oekom research AKTIENGESELLSCHAFT

Director of Research
2017 Public Comment Period
Sustainability Accounting Standards Board

Dear SASB team,

We welcome the development of the SASB Standards and the opportunity to comment on the proposed changes. In reviewing the proposed changes to the Standards we specifically focused on five sectors as examples:

- *Apparel, Accessories & Footwear*
- *Automobiles*
- *Commercial Banks*
- *Insurance*
- *Software & IT Services*

As one of the world's leading rating agencies in the area of sustainable investment, oekom research has extensive experience in the definition, operationalization and weighting of criteria and metrics to accurately assess companies' current and future performance and market position in terms of industry-specific sustainability challenges, risks and opportunities. As part of our rating methodology, we have defined a large number (>700) of environmental, social and governance indicators, including both cross-sectoral as well as industry-specific indicators. Of these, around 100 indicators are selected for the analysis of companies within each of the more than 50 industries we have defined. We believe that all indicators of the oekom corporate rating are material (i.e. relevant to the decision-making processes of investors, and with direct or indirect importance for the short-term or long-term financial development of the companies). However, as part of the oekom Materiality Assessment, the five most important core challenges ("Key Sustainability Issues") are defined for each industry. These represent both opportunities and risks. Indicators that represent the performance of companies in terms of these most material issues have a weighting of 50% or (often) more in the overall rating.

While our rating methodology covers more indicators than the individual metrics defined in the Standards, there is generally a high degree of correspondence between the Industry-Level Sustainability Topics defined by SASB and the Key Sustainability Issues defined by oekom research for the industries we reviewed. Particularly the substantiated explanations regarding the relevance of the Industry-Level Sustainability Topics, as well as the provision of clear definitions for the selected activity metrics and normalization factors, is a welcome development in order to align company reporting to the information needs of responsible investors.

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In our review of the selected Standards, however, we did observe that the language in the recommendations in many instances shifted and has become less mandatory in nature (e.g. should/may as opposed to shall). Although we recognize that the Standards are voluntary, we believe that the use of clear and binding language sends an important signal to companies seeking orientation as to what material issues they should report on. By weakening the language, there is a risk that disclosures will be much more self-selective. It should be noted that if reporting were only limited to a few indicators there is a risk that information would not be disclosed, which on a case-by-case basis could prove itself to be material. This would hinder the ability of research providers, investors and asset managers to perform adequate materiality, risk and performance analyses.

Besides these general remarks, we have the following specific remarks regarding the standards of the reviewed sectors:

Apparel, Accessories & Footwear

- *TA09-01-01. Discussion of environmental and social risks associated with sourcing priority raw materials:* We regard as very positive the addition of this qualitative accounting metric. Especially the metric specification .25 *"The registrant shall discuss its approach to managing risks associated with the use of raw materials in its products, including physical limits on availability, access, price, and reputational risks"* is seen as important as these risks can only partly be addressed by the second metric "*Percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard*". This is due to the fact that there is yet no third-party certified environmental and social standards available on the market covering all relevant raw materials and all relevant social and environmental aspects, which leaves reputational risks for companies that only focus on these mentioned third-party certifications.

- The adding of *'Note to TA09-03-01'* is seen as a welcome first step to encourage companies to focus not only on compliance audits but also on cooperative relationships with suppliers and capacity building. Numerous studies and the experience of the last decades of compliance-focused sourcing models show that they are not sufficient to really tackle poor working conditions and labour rights risks at supplier factories. Reputational risks can only be minimised if there is a stronger focus on cooperative, long-term relationships with suppliers. Better working conditions can help to strengthen employee loyalty and thereby improve productivity and quality. In the light of recent labour shortages in major producing countries such as China, this can be financially beneficial, as lower turnover rates and higher worker satisfaction can also reduce the risk of supply chain disruptions.

- The key topic 'Circular Economy' is surprisingly completely missing. This is the decisive topic for the future of the textile industry, which as of now operates in an almost completely linear way. Companies who do not address issues such as longevity, reusability and recyclability and only focus on the existing linear sourcing model will probably not be profitable in the future.

Automobiles

- *TA05-02-01. Discussion of strategies and approach to managing fleet fuel economy and emissions risks and opportunities*: New important inclusion to the standard. Fleet consumption will remain a key issue in the industry for the coming years, especially with expected tightened regulation regarding emission limits.

- *TA05-04-01. Percentage of materials costs for items containing critical materials:* Conflict minerals remain a very important aspect in the automobiles industry. It is unclear why the materials are now labelled ‚critical materials' as opposed to ‚conflict minerals', but the precise definition of the relevant materials nonetheless makes it easier for companies and other stakeholders to understand which materials are concerned.

- *TA05-04-02. Discussion of the management of risks associated with the use of critical materials; .55: "The registrant may identify which materials and minerals present a risk to its operations, the type of risk they represent, and the strategies the registrant uses to mitigate the risk":* The weakening of this requirement by changing the wording from 'should' to 'may' does not seem plausible.

- The standard does not yet cover two very important issues for the sector: 1) IT security, as part of the Product Safety topic (e.g. functionality of assistance systems as well as anti-hacking measures), and 2) Use of life cycle assessments to calculate lifetime emissions/consumption of resources of both vehicles with combustion engines as well as electric vehicles.

Commercial Banks

- Activity metric *TA02-12-B*: The addition of a new accounting metric requesting improved disclosure of the loan portfolio according to (1) number and (2) value of loans by segment is a very welcome development. Reporting on this metric is often lacking and is necessary in order to contextualize the magnitude (and relative importance) of data provided regarding single products (e.g. green loans). However, it is unclear why it is proposed that mortgage loans should be excluded from the scope of disclosure.

- *TA02-01-01. Number of no-cost retail checking accounts provided to previously unbanked or underbanked customers:* The new focus on previously unbanked or underbanked individuals is also a welcome development. However, the proposed quantitative metric using number of accounts/products as opposed to value or percentage as a unit of measurement can be problematic. Absolute numbers can be misleading as they give limited insight into the actual magnitude/importance of the product (e.g. vis-à-vis the total loan portfolio).

- The deletion of metric *FN0101.17 Amount and percentage of lending and project finance that employs: (1) Integration of ESG factors; (2) Sustainability themed lending or finance; (3) Screening (exclusionary, inclusionary, or benchmarked); (4) Impact or community lending or finance* is problematic. While the proposed discussion and analysis metrics for the integration of ESG factors in Credit Risk Analysis are important to understand the approach companies are following, these quantitative measures also offer important insight into the extent to which the integration approach has in fact been implemented. A comprehensive integration approach with only a limited application scope can potentially pose significant risks. In addition, as discussions around the SDGs and sustainable finance further develop, investor interest in metrics related to sustainability themed finance will increase.

Insurance

- There are several positive additions, such as *TA02-53-01 Total amount of losses as a result of legal proceedings associated with failure to provide adequate, clear, and transparent information about products and services* and *TA02-52-01 Discussion of products and/or product features that incentivize health, safe, and/or environmentally responsible actions and/or behaviors*.

- We especially welcome metrics such as *FN0301-07 Net premiums written related to energy efficiency and low carbon technology* and *TA02-52-01, .63 Quantitative measures related to performance on underwriting of products with clauses incentivizing healthy, safe, and/or environmentally responsible actions or behavior such as: Number of policies incorporating such clauses; Amount of premiums in U.S. dollars generated from the relevant products; Quantitative measures of the associated social and environmental factors influenced through products*.

- The deletion of *FN0301-10 Average number of days from reported claim to settlement of claims* does not seem plausible. This metric remains relevant in our view, as it shows how responsibly the company treats claims.

- There are some existing and new indicators which could be even more useful when extended a little further. For example, when *TA02-53-02, .43 „the registrant shall describe how it ensures that the information provided to new and returning customers is communicated in a clear and conspicuous manner*", the registrant should also show that this information transparently explains costs and risks of a product. Moreover, when *TA02-50-01, .21 „the registrant shall describe the* *process for incorporation of clauses in the insurance policies sold to clients that incentivize reduction of exposure to climate-related risks of insured assets through pricing structure of the policies*", most incentives mentioned concern the reduction of risk of damage and thus claims. What we would want to see are incentives to reduce the causes of climate change (e.g. reducing emissions).

- Still not included in the revised Standard are metrics regarding responsible sales practices (training, responsible sales target-setting, commission payments, etc) and a description of how the registrant incentivizes not only the reduction of climate change risks but also environmental risks more broadly, as well as social risks, e.g. regarding human rights.

Software & IT Services

- Inclusion of a new accounting metrics regarding Data Security (*TA03-06-01: Number of customers affected* & *TA03-05-01 Percentage of operations, by revenue, independently certified to a suitable third-party cybersecurity management standard*) is seen as a positive addition to the standard.

- The Standard does not yet cover two very important issues for the sector: 1) Digital inclusion (in terms of accessibility of products and services especially for people with physical disabilities). Software products and IT services should be accessible and usable for everyone, e.g. to be able to participate in society and more specifically in a professional world. The topic has direct financial implications, i.e. companies can potentially expand their customer base by offering accessible products and services. 2) Products and services with social and environmental benefits: particularly in a sector driven by innovation, looking at offerings with clear sustainability opportunities (as opposed to only risks) is an aspect investors are increasingly seeking information on.

In case you have any questions regarding our input, please do not hesitate to contact us. We appreciate the opportunity to offer our comments and look forward to following the future development of the Standards and to further cooperation opportunities with SASB.

Kind regards,

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