



January 30, 2018

Director of Research  
2017 Public Comment Period  
Sustainability Accounting Standards Board  
1045 Sansome St., Suite 450  
San Francisco, CA, 94111

#### PUBLIC COMMENT ON SASB EXPOSURE DRAFT STANDARDS

To the Sustainability Accounting Standards Board (SASB):

Thank you for the opportunity to provide feedback on SASB's Exposure Draft Standards. Our organizations welcome SASB's efforts to foster higher quality corporate disclosure on sustainability issues, and are especially supportive of your industry-specific, investor-focused approach. As leading financial firms increasingly offer products and services that incorporate environmental, social, and governance (ESG) factors, there is a greater need now than ever before for clear and accurate disclosure on corporate sustainability performance. SASB's systematic due diligence process and strong relationship with investors make it well-suited to close this gap.

The Exposure Draft Standards have made significant progress on identifying strong measures for environmental performance and corporate governance. However, human rights issues are not yet measured as effectively as they need to be under the SASB framework. In our conversations with investors of all backgrounds, we have consistently heard that these issues are precisely where more and better information is most needed. The Exposure Draft Standards take a constricted view of human rights issues, both structurally and substantively--representing important limitations of the current standards that must be addressed.

We are keen to work with the SASB team to help bring your human rights measures in line with the strength of the rest of the framework. To that end, we are outlining our priority concerns below.

#### **The Current Structure of the Exposure Draft Standards Reinforces an Overly Narrow Understanding of Human Rights**

In the current structure, the phrase "human rights" appears only once, under the social capital pillar in connection with community relations. A review of all pillars, however, reveals that human rights issues are present in the human capital, business model and innovation, and leadership and governance

portions of the framework, as well as in other categories under the social pillar. This characterization of “human rights” issues only being implicated in community relations is confusing and reinforces an overly narrow understanding of human rights and its relevance to company sustainability.

### **SASB’S Limited View of Human Rights Leads to Uneven Disclosure Requirements**

The limited view of human rights taken by SASB also contributes to the substantive differences the Exposure Draft Standards create among measures focused on workers within a company’s directly employed workforce and workers within its supply chain more generally. Under the current structure, directly employed workers are considered a part of a company’s human capital; however, workers further down its value chain are not. Instead, labor conditions in a company’s supply chain are placed under the leadership and governance pillar. As a result of this distinction, metrics relating to the issues of human capital may vary in relation to the types of information disclosed, based upon where in the supply chain workers are located.

Metrics focused on human capital regularly ask for evidence of outcomes. For instance, for food retailers and distributors, human capital metrics include: **FB0401-19**: Amount of legal and regulatory fines and settlements associated with (1) labor law violations and (2) employment discrimination; **FB0401-18**: Number and total duration of work stoppages; and **FB0401-16**: Average hourly wage and percentage of in-store employees earning minimum wage. In contrast, indicators that assess labor conditions in the supply chain under the leadership and governance pillar tend to focus on management practices rather than outcomes. Examples of these indicators include whether a company is conducting audits and developing action plans to address negative findings (See e.g., **CG0101-05** or **TA-09-03-01**). Unlike the human capital indicators, these measures do not provide insight into workers’ wages or hours worked, the frequency of strikes or other work stoppages, whether workers are compensated when rights violations occur, and whether corrective action plans are effective in addressing issues discovered in audits. We encourage SASB to revisit its supply chain metrics to ensure that all the worker outcomes in a company’s value chain are evaluated equally.

### **The Current Approach to Evaluating Cost-Effectiveness in SASB’s Metric Selection Undermines Adequate Disclosure of Material Human Rights Issues**

More broadly, we are also concerned with how SASB is assessing the relevance and cost-effectiveness criteria in its metric selection. Though SASB provides strong evidence of materiality for the topics included in the framework to ensure their relevance, it does not provide similarly strong evidence that the metrics selected to measure those topics in fact correlate with strong performance. For instance, as noted above, indicators **CG0101-05** and **TA-09-03-01** rely on audit data to evaluate supply chain conditions. However, there is considerable evidence that audit findings are often unreliable for a variety of reasons (see e.g., [Improving Work Conditions in a Global Supply Chain](#) (2006), [Ethical Audits and the Supply Chains of Global Corporations](#) (2016)) and certainly are not a sufficient sole basis for making this evaluation. We suggest that SASB comprehensively review the metrics currently advanced to ensure that there is evidence to support their relationship with the desired outcome.

The above issue is likely related to SASB’s stated approach of prioritizing data that companies are already collecting and disclosing. While it is both reasonable and desirable to consider cost-effectiveness in selecting metrics, we question the way in which SASB is currently evaluating cost-effectiveness, specifically the emphasis on whether companies are already collecting and disclosing the data. Our assessment is that the majority of data currently disclosed by companies on social issues is not effective

in capturing performance on material issues. We see this as presenting an opportunity for SASB to help guide and standardize company reporting around new, more accurate measures. While potentially requiring a reorientation of data collection in the short term, in the long term this could save companies and investors considerable resources by prioritizing only the most relevant data.

Responding to these concerns effectively will require a systematic review of SASB's social metrics, which we understand is not practical prior to the ratification of SASB's first metrics early this year. We suggest that you convene a small group of human rights experts to help you identify a path forward as soon as possible. NYU Stern Center for Business and Human Rights and ICAR stand ready to help SASB chart this new course towards increased and comprehensive consideration of human rights, and are happy to help organize such a discussion.

Sincerely,

A handwritten signature in black ink that reads "Michael Posner". The signature is written in a cursive, slightly slanted style.

Mike Posner  
Director, Center for Business and Human Rights  
NYU Stern School of Business

A handwritten signature in black ink that reads "Amol Mehra". The signature is written in a cursive, slightly slanted style.

Amol Mehra  
Executive Director, International Corporate Accountability Roundtable