiple industries and sectors consistently communicated during the SASB's consultation period that clarification of this metric was necessary—and there was strong agreement for the proposed metric.

Issuers: Multiple issuers across industries voiced confusion over the wording of the metric in its current version and communicated that it needed to be clarified in a manner similar to the proposed revision.

Benefits

Improves the SASB standard: The proposed revision will enhance the standardization of the metric by improving the measurability and the completeness of the technical protocol.

Improves decision-usefulness: The proposed revision will generate more useful information, given that both the number of unique cyber security data breaches and the number of customers affected are important elements needed to better understand corporate performance on the topic.

¹⁹ Tanya Agrawal, David Henry, & Jim Finkle, "JPMorgan hack exposed data of 83 million, among biggest breaches in history," *Reuters*, October 2, 2014, <https://www.reuters.com/article/us-jpmorgan-cybersecurity-idUSKCN0HR23T20141003>; Cory Scott, "Protecting Our Members," LinkedIn, May 18, 2016, accessed August 8, 2017, <https://blog.linkedin.com/2016/05/18/protecting-our-members>; Keir Thomas, "Citigroup Hack Nabs Data from 210k," *PCWorld*, June 9, 2011, accessed August 8, 2017, http://www.pcworld.com/article/229891/Citigroup_Hack_Nets_Over_200k_in_Stolen_Customer_Details.html; "Yahoo Security Notice December 14, 2016," Yahoo, 2016, accessed July 24, 2017, <https://help.yahoo.com/kb/SLN27925.html>; Selena Larson, "Verizon data of 6 million users leaked online," *CNN*, July 12, 2017, accessed September 1, 2017, <http://money.cnn.com/2017/07/12/technology/verizon-data-leaked-online/index.html>.

²⁰ "Yahoo Security Notice December 14, 2016," Yahoo, 2016, accessed July 24, 2017, <https://help.yahoo.com/kb/SLN27925.html>.

²¹ Intuit, FY2016 10-K for the Period Ending October 31, 2016 (filed Nov. 18, 2016), p. 37.



SERVICES SECTOR

HOTELS & LODGING INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #SV0201

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-4 – **Industry:** Hotels & Lodging; **Topic Name:** Energy & Water Management

2017 Technical Agenda Item #6-4 Description

SASB is evaluating revisions to the topic and its associated metrics based on its materiality and actionability by companies.

Rationale for No Proposed Change

Based upon research and approval of the SASB Standards Board, no changes related to Technical Agenda item 6-4 have been proposed to the provisional standard at this time.

While the SASB considered revising the two provisional metrics from total energy and water use to energy and water intensity, no changes are recommended at this time because industry disclosures lack alignment. Of the top five U.S.-domiciled Hotel & Lodging companies by industry revenue, all report energy and water intensity and most report total energy and water use, but they use different metrics. The SASB intends to engage in further research regarding intensity metrics that align with the SASB's Criteria for Accounting Metrics.

Proposed Update #6-5 – **Industry:** Hotels & Lodging; **Topic Name:** Ecosystem Protection & Climate Adaptation

2017 Technical Agenda Item #6-5 Description

SASB is evaluating revisions to the topic and its associated metrics based on its materiality and actionability by companies.

Rationale for No Proposed Change

Based upon research and approval of the SASB Standards Board, no changes related to Technical Agenda item 6-5 have been proposed to the provisional standard at this time.

Research and stakeholder consultation identified the materiality of the topic. As noted in the *SASB Hotels & Lodging Research Brief*, published in December 2014, climate change and the impacts that companies have on local ecosystems can affect revenue and long-term growth in tourism areas that rely on pristine natural environments. For example, a study of beach erosion in the Dominican Republic due to coral reef degradation suggests that local hotels could lose between \$52 and \$100 million over the next decade due to beach erosion.²² In Tobago and Saint Lucia, the direct and indirect impact on the economy from coral reef-associated tourism was estimated to be at least \$250 million. In addition, hotel resorts located near coastal areas could face economic and social challenges due to climate change and resulting beach erosion. Inclement weather and rising seas may threaten the tourism industry in Hawaii by causing property damage and lost revenue from fewer tourists. A 2008 economic impact study on beach erosion of Waikiki Beach due to rising sea levels concluded that hotels would lose over \$661 million in revenue, with local communities losing over \$2 billion in tourist expenditures annually, due to full erosion of the famous beach. This would result in the loss of over 6,350 jobs in the area's hotels.²³

No changes are recommended to the topic given its materiality and its alignment with general TCFD recommendations. The SASB intends to engage in further research on the suitability and completeness of the topic's three associated metrics.

²² "Impacts of hotel siting and design on biodiversity in the insular Caribbean: a situation analysis," International Union for the Conservation of Nature, September 2011, p. 9, accessed September 26, 2017, <https://portals.iucn.org/library/efiles/documents/rep-2011-015.pdf>.

²³ "Climate Change Impacts in Hawaii: A Summary of climate change and its impacts to Hawaii ecosystems and communities," University of Hawaii at Manoa Sea Grant Program, last modified 2014, accessed September 26, 2017, p. 19, <http://seagrant.soest.hawaii.edu/sites/default/files/publications/smfinal-hawaiiclimatechange.pdf>.

Proposed Update #6-6 – **Industry:** Hotels & Lodging; **Topic Name:** Fair Labor Practices

2017 Technical Agenda Item #6-6 Description

SASB is evaluating the revision of metric SV0201-08²⁴ based on the representativeness and usefulness of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric SV0201-08 from “Average hourly wage for hotel employees, by region; percentage of hotel employees earning minimum wage,” to “(1) Average hourly wage and (2) percentage of lodging facility employees earning minimum wage, by region.”

Adherence to Principles for Topic Selection

The current Hotels & Lodging provisional industry standard includes a topic, Fair Labor Practices, with three associated quantitative metrics to describe a company’s management of its human capital, including compliance with laws and internationally accepted norms and standards related to salaries and benefits. With respect to salaries, provisional metric SV0201-08 currently includes average hourly wage for hotel employees and the percentage of hotel employees earning minimum wage. The technical protocol indicates that these quantitative indicators should both be reported by region, but the text of the metric is unclear as to whether both indicators or just the average hourly wage should be reported by region.

The revision of the metric to clearly indicate that disclosure of the percentage of employees earning the minimum wage should be reported by region will improve the fair representation of the metric, thereby better accomplishing the core objectives of the standard by offering investors a more decision-useful set of disclosures when combined with the existing metrics related to the topic.

The change from “hotel” employees to “lodging facility” employees is because the latter is the preferred industry term. Hotels are a type of lodging facility, which also includes motels and inns.

Supporting Analysis

Labor is necessary for hotel management, although many jobs have a low skill requirement and employees can be hired on a part-time or casual basis, or outsourced to staffing agencies. According to IBISWorld,²⁵ wages will account for 24.3 percent of total industry revenue in 2017. Thus, company management of labor practices generally, and wages specifically, are likely to be material for the industry. As such, metrics describing wages are decision-useful for investors when evaluating labor-related risks and opportunities.

Wages can vary significantly by region. With the federal minimum wage remaining at \$7.25/hour since 2009, 27 states and D.C. have responded by increasing their effective minimum wage since January 2014 and 32 localities have adopted a minimum wage above their state minimum wage.²⁶ Thus, the disclosure of the percentage of employees

²⁴ SV0201-08: Average hourly wage for hotel employees, by region; percentage of hotel employees earning minimum wage

²⁵ Andrew Alvarez, “Industry Report 72111: Hotels & Motels in the US,” IBISWorld Database, April 2017, pp. 24-25.

²⁶ Economic Policy Institute, Minimum Wage Tracker, May 8, 2017, accessed June 6, 2017, <http://www.epi.org/minimum-wage-tracker>.

earning minimum wage by region will better account for these regional differences, improving the fair representation of the metric.

Of the top five U.S.-domiciled companies by industry revenue, four companies qualitatively discuss performance in the context of the proposed metric, noting that local minimum wage increases are as relevant as federal wage increases. Several of these companies further identify material financial impacts of minimum wage legislation. Major industry associations, such as the American Hotel & Lodging Association, also report on their websites about local wage initiatives.²⁷

Stakeholder Consultation

Investors: Investors across several sectors agreed that minimum wages should be evaluated on a regional basis, although the SASB received no direct input on the proposed change from investors in the Hotels & Lodging industry. In general, investors provided feedback in support of changes which would improve the fair representation of the information generated by the standard.

Issuers: The SASB contacted thirteen issuers in the industry and one industry association during consultation to obtain input on the provisional standard. Two of these issuers and the industry association were provided with briefings on the standard and one issuer proceeded to provide specific input and suggest one or more revisions. The limited issuer feedback that was received indicated that minimum wages should be evaluated on a regional basis.

Benefits

Improves the SASB standard: The updated metric will allow issuers to more accurately report regional wage variations, enhancing the fair representation of the metric.

²⁷ “Study of Extreme Local Wage Initiatives Reveals Significant Consequences for Main Street Hotels and American Workers,” American Hotel & Lodging Association, accessed July 2, 2017, <https://www.ahla.com/press-release/study-extreme-local-wage-initiatives-reveals-significant-consequences-main-street>.

Proposed Update #6-7 – **Industry:** Hotels & Lodging; **Topic Name:** Fair Labor Practices

2017 Technical Agenda Item #6-7 Description

SASB is evaluating the suitability of the topic name.

Summary of Change – Revise Topic Name

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

Supporting Analysis

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

Benefits

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

Proposed Update #6-8 – **Industry:** Hotels & Lodging; **Topic Name:** Fair Labor Practices

2017 Technical Agenda Item #6-8 Description

SASB is evaluating the revision of metric SV0201-07²⁸ based on the completeness of the metrics associated with the topic; and is evaluating the addition of a metric based on the usefulness of the metrics associated with the topic.

Summary of Change – Add Metric and Revise Metric

The SASB proposes revising metric SV0201-07 from “Amount of legal and regulatory fines and settlements associated with labor law violations,” to “Total amount of losses as a result of legal proceedings associated with labor law violations,”²⁹ to improve metric structure, and proposes adding a new metric to the Fair Labor Practices topic, “Discussion of policies and programs to prevent worker harassment.”

Adherence to Principles for Topic Selection

The current Hotels & Lodging provisional industry standard includes a topic, Fair Labor Practices, with three associated quantitative metrics that include descriptions of a company’s management of its employees, the majority of whom are women and minorities,³⁰ and its compliance with labor laws. The associated metrics describe an individual company’s performance as it relates to this issue: specifically, provisional metric SV0201-06 captures the turnover rates of lodging employees, SV0201-07 captures fines and settlements associated with labor law violations, and finally, SV0201-08 provides a framework whereby the issuer can disclose its hourly wage distribution by region. However, the current metrics may not offer a representative indication of risk mitigation due to the lack of disclosure on policies and programs to prevent worker harassment, detect incidents, and correct the consequences of incidents.

The addition of a qualitative metric allowing companies to discuss their leadership on this issue will improve the completeness of the metrics, thereby better accomplishing the core objectives of the standard by offering investors a more decision-useful set of disclosures when combined with the existing metrics related to the topic.

Supporting Analysis

Employment discrimination is illegal in all industries, but may be of particular concern for the Hotel & Lodging industry as the industry is characterized by low union participation, low wages, seasonality, shift and night work, and low skill requirements. The U.S. hospitality industry workforce is largely composed of women and minorities, many of whom are recent immigrants.³¹ These workers may be mistreated and discriminated against when it comes to wages and advancement opportunities, which can lead to burdensome lawsuits and low job satisfaction, contributing to high turnover. There are multiple instances of manager misbehavior resulting in liability for a company. For example, in 2003, a private casino in Colorado agreed to pay \$1.5 million to a class of Hispanic housekeepers who reported being verbally harassed and subjected to unlawful English-only rules.³² In addition, according to the American Bar

²⁸ SV0201-07: Amount of legal and regulatory fines and settlements associated with labor law violations

²⁹ Note to SV0201-07—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

³⁰ “Developments and challenges in the hospitality and tourism sector,” International Labour Organization, November 2010, accessed September 26, 2017, p. 15.
http://www.ilo.org/wcmsp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_166938.pdf.

³¹ “Clara Knutson, “Top 5 Industry Sectors In Workforce Diversity,” *Forbes*, March 21, 2012, accessed September 26, 2017, <https://www.forbes.com/sites/claraknutson/2012/03/21/top-5-industry-sectors-in-workforce-diversity/#1e3d360d275e>.

³² “Central Station Casino To Pay \$1.5 Million In EEOC Settlement For National Origin Bias,” U.S. Equal Employment Opportunity Commission press release, July 18, 2003, accessed July 26, 2017, <https://www.eeoc.gov/eeoc/newsroom/release/7-18-03a.cfm>.

Association, sexual harassment by customers can also leave employers open to liability under Title VII. In cases such as *Oliver v. Sheraton Tunica Corporation* where a company failed to take “immediate and appropriate corrective action” when an employee reports harassment from a customer, courts have denied the defendant’s motion for summary judgment.³³

Policies and programs to prevent worker harassment, detect incidents, and correct the consequences of incidents may serve as a representative indication of issuer risk mitigation. According to a study of 99 Seattle housekeepers, 95 percent³⁴ would feel more comfortable if equipped with a panic button to quickly alert hotel security and summon help immediately in case of emergency. Recent efforts by labor unions³⁵ have required hotels in certain cities to provide panic buttons. In addition, training of employees, safety monitoring, effective complaint and grievance procedures, and other practices can reduce the likelihood of harm. According to a study in the *International Journal of Contemporary Hospitality Management*, 242 responses returned by managers of 96 hotels indicated that managers perceived themselves and corporate executives as significantly adding value to the organization through diversity training to reduce discrimination.³⁶ Diversity training can help to improve worker job satisfaction as well as reduce the chance for discriminatory practices. According to research conducted by the Hilton College of Hotel and Restaurant Management, the perceived positive diversity climate helped to reduce role ambiguity and conflict while increasing job satisfaction for hotel managers.³⁷ As the Hotels & Lodging industry experiences high turnover rates, higher job satisfaction will likely lead to lower turnover and employee training costs.

Of the top five U.S.-domiciled companies by industry revenue, all five qualitatively discuss performance in the context of the new metric. For example, a large hotel describes: “The Company is involved in claims, legal and regulatory proceedings and governmental inquiries . . . [including] employment matters which may include claims of wrongful termination, retaliation, discrimination, harassment and wage and hour claims . . . ”³⁸ While the new metric is not currently used by these five companies, qualitative discussions of the associated sustainability issue indicate that the new metric would apply to the industry based on its operating context.

The addition of disclosure on policies and programs related to worker harassment will improve the completeness of the metrics associated with this topic and will enhance the decision-usefulness of the associated disclosures by providing information on risk mitigation.

Stakeholder Consultation

Investors: No direct feedback was received from investors regarding the proposed change. However, investors generally provided feedback in support of changes which would improve the completeness of the information generated by the standard.

³³ Shaun Darby, “Third-Party Sexual Harassment in Casinos: How to Protect Against Liability,” American Bar Association, accessed July 10, 2017, <http://apps.americanbar.org/buslaw/committees/CL430000pub/newsletter/200905/darby.pdf>.

³⁴ “Survey of Downtown Seattle Hotel Housekeepers Reveals Frequent Sexual Harassment and Pain,” Puget Sound Sage, September 26, 2016, accessed July 3, 2017, http://pugetsoundsage.org/wp-content/uploads/2016/12/PSS_HotelWorkerSurvey_Sept2016.pdf.

³⁵ “Seattle hotel workers win enhanced protection against sexual harassment and injuries at the workplace,” International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations, January 20, 2017, accessed July 3, 2017, <http://www.iuf.org/w/?q=node/5308>.

³⁶ Dennis Reynolds, Imran Rahman, and Stacey Bradetich, “Hotel managers’ perceptions of the value of diversity training: An empirical investigation,” *International Journal of Contemporary Hospitality Management* 26, no. 3 (April 2014); *Journal of Cyber Security* 2, no. 2 (August 2016): pp. 426-446.

³⁷ Juan Madera, Mary Dawson, and Jack Neal, “Hotel managers’ perceived diversity climate and job satisfaction: The mediating effects of role ambiguity and conflict,” *International Journal of Hospitality Management* 35 (December 2013): pp.28-34.

³⁸ Wyndham Worldwide Corporation, FY2016 Form 10-K for the Period Ending December 31, 2016 (filed Feb. 17, 2017), p. F-39.

Issuers: No direct feedback was received from issuers in the industry regarding the proposed change. However, the SASB contacted 13 issuers and one industry association during consultation to obtain input on the provisional standard. Two of these issuers and the industry association were provided with briefings on the standard and one issuer proceeded to provide specific input and suggest one or more revisions.

Benefits

Improves the SASB standard: This new metric will enhance the completeness of the metrics associated with the Fair Labor Practices disclosure topic by characterizing performance on this topic, and will provide decision-useful information to investors on how companies are preventing, detecting, and correcting incidents.



SERVICES SECTOR

CASINOS & GAMING INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #SV0202

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-9 – **Industry:** Casinos & Gaming; **Topic Name:** Political Spending

2017 Technical Agenda Item #6-9 Description

SASB is evaluating the removal of the topic, including the corresponding metrics SV0202-08³⁹ and SV0202-09⁴⁰ due to lack of evidence of financial materiality.

Summary of Change – Remove Topic and Metrics

The SASB proposes removing the provisional topic Political Spending from the standard, along with the corresponding metrics:

- SV0202-08 – Amount of political campaign spending, lobbying expenditures, and contributions to tax-exempt groups including trade associations
- SV0202-09 – Five largest political, lobbying, or tax-exempt group expenditures

Adherence to Principles for Topic Selection

The provisional topic Political Spending is focused on how casinos engage with regulators and policymakers to influence regulations and policies, and is particularly relevant as the industry's existence depends on local and federal approvals to grow business and obtain permits for new casinos. Provisional metric SV0202-08 (proposed for removal) relates to spending by companies on political campaigns, lobbying, and/or contributions to tax-exempt groups, while provisional metric SV0202-09 (also proposed for removal), relates to the five largest such expenditures. The proposal to remove the topic along with the two corresponding metrics is based on a lack of industry-specific evidence that demonstrates the overall topic's potential to affect corporate value in a manner that is systematically relevant across the industry. While the topic may in fact contain material information for various companies in the industry, it does not meet the fundamental tenets of the SASB standards, which require an industry-specific, evidence-based approach, as established by the *SASB Conceptual Framework*. Furthermore, the removal of the topic and corresponding metrics will improve the cost-effectiveness of the standard.

Supporting Analysis

The Casinos & Gaming industry may depend on regulatory approval for its existence. Casinos operations and development have historically faced challenges due to reputational concerns related to social ills such as embezzlement, drunken driving, and personal bankruptcy. In response, companies have thus turned to lobbying to try to overcome these negative perceptions, some of which persist today. For example, a large media, amusement park, and entertainment company opposes the expansion of casinos in Florida because this could allegedly tarnish the company's "family friendly" brand.⁴¹ Current lobbying priorities, as reflected by the largest industry association, include streamlining regulations for new site permitting, tackling illegal gambling, allowing states to regulate sports betting, promoting compliance with oversight authorities such as FinCEN and the IRS, and driving consensus around common issues that affect Tribal and commercial casinos.⁴² Other initiatives include raising awareness of the positive

³⁹ SV0202-08: Amount of political campaign spending, lobbying expenditures, and contributions to tax-exempt groups, including trade associations

⁴⁰ SV0202-09: Five largest political, lobbying, or tax-exempt group expenditures

⁴¹ Lizette Alvarez and Michael Snyder, "Gambling Debate Entangles Disney in Florida," *The New York Times*, October 26, 2013, accessed July 12, 2017, <http://www.nytimes.com/2013/10/27/us/gambling-debate-entangles-disney-in-florida.html>.

⁴² "Policy Positions," American Gaming Association, accessed August 1, 2017, <https://www.americangaming.org/advocacy/policy-positions>.

economic impacts of gaming such as job creation and tax revenue, promoting responsible gaming, and forming a partnership with the National Indian Gaming Association.⁴³ These priorities and initiatives indicate that lobbying is important for the industry's continuation.

While companies in the industry regularly participate in the regulatory and legislative process, there is insufficient industry-specific evidence that the broadly defined topic generates direct financial impacts systematically across the industry. Of the top five U.S.-domiciled companies by industry revenue, none report the amounts of lobbying or campaign contributions in their annual securities filings. Also, of the 50 companies targeted by investors during the 2017 proxy season, only one was a casino.⁴⁴ In addition, lobbying expenditures by the industry, while estimated at \$38 million in 2016,⁴⁵ may not be material relative to overall industry revenue of \$41 billion.⁴⁶

Industry-specific evidence of financial impact is required for the inclusion of a topic in the standards, as established by the *SASB Conceptual Framework*. As a result, while the topic may in fact contain material information for certain companies within the industry, the SASB does not view the very broadly defined provisional topic Political Spending as one that adequately meets the Principles for Topic Selection, as established by the *SASB Conceptual Framework*.

Stakeholder Consultation

Investors: The limited feedback that was received from investors supported the removal of this disclosure topic.

Issuers: The SASB contacted nine issuers in the industry and one industry association during consultation to obtain input on the provisional standard. Two of these issuers and the industry association were provided with briefings on the standard and one issuer and the industry association proceeded to provide specific input and suggest one or more revisions. Both supported the removal of this disclosure topic. The industry association stated that there was no evidence of a strong link between political spending and financial materiality or sustainability.

Benefits

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

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

⁴³ Nick Sortal, "G2E: Tribes, commercial casinos: Common goals (and similar revenues)," CDC Gaming Reports, September 27, 2016, accessed July 12, 2017, <http://www.cdcgamingreports.com/tribes-commercial-casinos-common-goals-and-similar-revenues>.

⁴⁴ As You Sow, Sustainable Investments Institute, and Proxy Impact, Proxy Preview 2017, p. 32.

⁴⁵ "Casinos/Gambling Industry Profile: Summary, 2016," OpenSecrets.org, accessed July 12, 2017, <https://www.opensecrets.org/lobby/indusclient.php?id=N07>.

⁴⁶ "United States Commercial Casino Gaming: Monthly Revenues," University of Nevada, Las Vegas Center for Gaming Research, July 2017, accessed July 12, 2017, http://gaming.unlv.edu/reports/national_monthly.pdf.

Proposed Update #6-10 – **Industry:** Casinos & Gaming; **Topic Name:** Activity Metrics

2017 Technical Agenda Item #6-10 Description

SASB is evaluating the revision of metric SV0202-C⁴⁷ to improve comparability.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric SV0202-C from “Number of online gaming accounts” to “Number of active online gaming customers,” with the following: “Note— The number of active customers shall be considered as the number for which there was at least one financial transaction (bet, deposit, withdraw) with [real currency](#) within the reporting period, where real currency is defined by the [U.S. Financial Crimes Enforcement Network](#).”

Adherence to Criteria for Accounting Metrics

The current Casinos & Gaming provisional industry standard includes four provisional activity metrics that describe the size of a casino’s operations, including online operations. SV0202-A includes the number of tables, SV0202-B includes the number of slots, SV0202-C includes the number of online gaming accounts, and SV0202-D includes the total area of the gaming floor.

While these activity metrics provide a measurement of overall issuer activity levels, SV0202-C may not offer a fully representative indication of activity to investors. The revision of the metric to include only active customers will improve the fair representation of the metric, thereby better accomplishing the core objectives of the standard by offering investors a more decision-useful set of disclosures when combined with the existing activity metrics.

Supporting Analysis

Activity metrics may assist in the accurate evaluation and comparability of disclosure. These metrics convey contextual information to facilitate the normalization of SASB accounting metrics.

The proposed revision aligns with existing industry norms and will enhance the fair representation of disclosure. Considering that a number of online accounts may be inactive or dormant, the number of online accounts does not necessarily provide an accurate representation of the size of an operator’s online customer base. In addition, some customers may have duplicate accounts. While disclosure of the number of online accounts or the number online customers is rare in 10-Ks and 20-Fs, all issuers that do report these data recognize the distinction between active and inactive (e.g., 500.com⁴⁸).

In addition, specifying that financial transactions must be made with real money will enhance the comparability of the activity metric. Bitcoin and other cryptocurrencies have yet to be defined consistently by regulators in the gaming markets.⁴⁹ In addition, there may be concerns around the volatility⁵⁰ and accuracy⁵¹ of their valuations due to various factors such as their illicit use on underground websites. Thus, defining active accounts as those in which real

⁴⁷ SV0202-C: Number of online gaming accounts

⁴⁸ 500.com Limited, FY2016 Form 20-F for the Period Ending December 31, 2016 (filed April 28, 2017), p. 4.

⁴⁹ “Are Online Gaming Regulators Ready for Blockchain Technology?” Coinify, last modified February 23, 2017, accessed July 11, 2017, <https://news.coinify.com/online-gaming-regulators-blockchain>.

⁵⁰ Bitcoin and Ethereum prices over their history, accessed July 11, 2017, <http://www.coindesk.com/price>.

⁵¹ Timothy Lee, “Bitcoin’s price keeps breaking records. Here’s what’s driving its growth.,” Vox, June 6, 2017, accessed July 11, 2017, <https://www.vox.com/new-money/2017/5/26/15687062/bitcoin-bubble-explained>.

currency, as defined by the U.S. Financial Crimes Enforcement Network, is used will provide a more comparable representation of an operator's online customer base.

Stakeholder Consultation

Investors: The limited investor feedback that was received from investors agreed with the proposed change. In general, investors provided feedback in support of changes that would improve the usefulness of the information generated by the standard.

Issuers: The SASB contacted nine issuers in the industry and one industry association during consultation to obtain input on the provisional standard. Two of these issuers and the industry association were provided with briefings on the standard and one issuer and the industry association proceeded to provide specific input and suggest one or more revisions. Both supported this change.

Benefits

Improves the SASB standard: Disclosure of the number of active online customers will provide a more accurate measure of the size of an operator's online customer base and thus a more useful activity metric for normalization purposes.

Proposed Update #6-11 – **Industry:** Casinos & Gaming; **Topic Name:** Worker Safety

2017 Technical Agenda Item #6-11 Description

SASB is evaluating the addition of the topic based on its materiality.

No Proposed Change

The focus of this proposed topic was worker harassment. Per the SASB’s guidance, companies that derive a significant percentage of revenue from hotel operations should refer to the Hotel & Lodging standard. Worker harassment is already included as an aspect of the Fair Labor Practices topic in the Hotels & Lodging standard. Thus, no changes related to Technical Agenda item 6-11 have been proposed to the provisional standard at this time.

The Supporting Analysis section of Technical Agenda item 6-8 provides rationale for the likely materiality of worker harassment in hotel operations, including an American Bar Association white paper on how sexual harassment by customers can leave employers open to liability under Title VII.⁵²

⁵² Shaun Darby, “Third-Party Sexual Harassment in Casinos: How to Protect Against Liability,” American Bar Association, accessed July 10, 2017, <http://apps.americanbar.org/buslaw/committees/CL430000pub/newsletter/200905/darby.pdf>.



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October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-12 – **Industry:** Leisure Facilities; **Topic Name:** Customer & Worker Safety

2017 Technical Agenda Item #6-12 Description

SASB is evaluating revisions to the topic and its associated metrics based on the materiality of the topic.

No Proposed Change

Based upon research, stakeholder consultation, and recommendations of the SASB Standards Board, no changes related to Technical Agenda item 6-12 have been proposed to the provisional standard at this time.

Research and stakeholder consultation identified the materiality of the topic. As noted in the *SASB Leisure Facilities Research Brief*, published in December 2014, accidents can negatively affect the reputation of Leisure Facilities companies, with acute and long-term impacts on revenue and market share as guests may switch to competitors with better safety practices. For example, an amusement park company reported 14 injuries between 2009 and 2013 on one roller coaster in the Dallas area. These injuries were followed by periods of inspection, during which the ride had to be closed.⁵³ In July 2013, a woman fell to her death on the coaster, resulting in the company missing its Wall Street revenue and profit estimates for the quarter as guest attendance declined at the park.

Safety concerns in leisure facilities can also present a significant threat to employees, and in many instances, OSHA has sanctioned amusement parks for safety violations following fatal accidents. In 2015, according to the Bureau of Labor Statistics, over four workers were fatally injured on the job in the Amusement Parks and Arcades industry.⁵⁴ While the evidence for the materiality of customer safety is strong, the SASB intends to engage in further research on the materiality of worker safety.

⁵³ Jamie Stengle, "Six Flags Death: Texas Roller Coaster Had a History of Injuries," *The Christian Science Monitor*, July 22, 2013, accessed September 26, 2017, <http://www.csmonitor.com/USA/Latest-News-Wires/2013/0722/Six-Flags-death-Texas-roller-coaster-had-a-history-of-injuries>.

⁵⁴ "Climate Change Impacts in Hawaii: A Summary of climate change and its impacts to Hawaii ecosystems and communities," University of Hawaii at Manoa Sea Grant Program, last modified 2014, accessed November 4, 2014.

⁵⁴ "TABLE A-1: Fatal occupational injuries by industry and event or exposure, All U.S., 2015," Bureau of Labor Statistics, last modified 2015, accessed September 5, 2017, <https://www.bls.gov/iif/oshwc/cfoi/cftb0295.xlsx>.

Proposed Update #6-13 – **Industry:** Leisure Facilities; **Topic Name:** Customer & Worker Safety

2017 Technical Agenda Item #6-13 Description

SASB is evaluating the revision of metric SV0204-03⁵⁵ based on the comparability of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric SV0204-03 from “Employee (1) Total Recordable Injury Rate and (2) Near Miss Frequency Rate,” to “(1) Total recordable injury rate (TRIR) and (2) Near miss frequency rate (NMFR) for (a) permanent employees and (b) seasonal employees.”

Adherence to Criteria for Accounting Metrics

The current Leisure Facilities SASB industry standard includes a topic, Customer & Worker Safety, with three associated quantitative metrics to characterize a company’s management of risks related to the health and well-being of its employees and customers, as well as its governance related to accidents and safety incidents. With respect to employee safety, provisional metric SV0204-03 currently includes the total recordable injury rate and near miss frequency rate for employees. While these quantitative indicators are distributive and useful, they are not aligned with existing issuer norms for the management of employees and therefore may not be fully representative of company performance. The revision of the metric to distinguish between permanent employees and seasonal employees improves the completeness and fair representation of the metric, thereby better accomplishing the core objectives of the standard by offering investors a more decision-useful set of disclosures when combined with the existing metrics related to the topic.

Supporting Analysis

Due to the seasonal, weekly, daily, and weather-influenced variations in visitor patterns,⁵⁶ the Leisure Facilities industry relies heavily on temporary staff to manage costs. Safety trainings, policies, reporting mechanisms, hours, and benefits may differ between permanent employees and temporary employees. For example, employees at seasonal amusement or recreation establishments are exempt from the overtime provisions of the Fair Labor Standards Act (FLSA).⁵⁷ In addition, the Occupational Safety and Health Administration (OSHA) and National Institute for Occupational Safety and Health (NIOSH) provide separate guidance for preventing injuries and fatalities to temporary employees.⁵⁸

Research by the American University Washington College of Law Immigrant Justice Clinic found that the long hours of seasonal workers may threaten the safety of workers and guests alike.⁵⁹ In addition, of the top five U.S.-domiciled companies by industry revenue, three companies currently discuss seasonal or temporary employees separately in their securities filings. This indicates that the total recordable injury rate and near miss frequency rate should be separated

⁵⁵ SV0204-03: Employee (1) Total Recordable Injury Rate and (2) Near Miss Frequency Rate

⁵⁶ Brian Saylor, “Industry Report 71311: Amusement Parks in the US,” IBISWorld Database, March 2017, p. 21.

⁵⁷ “Fact Sheet #18: Section 13(a)(3) Exemption for Seasonal Amusement or Recreational Establishments Under the Fair Labor Standards Act (FLSA),” U.S. Department of Labor Wage and Hour Division, July 2008, accessed August 7, 2017, <https://www.dol.gov/whd/regs/compliance/whdfs18.pdf>.

⁵⁸ “Recommended Practices: Protecting Temporary Workers,” OSHA and NIOSH, accessed August 7, 2017, <https://www.osha.gov/Publications/OSHA3735.pdf>.

⁵⁹ “Taken for a Ride: Migrant Workers in the U.S. Fair and Carnival Industry,” American University Washington College of Law Immigrant Justice Clinic, February 2013, accessed September 5, 2017, http://www.cdmigrante.org/wp-content/uploads/2013/02/110145_Taken_for_a_Ride_Report_Final.pdf.

by employee type to provide a more representative and complete measure of how a company manages the risks associated with employee safety. According to Saferparks.org, while park guests are at fault for most injuries for failing to abide by safety rules, equipment failure and employee error are responsible for 30 percent of accidents.⁶⁰

Stakeholder Consultation

Investors: No direct feedback was received from investors regarding the proposed change. However, investors generally provided feedback in support of changes which would improve the fair representation of the information generated by the standard.

Issuers: The SASB contacted nine issuers in the industry during consultation to obtain input on the provisional standard. Two of these issuers were provided with briefings on the standard and proceeded to provide specific input and suggest one or more revisions. The limited feedback that was received from issuers reiterated the importance of customer and worker safety, although the SASB received no direct input on the proposed change.

Benefits

Improves the SASB standard: The updated language allows issuers to more accurately report the safety of their employees, enhancing the completeness and fair representation of the metric.

⁶⁰ Norm Safer, "Risky Rides: Carnival Workers' Grueling Hours May Threaten Safety," NBC, July 13, 2014, accessed September 5, 2017, <https://www.nbcnews.com/news/latino/risky-rides-carnival-workers-grueling-hours-may-threaten-safety-n186966>.

Proposed Update #6-14 – **Industry:** Leisure Facilities; **Topic Name:** Water Management

2017 Technical Agenda Item #6-14 Description

SASB is evaluating the addition of the topic based on its materiality and applicability across the industry.

No Proposed Change

Based upon research and recommendations of the SASB, no changes related to Technical Agenda item 6-14 have been proposed to the provisional standard at this time.

Industry structure⁶¹ indicates that golf courses and country clubs (three percent of industry revenue) and fitness and recreation centers (five percent) are a small percentage of industry revenue. While amusement parks are a higher percentage of industry revenue (38 percent), water parks are much smaller and less popular than traditional parks, and are also surprisingly water efficient. Typically, 95 percent of the water used in parks is recycled,⁶² and parks are generally permitted to operate normally during times of drought as they help guests cool off with less water use in aggregate than if those people used home pools or backyard sprinklers.⁶³ As the SASB concluded in 2014 when the Water Management issue was proposed by a member of the Industry Working Group, when put in perspective, the Leisure Facilities industry is relatively less water-intensive than manufacturing industries and it is unlikely for the issue to reach the materiality threshold.

Due to the heterogeneous nature of the industry, encompassing amusement theme parks, leisure clubs and facilities, movie theaters, performance arts and museum activities, and pro sports-related venues, SASB has identified only two disclosure topics, Energy Management and Customer & Worker Safety, that are broadly applicable across the industry. Per guidance in Regulation S-K, company management must determine what topics are material to financial condition and results of operations, and thus require disclosure in securities filings. The SASB encourages companies in the Leisure Facilities industry for which water is likely to be material to consult the metrics in other industries with the Water Management topic.

⁶¹ Bloomberg Professional service, accessed September 7, 2017, using the BICS <GO> command. The data represents global revenues of companies listed on global exchanges and traded over-the-counter (OTC) from the Leisure Facilities industry, using Levels 3 and 4 of the Bloomberg Industry Classification System.

⁶² Kerry Curray, "Water parks fight perception that they are water hots," *The Star-Telegram*, June 15, 2014, accessed September 5, 2017, <http://www.star-telegram.com/news/local/community/fort-worth/article3861697.html>.

⁶³ Lauren Markham, "Riding Water Slides in a Drought," *The New Yorker*, May 20, 2015, accessed September 5, 2017, <http://www.newyorker.com/business/currency/the-water-park-in-a-drought>.



SERVICES SECTOR

ADVERTISING & MARKETING INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #SV0301

Prepared by the
Sustainability Accounting Standards Board®

October 2017

Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-15 – **Industry:** Advertising & Marketing; **Topic Name:** Advertising Integrity

2017 Technical Agenda Item #6-15 Description

SASB is evaluating the revision of metric SV0301-03⁶⁴ based on the usefulness, neutrality, and fair representativeness of the metrics associated with the topic.

Summary of Change – Revise Metric

The SASB proposes revising provisional metric SV0301-03 from “Percentage of campaigns that promote products or services deemed socially harmful and subject to restrictions or taxes on use” to “Percentage of campaigns that promote tobacco or alcohol products.”

Adherence to Criteria for Accounting Metrics

The current Advertising & Marketing provisional industry standard includes a topic, Advertising Integrity, with four associated quantitative metrics to describe a company’s management of risks related to the truthfulness of its advertisements and its compliance with regulations on marketing specific products and marketing to vulnerable populations (e.g., children). With respect to marketing specific products, metric SV0301-03 currently includes the percentage of campaigns that promote products or services deemed socially harmful and subject to restrictions or taxes on use, which is defined in the technical protocol as the percentage of revenue derived from campaigns that promote alcohol, tobacco, gambling, pharmaceuticals and over-the-counter drugs, firearms and ammunition, and gasoline and other fuels. While this quantitative indicator is distributive, it is not comparable due to lack of consensus on what specific products or services are “deemed socially harmful.” The revision of the metric to only report on tobacco and alcohol marketing campaigns enhances the comparability of the metric and also aligns with industry norms and practices, thereby better accomplishing the core objectives of the standard by offering investors a more decision-useful set of disclosures when combined with the existing metrics related to the topic.

Supporting Analysis

The technical protocol previously defined metric SV0301-03 as applying to the advertising of alcohol, tobacco, gambling, pharmaceuticals and over-the-counter drugs, firearms and ammunition, and gasoline and other fuels. However, this definition is problematic with respect to defining which products and services are “deemed socially harmful.” In the risk factors section of their annual securities filings, different issuers identify different products that may be considered socially harmful and subject to restrictions or taxes on use (e.g., “over-the-counter drugs and pharmaceuticals, cigarettes, food and certain alcohol beverages;”⁶⁵ “alcohol and tobacco;”⁶⁶ “alcohol products” and tobacco products”⁶⁷). Thus, the metric lacks neutrality.

Narrowing the scope of the metric to alcohol and tobacco will better align it with industry norms. Of the top five U.S.-domiciled companies by industry revenue, two companies currently discuss performance in the context of the proposed metric qualitatively. Of these two companies, both mention only alcohol and tobacco, not any other restricted products. In addition, among the ten largest companies in the industry by revenue, alcohol and tobacco are

⁶⁴ SV0301-03: Percentage of campaigns that promote products or services deemed socially harmful and subject to restrictions or taxes on use

⁶⁵ WPP plc, FY2016 Form 20-F for the Period Ending December 31, 2016 (filed April 28, 2017), p. 11.

⁶⁶ Interpublic Group, FY2016 Form 10-K for the Period Ending December 31, 2016 (filed February 21, 2017), p. 8.

⁶⁷ Clear Channel, FY2016 Form 10-K for the Period Ending December 31, 2016 (filed February 23, 2017), p. 14.

the two products most frequently mentioned. Alcohol and tobacco advertising are also some of the most highly regulated forms of marketing, with some or all forms of advertising banned in many markets, including the U.S. and countries in the E.U.

Stakeholder Consultation

Investors: No direct feedback was received from investors regarding the proposed change. However, investors generally provided feedback in support of changes which would improve the neutrality of the information generated by the standard.

Issuers: The SASB contacted seven issuers in the industry and three industry associations during consultation to obtain input on the provisional standard. One of these issuers and two of these industry associations were provided with briefings on the standard, and the issuer proceeded to provide specific input and suggest one or more revisions. The limited feedback that was received reflected that companies generally do not want to publicly label any product they advertise for clients as “socially harmful,” as this may jeopardize their relationships with clients.

Benefits

Improves the SASB standard: This change limits the scope of the metric in line with industry norms and increases the comparability of the metric.



SERVICES SECTOR

MEDIA & ENTERTAINMENT INDUSTRY

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #SV0302

Prepared by the
Sustainability Accounting Standards Board®

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Proposed Changes to Provisional Standard - Basis for Conclusion

Proposed Update #6-16 – **Industry:** Media & Entertainment; **Topic Name:** Journalistic Integrity & Sponsorship Identification

2017 Technical Agenda Item #6-16 Description

SASB is evaluating the removal of metric SV0302-02⁶⁸ due to lack of comparability.

Summary of Change – Remove Metric

The SASB proposes removing provisional metric SV0302-02, “Fact-checking expenses as a percentage of news production costs,” from the Journalistic Integrity & Sponsorship Identification topic while retaining the other three existing metrics.

Adherence to Criteria for Accounting Metrics

The current Media & Entertainment provisional industry standard includes a topic, Journalistic Integrity & Sponsorship Identification, with four associated metrics to describe how companies uphold the journalistic principles of accuracy, fairness, minimization of harm, independence, accountability, and transparency. The associated metrics describe a company’s performance as it relates to this issue: specifically, metric SV0302-01 describes legal and regulatory fines and settlements associated with libel or slander, SV0302-02 describes fact-checking expenses relative to news production expenses, SV0302-03 describes revenue from embedded sponsorship, and SV0302-04 describes the registrant’s strategy to assure journalistic integrity. Due to the difficulty of separating fact-checking from news production, metric SV0302-02 does not fairly represent company performance, nor is it applicable across the industry or aligned with industry practices. The removal of the metric will therefore retain the decision-usefulness of the set of disclosures on journalistic integrity for investors while reducing the cost-burden of reporting for issuers, thereby better accomplishing the core objectives of the standard.

Supporting Analysis

In investigative journalism, it is difficult to separate time and expenses associated with fact checking from time and expenses associated with other reporting. In addition, fact checking before dissemination (i.e., ante hoc fact-checking) is typically managed differently than fact checking after publication (i.e., post hoc fact-checking), and may even be performed by different companies. While the former is a form of risk prevention, potentially affecting an issuer’s cost of capital, the latter is intended to diminish the issuer’s liability for defamation and other potential legal claims. As the different financial and sustainability impacts of these two types of fact checking cannot be aggregated, the associated disclosure on the existing metric may not be representative of performance.

In addition, the existing metric is not applicable to companies across the industry. While journalistic integrity is important for news content, it does not apply to entertainment content produced for film, TV, music, radio, or publishing. Industry revenue is roughly equally split between the production and distribution of printed media content (e.g., newspapers, periodicals, books); the production and distribution of TV and film; local TV and radio broadcasting; and the aggregation, production, and marketing of TV programs to broadcasting stations, cable and satellite companies, and wireline telecommunications companies. Even within journalism, fact-checking expenses may vary significantly depending on the type of journalism (e.g., investigative reporting vs. punditry).

⁶⁸ SV0302-02: Fact-checking expenses as a percentage of news production costs

Of the top five U.S.-domiciled companies by industry revenue, no companies currently report the existing metric in their securities filings. As such, it is not aligned with current industry norms and practices with respect to reporting performance on the risks and opportunities related to Journalistic Integrity & Sponsorship Identification.

Stakeholder Consultation

Investors: The limited investor feedback that was received indicated that this metric was redundant with metric SV0302-01, “Amount of legal and regulatory fines and settlements associated with libel or slander.” Input obtained in the provisional standards development process, including from the Industry Working Group convened by the SASB in February 2014, also supported the removal of metric SV0302-03⁶⁹ due to lack of usefulness and comparability.

Issuers: The SASB contacted 14 issuers in the industry during consultation to obtain input on the provisional standard. Two of these issuers were provided with briefings on the standard and proceeded to provide specific input and suggest one or more revisions. The limited feedback that was received indicated that it would be costly and difficult to allocate employees’ time between fact-checking and other reporting activities, that the amount of fact-checking expenses may vary significantly year-over-year, and that the amount of fact-checking expenses may depend on the type of reporting. Due to these concerns, the metric was not considered to be decision-useful. Input obtained in the provisional standards development process, including from the Industry Working Group convened by the SASB in February 2014, also supported the removal of the metric due to lack of cost-effectiveness.

Benefits

Improves cost-effectiveness: The removal of this metric reduces the costs to issuers of reporting on the SASB standard.

⁶⁹ SV0302-02: Fact-checking expenses as a percentage of news production costs