Ceres
Sustainability is the bottom line.

January 30, 2018

David S. Post, CFA
Director of Research
Sustainability Accounting Standards Board
1045 Sansome St., Suite 450
San Francisco, CA 94111

Re: Public Comment Period on SASB's Exposure Draft Standards

Dear Mr. Post,

I am writing in response to SASB's public comment period with Ceres' recommendations for improving the SASB standard setting process. Our water-focused recommendations include topic- and metric-level proposed updates as well as general comments about improving SASB's standard setting processes as they apply to water. Our other recommendations are not focused on specific industry standards and metrics, but are meant to be considered by SASB for "general standard-setting purposes, including the establishment of future research agendas, technical agendas, proposed Changes, technical bulletins and other revisions and/or guidance."[1]

Congratulations on the upcoming ratification of the SASB standards. The high quality of the standards reflects years of research on the financial risks of sustainability issues and thoughtful input from investors, analysts, corporations, NGOs and other key stakeholders. We believe your work is an important piece in our collective journey to create a sustainable economy and we thank you for your substantial efforts.

Ceres shares your goal of enhancing the efficiency of the capital markets by fostering high quality disclosure of material sustainability information in SEC filings. For more than 15 years, Ceres and members of our Investor Network on Climate Risk and Sustainability have advocated for improved disclosure of material sustainability risks and opportunities in SEC filings, and we strongly support SASB's important role in that process. We encourage companies to use SASB's standards to enhance the quality of their assessments of their ESG risks and opportunities and to significantly improve the quality of information available to investors in financial filings.

We do think that there is room for improvements in the standards, and in the processes for developing them. Ceres' position is that the SEC must ensure that disclosure in financial filings includes qualitative and quantitative information about short, medium and long term sustainability risks and opportunities, including systemic risks and context-based reporting. We are concerned that SASB's standard setting process does not capture all of the sustainability risks required to be disclosed under current U.S. laws and does not consider investor comments to the SEC over many years about the shortcoming of current laws.

[1] SASB Exposure Drafts FAQ, https://www.sasb.org/exposure-drafts/.

Ceres' recommendations, summarized here and discussed in more detail on page 13, are:

- SASB should clarify to what extent specific parts of the SASB standard setting process attempt to capture short, medium or long term sustainability risks, how these time periods are balanced/weighted, and why that approach was chosen. We suggest that you consider changing the standard setting process to better capture long term risks.
- SASB should continue to convey the message that its standards are a starting point but not a limit, or a cap, on what sustainability issues companies in a specific industry should disclose in financial filings.
- The SASB Board or Investor Advisory Group should consider to what extent the views of the reasonable investor are captured by the vetting process, and whether more weight could be ascribed to the views of the reasonable investor.
- SASB should recognize investor demands for improved disclosure of systemic risks by considering improvements to the standards to create more disclosure metrics that are comparable between industries, and expand the number of industries asked to report on these risks.
- SASB should analyze how its standards can better take into account sustainability context, especially in cases where a sustainability issues poses systemic risks that investors need to assess throughout their portfolio.
- SASB should clarify its communications to note that other frameworks besides SASB provide metrics that are useful for disclosure in SEC filings.
- SASB should consider modifying water-focused metrics to a number of industries as discussed in our comments below and adjusting the SASB standard setting process, as it pertains to water, in order to better capture the full range of material water issues going forward.

SASB's standard setting process is not designed to sufficiently capture long term risks and opportunities

SASB states that its standards cover sustainability issues "that are reasonably likely to materially affect near-, medium-, or long-term business value"[2]. Yet parts of the standard setting process overlook long term risks, only focusing on the short and medium term. For example, when analyzing whether sustainability topics are likely to be of interest to the reasonable investor and are reasonably likely to have material impacts on a company, SASB assesses evidence of interest to a reasonable investor along five factors. One of those factors is "financial impacts and risk", which is focused on "a direct and measurable impact on near- or medium-term financial

---

[2] SASB Conceptual Framework at 10. See also page 5: "SASB's approach to sustainability accounting consists of defining operational metrics on material, industry-specific sustainability topics likely to affect current or future financial value."

performance" and not on long term performance.[3] SASB could consider more discussion of how the timeframe of risks is related to the lifespan of assets, particularly in industries where the life of some assets is measured in decades, such as generation facilities in the electric power industry.

Other parts of the standard setting process do not define the timeframe that SASB considers as long, medium, or short. For example, the timeframe for "changing or emerging regulation" (under "legal, regulatory and policy drivers") is not defined.[4] SASB's principles for topic selection do not define the timeframe for such critical issues as "potential to affect corporate value" and "reflective of stakeholder (investor and issuer) consensus".[5]

The result is that issuers and investors cannot tell to what extent the SASB standard setting process attempts to capture different types of material sustainability risks, especially those that may pose medium or long term risks. We recommend that SASB (1) clarify to what extent specific parts of the SASB standard setting process attempt to capture short, medium and long term sustainability risks, how these time periods are balanced/weighted, and why that approach was chosen; and (2) consider changing the standard setting process to better capture long term risks.

SASB should continue to emphasize that materiality defines a disclosure "floor" not a "ceiling"

Of greater concern is SASB's interpretation of materiality under U.S. law. SASB states that "materiality underpins the rationale for corporate disclosures in the U.S."[6] While we agree to an extent, many line item disclosure rules are considered to be *per se* material by the Commission and do not depend upon a materiality determination by corporate management in order to be disclosed.[7]

Ceres' interpretation of materiality under U.S. law is in agreement with that of the AFL-CIO: "'Materiality,' the dominant principle in our disclosure regime, defines the floor below which reporting becomes fraudulent. It is the catchall, a backstop, the 'at a minimum' safety provision. It is *not* the driving force of our disclosure regime. The '33 and '34 Acts charge the Commission with establishing a disclosure regime to protect investors and our markets. It cannot achieve this by focusing merely on what would constitute fraud."[8]

---

[3] SASB Conceptual Framework at 12.
[4] SASB Conceptual Framework at 13.
[5] SASB Conceptual Framework at 18-19.
[6] SASB's Approach to Materiality for the Purpose of Standards Development (Staff Bulletin No SB002-07062017) at 2.
[7] See Adam Kanzer, Esq., Managing Director, Director of Corporate Engagement and Public Policy, Domini Social Investments response to SEC Concept Release, July 21, 2016 at 14, "Line item requirements also allow investors to evaluate trends over time, eliciting disclosures that management may have withheld subject to a materiality determination. These trends, however, are material to investor decision-making and can serve as early warnings of risk."
[8] Heather Slavkin Corzo, Director, Office of Investment, AFL-CIO response to SEC Concept Release: Business and Financial Disclosure Required by Regulation S-K, July 21, 2016 at 7, 9.

We appreciate that SASB has publicly discussed the SASB standards as a starting point point but not a limit, or a cap, on what sustainability issues companies in a specific industry should disclose in financial filings, and we urge you to continue to convey that message.

SASB's interpretation of materiality is not sufficiently focused on the needs of the reasonable investor

The materiality standard under the federal securities laws is designed to protect investors, and issuers must determine what to disclose by analyzing the point of view of the reasonable investor. The SEC states:

> Those standards provide that information is material if there is a substantial likelihood that a reasonable investor would consider it important in deciding how to vote or make an investment decision, or, put another way, if the information would alter the total mix of available information. In the articulation of the materiality standards, it was recognized that doubts as to materiality of information would be commonplace, but that, particularly in view of the prophylactic purpose of the securities laws and the fact that disclosure is within management's control, ''it is appropriate that these doubts be resolved in favor of those the statute is designed to protect.''[9]

SASB states that its standard-setting process "serves to establish a basis for standard-setting that is aligned with existing U.S. federal securities law."[10] However, it appears that the process is focused only on a narrow interpretation of materiality under U.S. law.

SASB's research process assesses the materiality of sustainability topics and tests the reasonableness of the materiality assessment using six steps, including vetting.[11] Vetting involves industry working groups that review evidence for materiality and vote on the materiality of each topic, with "generally a 75% approval benchmark for inclusion in the standards."[12] SASB's Stakeholder Engagement Team monitors enrollment in industry working groups to ensure that participation is balanced across the following three interest groups:

1. Corporations (reporting entities)
2. Market Participants (investors and analysts)
3. Public Interest/Intermediaries (NGOs, academics, government officials, NGOs, others not included in groups 1 and 2 above.)[13]

Ceres strongly supports engagement with multi-stakeholder groups as a tool to identify and address corporate sustainability issues. For example, Ceres encourages companies to systematically identify a diverse group of stakeholders and regularly engage with them in a manner that is formalized, ongoing, in-depth, timely and involves all appropriate parts of the

[9] Securities and Exchange Commission Guidance Regarding Disclosure Related to Climate Change, Release Nos. 33–9106; 34–61469; FR–82 at 6292-6293, citing Basic at 231, quoting *TSC Industries* at 449 and 34 *TSC Industries* at 448.
[10] SASB's Approach to Materiality for the Purpose of Standards Development at 2.
[11] SASB's Approach to Materiality at 2-3.
[12] SASB's Approach to Materiality at 2.
[13] SASB Industry Working Groups: Due Process Report, Healthcare, Q4 2012 at 3.

business. Ceres expects companies to disclose how they are incorporating stakeholder input into corporate strategy and business decision-making. As part of this process, Ceres recommends that companies systematically engage both internal and external stakeholders in the materiality assessment process and consider stakeholder concerns in the setting of priorities.[14]

Therefore, we strongly support SASB's use of multi-stakeholder groups to analyze which sustainability issues may be material. However, SASB "aims to consider sustainability topics for standards-setting when consensus among issuers and investors indicates that the topic is reasonably likely to have a material impact on most companies in the industry,"[15] using a vote of each industry working group with a 75% approval threshold. This does not align with the definition of materiality under U.S. law. The determination of materiality under U.S. law for the purposes of SEC disclosure should be based on the views of the reasonable investor.

Also, some investors have argued that the SEC's interpretation of materiality with regard to sustainability factors should be changed to reflect the needs of long term investors, a view that SASB should consider as it evaluates the standard setting process.[16] CalPERS has urged the SEC "to consider all potential improvements to the current disclosure regime for the benefit of investors, such as clarifying the definition of materiality to reflect long-term investor needs, including more decision-useful information in disclosures."[17]

We recommend that the SASB Board or Investor Advisory Group consider to what extent the views of the reasonable investor are captured by the vetting process, and whether more weight could be ascribed to the views of the reasonable investor. We also recommend you consider investors' concerns about the SEC's current definition of materiality, and whether they should be a factor in SASB's standard setting process.

SASB's standard setting process is not sufficiently focused on systemic risks[18] such as climate change, political contributions, human capital factors, and supply chain human rights risks

Ceres' position is that investors require comparable data in SEC filings about systemic risks to their portfolios. Notes 14-17 discuss investors who have asked the SEC to improve disclosure of

[14] Ceres, The 21st Century Corporation: The Ceres Roadmap for Sustainability (2010) at 24-31.
[15] SASB Conceptual Framework at 15-16.
[16] CalPERS response to SEC Concept Release at 2.
[17] CalPERS response to SEC Concept Release at 36.
[18] Thomas P. DiNapoli, New York State Comptroller response to SEC Concept Release, July 21, 2016 at 2-3: "The sustainability issues that we take into consideration are either material to particular investments, systemically important, or both. I believe there should be a framework for reporting material sustainability information that has the same rigor as the current regime for financial information. Disclosure of sustainability issues that are systemically important and of industry-specific information that is material to investors should be required. In the absence of rigorous reporting requirements, investors are not assured of obtaining accurate information about various sustainability issues material to their investment and voting decisions."

systemic risks including climate change[19], political contributions[20], human capital factors[21], and supply chain human rights risks[22].

We appreciate SASB's efforts to provide detailed research on risks, such as climate change, that impact the vast majority (72 of 79) of the industries it covers.[23] However, SASB's approach often results in different indicators for use in different industries, which hinders comparability for an investor seeking to address a systemic issue such as climate change.

SASB should recognize investor demands for improved disclosure of systemic risks by considering improvements to the standards to create comparable disclosure metrics and expand the number of industries asked to report on these risks.

SASB does not sufficiently consider multi-capital or contextual reporting

Ceres recommends that companies disclosure information about sustainability context so investors can assess, in accordance with the GRI's reporting standards, how an organization contributes to the improvement or deterioration of economic, environmental, and social conditions at the local, regional, or global level.[24] The IIRC notes that organizations should disclose, "Significant factors affecting the external environment [including] aspects of the legal, commercial, social, environmental and political context that affect the organization's ability to

[19] DiNapoli response to SEC Concept Release at 4-5: "Because climate risks are systemic in nature, we believe the Commission's focus on climate change and carbon asset risk as a material sustainable issue and accompanying guidance for robust S-K disclosure is integral to our ability to continue to make informed climate risk-aware investments."

[20] David H. Zellner, Chief Investment Officer, Wespath Investment Management response to SEC Concept Release, July 21, 2016: "Wespath supports mandatory, uniform disclosure of political and lobbying expenditures. As a matter of best practice, we believe the board of directors should develop and publicly disclose guidelines for approving political and lobbying contributions. Furthermore, we believe the board should annually disclose the amounts and recipients of all meaningful monetary and non-monetary contributions made by the company during the prior fiscal year. Expenditures earmarked through a third-party should also be disclosed. . . . investors do not have clear, consolidated information to determine if corporate political expenditures are in the best interests of shareholders."

[21] UAW Retiree Medical Benefits Trust response to SEC Concept Release, July 15, 2016 at 4-5: "The Trust leads the Human Capital Management ("HCM") Coalition, made up of 25 institutional investors with over $2.5 trillion in assets. The HCM Coalition is focused on improving disclosure regarding HCM, a range of practices related to the management of employees, who are a key corporate asset. . . . The IRRC Institute study of risk factor disclosure found that few registrants made disclosures regarding human capital-related risks. . . . Minimal disclosures about human capital may have been sufficient in a prior era, when value was created primarily through physical assets, which are well represented in financial statements as well as narrative disclosures. Given the substantially greater role human capital and other intangible assets now play, investors do not have enough information on issuers' human capital management practices to make informed decisions on investment and voting. . . . Therefore, the Trust urges the Commission to evaluate the role of HCM in value creation, the type of information investors would find to be useful in decision making and the feasibility of adopting additional disclosure requirements to provide investors with a fuller picture of issuers' HCM practices and risk factors."

[22] Douglas Hoffner, Interim Chief Executive Officer, California Public Employees' Retirement System (CalPERS) response to SEC Concept Release, July 21, 2016: "Academic evidence shows that human capital factors such as gender equity and diversity are relevant for every sector, rather than merely the subset highlighted by SASB. Also, supply chain human rights considerations are relevant for nearly every sector, but only represented in a subset in SASB's standards." (p. 38)

[23] SASB's *Technical Bulletin – Climate Change* finds that 72 of SASB's 79 industries face material climate change-related risks.

[24] GRI Standards, *GRI 101: Foundation 2016* at 9.

create value in the short, medium or long term. They can affect the organization directly or indirectly (e.g., by influencing the availability, quality and affordability of a capital that the organization uses or affects)."[25]

The Sustainability Context Group, a network of corporate sustainability managers, practitioners, academics, analysts and advisors, recommends that companies should disclose, through the development of performance accounting standards, (1) who its stakeholders are, "(2) the duties and obligations it owes to them to manage its impacts on vital capitals in ways that can affect their well-being, (3) the carrying capacities of the capitals involved, and (4) its fair, just and proportionate shares of the responsibilities to maintain them, be they shared or exclusive."[26]

SASB's standards rarely take account of sustainability context. For example, the SASB Oil and Gas – Exploration and Production provisional standard proposes four accounting metrics for Reserves Valuation and Capital Expenditures focused on proved and probable reserves,[27] while Ceres has called for the SEC to require more detailed disclosure that places carbon asset risks in a broader context.[28]

Sustainability context-based reporting has won significant support from investors and businesses. In 2002, GRI included the concept in its standards and more recently, the Science Based Targets initiative (SBTi) has gained traction in driving ambitious corporate climate action. The SBTi defines science based targets as GHG reduction targets "in line with the level of decarbonization required to keep global temperature increase below 2°C compared to pre-industrial temperatures, as described in the Assessment Report of the Intergovernmental Panel on Climate Change (IPCC)."[29] The initiative has found that 327 companies are taking science-based climate action and 84 companies have approved science-based targets under its framework.[30]

SASB should analyze how its standards can better take into account sustainability context, especially in cases where a sustainability issues poses systemic risks that investors need to assess throughout their portfolio.

SASB should acknowledge that several sustainability reporting standards are important to improving sustainability disclosure in SEC filings

No one standard covers the universe of sustainability issues the companies should consider when assessing materiality for the purposes of SEC disclosure. Ceres' position is that the SEC should recommend that issuers use several reporting standards, including those discussed in the following paragraph, for disclosure in financial filings.

---

[25] The International <IR> Framework at 4-5.
[26] Sustainability Context Group website: http://www.sustycontext.org/about/.
[27] SASB Sustainability Accounting Standards, Proposed changes to provisional standards, Exposure drafts, Redline of standards for public comment, Extractives & minerals processing sector, Oil & Gas - Exploration & Production (2017) at 43-47.
[28] Mindy S. Lubber, President, Ceres and Director, Investor Network on Climate Risk, Ceres response to SEC Concept Release, July 21, 2016 at 3.
[29] http://sciencebasedtargets.org/faq/.
[30] http://sciencebasedtargets.org/companies-taking-action/

CalPERS has encouraged the SEC to pay particular attention to the following standards: CDP, the Global Real Estate Sustainability Benchmark (GRESB) for Infrastructure and for Real Estate, the Global Reporting Initiative (GRI), and SASB.[31] The New York State Comptroller noted "it is not clear that any one framework captures the entire range of issues that have a material impact on business performance. We urge the Commission to consider the information these frameworks and other industry-specific guidance [GRI, the International Integrated Reporting Framework, SASB, CDSB, Ceres, IIGCC, CDP and the Investor Environmental Health Network] provide in its effort to develop reporting standards."[32]

If the SEC recommends the use of SASB's standards to the exclusion of other standards, there is a risk that the use of SASB's standards by issuers and the SEC may drive a de facto materiality definition which excludes material information from financial filings. This could have a profound effect on companies and investors, limiting the scope of companies' work on long term sustainability performance and limiting disclosure to the detriment of investors.

We appreciate SASB's efforts in its communications, reports and other forum to discuss SASB's alignment and complementarity with different reporting frameworks such as GRI, CDSB and the IIRC. We urge you to clarify your communications to note that other frameworks besides SASB provide metrics that are useful for disclosure in SEC filings.

SASB should consider modifying water-focused metrics to a number of industries and adjusting the SASB standard setting process, as it pertains to water, to better characterize and capture the full range of material water issues going forward

Ceres recently released the Investor Water Toolkit, a resource for investors on water risk integration across the investment decision-making process. The Toolkit was developed in collaboration with members of Ceres' Investor Water Hub, a group of over 90 institutional investors across the globe, representing over $19 trillion AUM, that are interested in understanding water issues and risks more fully. Ceres has been grateful for SASB's engagement throughout the development of the Toolkit.

The engagement with SASB focused on studying which industries were deemed by SASB's standard setting process to have significant or material water issues. A sub-group of investors from the Investor Water Hub was established and over an 18 month process this group and Ceres staff studied SASB's water metrics.

[31] CalPERS response to SEC Concept Release at 38.

[32] DiNapoli response to SEC Concept Release at 7: "There are a number of sustainability reporting frameworks and sources of industry specific guidance that the Fund uses. Examples include the Global Reporting Initiative, the International Integrated Reporting Framework, the Sustainability Accounting Standards Board, the Climate Disclosure Standards Board. Ceres, the Institutional Investor Group on Climate Change, CDP and the Investor Environmental Health Network. In our experience, all of these reporting frameworks provide information that has been of value to the Fund in assessing business performance and in informing investment decisions. However. it is not clear that any one framework captures the entire range of issues that have a material impact on business performance. We urge the Commission to consider the information these frameworks and industry-specific guidance provide in its effort to develop reporting standards."

The end result of this work are:

1. Industry-level water risk overview: A visual table and database that highlights which industries are exposed to water issues. For further details see: https://www.ceres.org/resources/toolkits/investor-water-toolkit/details#sector-analysis.
2. Case study of water risk exposure of four major investment indices: S&P 500, Russell 3000, MSCI World, and MSCI Emerging Markets, available at: https://www.ceres.org/resources/toolkits/investor-water-toolkit/details#off-canvas-1292.

From this analysis, Ceres water program staff[33] have the following comments and feedback:

1. **Succinct versus Comprehensive.** For many industries, we found the SASB disclosure metrics to be too narrow and not comprehensive enough. From conversations with SASB staff we understand that SASB aims to limit the number of disclosure standards per industry to the most material sustainability or water issues. If this is the case, then we believe it is important to disclose this goal of 'succinctness' and specifically the process to determine which water risks are "in" versus "out". For example, for the mining industry SASB has several water metrics, but we find many water risk issues are still missing (e.g. flooding risks). Investors using SASB metrics should be made aware that other risks and issues exist beyond SASB's disclosure requirements or that the SASB metrics are a starting point in understanding sustainability issues by industry and that further independent analysis should be conducted to get the full picture.

2. **Valuable Risk Mapping**. The work SASB has done up to now in mining news and evidence of material risks by sector, convening working groups and soliciting public feedback is already of great value to investors interested in understanding water and other sustainability risks more fully. Ceres and Investor Water Hub members found this work done to date to be very helpful. In particular it is useful for highlighting which industries have potentially high exposure to these risks and which questions should be asked by investors of their portfolio companies. We hope the Investor Water Toolkit showcases the utility of SASB's work to date and that it encourages further analysis by investors of water risks and issues or that it encourages others to use SASB's information to study other cross-cutting sustainability issues.

3. **Corporate Water Dependency, Security and Response.** The level of material investor water-risk exposure is a function of the extent and nature of the water-resource dependency of a company, the water-resource security of that company or entity, and management's response to mitigate any dependency or security risks. For further discussion of these variables see the Corporate Water Risk Dashboard in the Investor Water Hub.

[33] Dan Peckham of the Harvard Kennedy School was also involved in this project and is available for further discussion.

For some industries with high water issue exposure the SASB metrics ask for disclosure of one of the three types of variables which we believe are needed to fully understand water issues for a company, but often not of all three. For example, for some industries the water metrics ask for management to disclose policies or management strategies to deal with water issues but do not ask for disclosure of the water risk itself. We believe all three variables are needed to understand the significance or materiality of water risk exposure to the investor. We also believe asking corporate management to quantify potential financial exposure to water risks can be far more useful than just asking for volumes of water data. Requesting that corporate management disclose answers to the following three types of questions can go a long way in capturing information about the three key variables above:

i. Water Resource Dependency: "What do you do" – Where do water risks lie in your value chain, from supply chain to end of product lifecycle? And what are the potential financial impacts due to these water risks?
ii. Water Resource Security: "Where do you do it?" – What are the regions of concern, and what water risks are most relevant or material in those regions?
iii. Response to Water Risks: "What are you doing about it?" – What is the company's response to these risks?

If SASB wants to further build out the corporate response metrics related to water we encourage staff to study the indicators suggested in the Ceres Aqua Gauge. The Aqua Gauge proposes steps, policies and indicators to assess corporate water stewardship maturity. We encourage SASB staff to consider including the metrics recommended in the Quick Gauge Diagnostic in particular (the third tab in the excel based tool).

4. **Historic versus Future Indicators.** To understand as complex a sustainability issue such as water, as some of the comments above suggest, it is very useful to create a taxonomy that describes the utility of particular disclosure metrics. In addition to the water risk dashboard proposed earlier – separating metrics into vulnerability (risk) information from resilience (response) information, SASB could consider separating metrics into historic, point-in-time versus forecasting metrics or disclosures. The majority of water metrics proposed to date by SASB seem to be either historic or point-in-time related (e.g. report on number of operations in water stressed regions). We would encourage SASB to modify or create more metrics that can assist investors in gauging risks to future operations, revenue and earnings. For example, asking a company to disclose the amount of operations expected to be in high water risk regions over the next three years and the possible financial risks related to this exposure. Or the future capital expenditure required to manage future water supply and wastewater issues.

5. **Analysis of Water Metrics by Industry.** We would encourage SASB analysts covering the following industries to examine the way Ceres and Investor Water Hub members categorized and added to SASB's existing water metrics via the value chain mapping visual and the Toolkit Sector and Industry Water Risk database ("Water Risk database") in order to further modify and improve industry-specific disclosure metrics for: Agricultural Products, Meat, Poultry, and Dairy, Processed Foods, Non-Alcoholic Beverages, Alcoholic Beverages, E-commerce, Household & Personal Products, Medical

Equipment & Supplies, Pharmaceuticals, Home Builders, Real Estate Owners, Developers & Investment Trusts, Oil & Gas – Exploration & Production, Oil & Gas – Refining & Marketing, Oil & Gas – Services, Oil & Gas – Exploration & Production, Oil & Gas – Services, Coal Operations, Iron & Steel Producers, Metals & Mining, Water Utilities, Electric Utilities, Construction Materials, Biofuels, Pulp and Paper Products, Solar Energy, Chemicals, Containers & Packaging, Hotels and Lodging, Restaurants, Software & IT Services, Semiconductors, Internet Media & Services, Electronic Manufacturing Services & Original Design Manufacturing.

SASB may find it helpful to modify some of its own analysis by conducting some of the analyses that we found useful, namely:

i. We cross referenced SASB industry labels with the GICS taxonomy due to strong demand from Investor Water Hub members who are tied to the GICS system.

ii. We mapped where water risks lie in an industry's value chain (supply chain, direct operations, indirect operations, end of product life-cycle).

iii. We labelled where water issues and metrics were water quantity or quality issues in the visual map and further broke these down into water sourcing, supply chain or wastewater risks and a few others in the database (see column E in the Water Risk Database). This is a classification that we think will act as a helpful 'cheat-sheet' for investors and companies signaling what types of metrics will be most useful for particular types of risks.

iv. We separated water disclosure requirements into either indicators of Risk and Vulnerability or indicators of Response and Engagement (in alignment with the Water Risk Dashboard).

v. We found that many of SASB's water disclosure metrics were used repeatedly in different industries. We imagine SASB could perform a useful analysis of the three or four water disclosure metrics that are most common across almost all industries.

vi. We found the evidence of risk research conducted by SASB as critically important, highlighted the relevant analysis by industry, and added some of our own analysis (column J).

vii. We added a column (K) titled "Ceres Example Scenario and Stress Test Analysis" by industry, as we believe this type of modeling, by both companies and investors, is critical to understand future material risks.

viii. We added a column (P) which highlights existing industry specific initiatives that are focused on water issues.

ix. We spent a great deal of time providing input on supply chain risks related to food and beverage companies. We encourage you to review that information in particular for these industries, much of which is captured in the Ceres Feeding Ourselves Thirsty report.[34]

x. We found that a number of water risks are evolving rapidly – emerging contaminants from pharmaceuticals, fracking and seismicity and wastewater risks – and we assume SASB has a process to update metrics as these further emerge.

[34] https://feedingourselvesthirsty.ceres.org

6. For the **Water Utility industry** we would encourage SASB staff to look at the list of water risks to water utilities created by Ceres and a number of investors in the Municipal Bond Water Cheat Sheet in the Toolkit.[35]

7. **Revenue risks.** We occasionally added to SASB's water indicators because, for many industries, water risks are related to loss of social-license to operate, loss of market share, and loss of the ability to operate and collect or grow revenue. Too often water risks are deemed only operational or cost risks, when in fact water risks are often the most material as a top-line revenue risk. SASB water metrics would be improved by adding more social-license-to-operate metrics and risks to current and future revenues.

8. **Materiality Map**. We extensively studied SASB's Materiality Map, which we found to be a very useful tool for summarizing information. We would like to suggest a modification to the map that would greatly improve its utility for investors interested in water or analysis of specific sustainability themes or issues[36].
   i. If users could pick in a menu the term "water issues" and have the map filter and include only industries that have high exposure to water issues (leaving out those that are low exposure) and keep the rows that reference water issues then the materiality map would be greatly improved for analysis by issue (versus just industry). We found that water issues can be embedded in a number of "issue" rows including, "water and wastewater management, waste and hazardous materials management, biodiversity impacts, biodiversity impacts, materials sourcing, supply chain management." We would recommend keeping all of these rows in any future modifications to the map or future analysis of cross-cutting water issues.
   ii. Creating a downloadable excel version of the map would give investors more flexibility in analyzing SASB issues or metrics by issue and industry further.

9. **Technical Bulletin on Water.** We believe investors would very much value a technical bulletin on water, similar to the very valuable bulletin produced on climate risk by SASB. We hope Ceres water Toolkit analysis and ideas can make SASB's study of cross-cutting water risk issues more efficient and we would welcome a discussion on how we can help support SASB's production of a cross-cutting water report a reality.

Recommendations

One of SASB's greatest strengths is providing a limited number of reporting metrics, for each of 79 industries, that are likely to be material. Limiting the number of metrics in this way increases the chances that companies will use them, which would provide investors with comparable data and qualitative information useful for investment decisions, corporate engagements, and proxy voting. While we appreciate that corporations are more likely to use standards with fewer reporting metrics, we also recognize that sustainability is both relevant to financial performance and multifaceted. While it is useful at the beginning to limit reporting metrics, we do urge SASB

[35] https://www.ceres.org/resources/toolkits/investor-water-toolkit/details#munibond-water-risk-cheatsheet
[36] We only studied SASB's public version of its materiality map and analytics.

to expand the number of metrics over time to include the additional systemic and contextual risks discussed above.

Our specific recommendations:

- SASB should clarify to what extent specific parts of the SASB standard setting process attempt to capture short, medium or long term sustainability risks, how these time periods are balanced/weighted, and why that approach was chosen. We suggest that you consider changing the standard setting process to better capture long term risks.

- SASB should continue to convey the message that its standards are a starting point but not a limit, or a cap, on what sustainability issues companies in a specific industry should disclose in financial filings.[37]

- The SASB Board or Investor Advisory Group should consider to what extent the views of the reasonable investor are captured by the vetting process, and whether more weight could be ascribed to the views of the reasonable investor.

- SASB should recognize investor demands for improved disclosure of systemic risks by considering improvements to the standards to create more disclosure metrics that are comparable between industries, and expand the number of industries asked to report on these risks.

- SASB should analyze how its standards can better take into account sustainability context, especially in cases where a sustainability issues poses systemic risks that investors need to assess throughout their portfolio.

- We appreciate SASB's efforts in its communications, reports and other forum to discuss SASB's alignment and complementarity with different reporting frameworks such as GRI, CDSB and the IIRC. We urge you to clarify your communications to note that other frameworks besides SASB provide metrics that are useful for disclosure in SEC filings.

- SASB should consider modifying water-focused metrics to a number of industries as discussed in our comments below and amending the SASB standard setting process, as it pertains to water, in order to better capture the full range of material water issues going forward.

[37] See, for example, Timothy Smith, Director of Environmental, Social and Governance Shareowner Engagement and Heidi Soumerai, Managing Director, Director of ESG research, Walden Asset Management, Boston Trust & Investment Management Company, Walden Asset Management response to SEC Concept Release, July 21, 2016 at 4, "The SEC should take care not to create a structure that creates barriers to disclosure that exceeds minimum requirements. Better yet, Walden encourages the SEC to consider ways in which it could facilitate such disclosure, for example, through the use of hyperlinks to additional information provided by the company in more comprehensive documents. Many companies already disclose meaningful information that goes above and beyond the issues defined as material by SASB."

Again, thank you for your impressive work to create high quality sustainability reporting standards that will greatly improve corporate management of these issues and investor decisions.

We hope the above comments are helpful and please let us know, by contacting me at coburn@ceres.org, if a discussion related to these issues would be useful. Monika Freyman at freyman@ceres.org is also available to discuss our water-focused comments. We would be happy to clarify further and discuss any of the above points.

Thank you very much for your consideration.

Sincerely,

Jim Coburn
Senior Manager, Disclosure
Ceres