



CONSUMER GOODS SECTOR

APPAREL, ACCESSORIES & FOOTWEAR

Sustainability Accounting Standard

Sustainable Industry Classification System® (SICS®) CG-AA

Prepared by the
Sustainability Accounting Standards Board

October 2018

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APPAREL, ACCESSORIES & FOOTWEAR

Sustainability Accounting Standard

About SASB

The SASB Foundation was founded in 2011 as a not-for-profit, independent standards-setting organization. The SASB Foundation's mission is to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors.

The SASB Foundation operates in a governance structure similar to the structure adopted by other internationally recognized bodies that set standards for disclosure to investors, including the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). This structure includes a board of directors ("the Foundation Board") and a standards-setting board ("the Standards Board" or "the SASB"). The Standards Board develops, issues, and maintains the SASB standards. The Foundation Board oversees the strategy, finances and operations of the entire organization, and appoints the members of the Standards Board.

The Foundation Board is not involved in setting standards, but is responsible for overseeing the Standards Board's compliance with the organization's due process requirements. As set out in the *SASB Rules of Procedure*, the SASB's standards-setting activities are transparent and follow careful due process, including extensive consultation with companies, investors, and relevant experts.

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Table of Contents

- Introduction.....4**
- Purpose of SASB Standards.....4
- Overview of SASB Standards.....4
- Use of the Standards.....5
- Industry Description.....5
- Sustainability Disclosure Topics & Accounting Metrics.....6**
- Management of Chemicals in Products.....8
- Environmental Impacts in the Supply Chain.....14
- Labor Conditions in the Supply Chain.....19
- Raw Materials Sourcing.....24

INTRODUCTION

Purpose of SASB Standards

The SASB’s use of the term “sustainability” refers to corporate activities that maintain or enhance the ability of the company to create value over the long term. Sustainability accounting reflects the governance and management of a company’s environmental and social impacts arising from production of goods and services, as well as its governance and management of the environmental and social capitals necessary to create long-term value. The SASB also refers to sustainability as “ESG” (environmental, social, and governance), though traditional corporate governance issues such as board composition are not included within the scope of the SASB’s standards-setting activities.

SASB standards are designed to identify a minimum set of sustainability issues most likely to impact the operating performance or financial condition of the typical company in an industry, regardless of location. SASB standards are designed to enable communications on corporate performance on industry-level sustainability issues in a cost-effective and decision-useful manner using existing disclosure and reporting mechanisms.

Businesses can use the SASB standards to better identify, manage, and communicate to investors sustainability information that is financially material. Use of the standards can benefit businesses by improving transparency, risk management, and performance. SASB standards can help investors by encouraging reporting that is comparable, consistent, and financially material, thereby enabling investors to make better investment and voting decisions.

Overview of SASB Standards

The SASB has developed a set of 77 industry-specific sustainability accounting standards (“SASB standards” or “industry standards”), categorized pursuant to SASB’s [Sustainable Industry Classification System® \(SICS®\)](#). Each SASB standard describes the industry that is the subject of the standard, including any assumptions about the predominant business model and industry segments that are included. SASB standards include:

1. **Disclosure topics** – A minimum set of industry-specific disclosure topics reasonably likely to constitute material information, and a brief description of how management or mismanagement of each topic may affect value creation.
2. **Accounting metrics** – A set of quantitative and/or qualitative accounting metrics intended to measure performance on each topic.
3. **Technical protocols** – Each accounting metric is accompanied by a technical protocol that provides guidance on definitions, scope, implementation, compilation, and presentation, all of which are intended to constitute suitable criteria for third-party assurance.
4. **Activity metrics** – A set of metrics that quantify the scale of a company’s business and are intended for use in conjunction with accounting metrics to normalize data and facilitate comparison.

Furthermore, the *SASB Standards Application Guidance* establishes guidance applicable to the use of all industry standards and is considered part of the standards. Unless otherwise specified in the technical protocols contained in the industry standards, the guidance in the SASB Standards Application Guidance applies to the definitions, scope, implementation, compilation, and presentation of the metrics in the industry standards.

The *SASB Conceptual Framework* sets out the basic concepts, principles, definitions, and objectives that guide the Standards Board in its approach to setting standards for sustainability accounting. The *SASB Rules of Procedure* is focused on the governance processes and practices for standards setting.

Use of the Standards

SASB standards are intended for use in communications to investors regarding sustainability issues that are likely to impact corporate ability to create value over the long term. Use of SASB standards is voluntary. A company determines which standard(s) is relevant to the company, which disclosure topics are financially material to its business, and which associated metrics to report, taking relevant legal requirements into account¹. In general, a company would use the SASB standard specific to its primary industry as identified in *SICS*[®]. However, companies with substantial business in multiple *SICS*[®] industries can consider reporting on these additional SASB industry standards.

It is up to a company to determine the means by which it reports SASB information to investors. One benefit of using SASB standards may be achieving regulatory compliance in some markets. Other investor communications using SASB information could be sustainability reports, integrated reports, websites, or annual reports to shareholders. There is no guarantee that SASB standards address all financially material sustainability risks or opportunities unique to a company's business model.

Industry Description

The Apparel, Accessories & Footwear industry includes companies involved in the design, manufacturing, wholesaling, and retailing of various products, including men's, women's, and children's clothing, handbags, jewelry, watches, and footwear. Products are largely manufactured by vendors in emerging markets, thereby allowing companies in the industry to primarily focus on design, wholesaling, marketing, supply chain management, and retail activities.

¹ **Legal Note:** SASB standards are not intended to, and indeed cannot, replace any legal or regulatory requirements that may be applicable to a reporting entity's operations.

SUSTAINABILITY DISCLOSURE TOPICS & ACCOUNTING METRICS

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Management of Chemicals in Products	Discussion of processes to maintain compliance with restricted substances regulations	Discussion and Analysis	n/a	CG-AA-250a.1
	Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products	Discussion and Analysis	n/a	CG-AA-250a.2
Environmental Impacts in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreement ²	Quantitative	Percentage (%)	CG-AA-430a.1
	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment	Quantitative	Percentage (%)	CG-AA-430a.2
Labor Conditions in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor	Quantitative	Percentage (%)	CG-AA-430b.1
	Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits ³	Quantitative	Rate	CG-AA-430b.2
	Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	Discussion and Analysis	n/a	CG-AA-430b.3
Raw Materials Sourcing	Description of environmental and social risks associated with sourcing priority raw materials	Discussion and Analysis	n/a	CG-AA-440a.1
	Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard	Quantitative	Percentage (%) by weight	CG-AA-440a.2

² Note to **CG-AA-430a.1**– The entity shall discuss its supply chain risks associated with discharge of water from supplier facilities and describe how it manages these risks.

³ Note to **CG-AA-430b.2**– Disclosure shall include a discussion of additional context around supply chain auditing, such as audit methodologies and supply chain transparency.

Table 2. Activity Metrics

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1 ⁴	Quantitative	Number	CG-AA-000.A

⁴ Note to **CG-AA-000.A** – Tier 1 suppliers are defined as suppliers that transact directly with the entity, such as finished goods manufacturers (e.g., cut and sew facilities). Suppliers beyond Tier 1 are the key suppliers to the entity's Tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, and/or slaughter houses) The entity shall disclose whether any supplier data beyond Tier 1 is based on assumptions, estimates, or otherwise includes any uncertainty.

Management of Chemicals in Products

Topic Summary

The introduction of the Consumer Product Safety Improvement Act in the U.S. and the Registration, Evaluation, Authorization, and Restriction of Chemicals legislation in the EU demonstrates increasing regulatory and stakeholder concern surrounding the use of harmful or potentially harmful substances in consumer products, including apparel, accessories, and footwear. Finished apparel and footwear products have been found to contain traces of chemicals that have been banned or regulated. Depending on the chemical, the amount present in a product, and the type of exposure that consumers face, specific substances can be carcinogenic, and can disrupt hormone activity in humans and other organisms. Failure to manage this issue may generate additional regulatory oversight and impact a company's social license to operate. In addition, the presence of harmful chemicals in products can lead to recalls, litigation, and reputational damage. Companies in this industry can work in both the design and manufacturing phases to manage the use of chemicals of concern, develop safe alternatives, and eliminate those that have been banned. Given the industry's reliance on outsourced manufacturing, this involves proactive partnerships with suppliers. In managing this issue, companies must balance the hazard posed to consumers presented by certain chemicals with the quality of a product and its costs of production.

Accounting Metrics

CG-AA-250a.1. Discussion of processes to maintain compliance with restricted substances regulations

- 1 The entity shall discuss the processes it uses to verify that its products are in compliance with the restricted substances regulations to which the entity is subject.
 - 1.1 Restricted substances regulations are defined as laws, rules, and regulations that restrict or ban the use of certain materials, chemicals, and substances in finished home textile, apparel, and footwear products.
- 2 The entity shall discuss its use of finished product and product input laboratory testing and verification, restricted substance lists (RSL), material supplier (i.e., vendor) agreements, and/or input stream management.
 - 2.1 An RSL is defined as a list of chemicals that the entity restricts from inclusion in materials, components, and products that it produces. This list typically includes the common names of the chemicals, the Chemical Abstracts Service (CAS) numbers, the restriction levels in the final product or tested component, and the test method.
 - 2.2 Material supplier agreements are defined as contracts between the entity and its manufacturing suppliers that limit regulated substances to their restricted levels in the products that the supplier manufactures.

- 2.3 Input stream management is defined as a preventive process for monitoring and optimizing chemical recipes, proactive reactants and reagents, or material inputs.
- 3 The entity shall discuss the verification and testing processes it employs to confirm that its materials maintain compliance with restricted substances regulations, including:
 - 3.1 Whether the entity tests each product input or finished products
 - 3.1.1 Product inputs are defined as the component(s) of the finished product
 - 3.2 Whether the entity conducts its own lab testing or if testing is done by a third party
 - 3.3 The frequency of testing, including whether or not random sampling is conducted
 - 3.4 Whether the entity has a standard operating procedure (SOP) for verifying compliance with restricted substances regulations as a part of its material selection and approval process
- 4 The entity shall describe the scope of the RSL(s) it uses, including whether it:
 - 4.1 Uses separate RSLs to manage legal compliance within each market it operates in or applies a single RSL to products in all markets in which it operates, regardless of whether the RSL contains chemicals that are not be regulated in certain markets.
 - 4.2 Uses one or more RSL that it has independently developed or if it uses an industry-accepted RSL.
 - 4.2.1 An industry-accepted RSL is defined as an RSL that is promulgated by an industry or trade organization (e.g., [American Apparel & Footwear Association \(AAFA\) RSL](#), February 2018 | Release 19).
 - 4.3 Uses an RSL that reflects the strictest regulation in all the countries or markets in which the brand operates and sells products (e.g., regulations that apply to manufacturing, marketing, and sales locations).
 - 4.3.1 Strictest regulation is defined as the lowest allowable concentration of the regulated chemical found in any regulation in all locations worldwide where the chemical is regulated.
 - 4.4 Uses an RSL that reflects the most restrictive allowable limits in all locations worldwide where the chemicals that may be used in the entity's products are regulated.
 - 4.4.1 An example of an RSL that reflects the most restrictive allowable limits worldwide is the AAFA RSL, February 2018 | Release 19.
 - 4.5 Uses one or more RSL that includes voluntary limits or bans of chemicals beyond what is covered in the most restrictive global regulations, or if it includes chemicals that may not be subject to regulation but which the entity has voluntarily chosen to limit or ban from its products.

- 4.5.1 An example of an RSL that includes chemicals that may not be subject to regulation, but which a entity may voluntarily have chosen to limit or ban from its products, is the RSL contained in the AFIRM RSL Guidance.
- 5 The entity shall disclose whether the RSL(s) it uses is publicly available and shall disclose its location.
 - 5.1 Public disclosure is defined as online disclosure of the full list of chemicals on the RSL, their restriction limits, and the regulations to which the chemicals are subject.
- 6 The entity shall disclose how it enforces compliance with restricted substances regulations within its supply chain, including:
 - 6.1 How it requires its suppliers to demonstrate adherence (i.e., through self-declaration or if the entity includes RSL compliance requirements in supplier contracts/agreements)
 - 6.2 Which tiers (i.e., Tier 1 or beyond Tier 1) of suppliers the entity directly verifies to be in compliance with restricted substance regulations
 - 6.2.1 Tier 1 suppliers are defined as suppliers that transact directly with the entity, such as finished goods manufacturers (e.g., cut and sew facilities).
 - 6.2.2 Suppliers beyond Tier 1 are the key suppliers to the entity's Tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, and/or slaughter houses).
 - 6.3 How the entity enforces corrective actions when it identifies non-compliance with its RSL(s)
- 7 Disclosures generally correspond to the Sustainable Apparel Coalition's (SAC) Higg Brand & Retail Module.

CG-AA-250a.2. Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products

- 1 The entity shall discuss the business and operational processes it employs to assess and manage potential risks and hazards associated with materials, chemicals, and substances (hereafter "chemicals").
 - 1.1 The scope of disclosure excludes chemicals management processes for chemicals used during manufacturing and production processes or that are associated with the production of raw materials or components of its products, but which are not present in finished products, which are addressed through CG-AA-430a.2.
- 2 Where chemicals management policies and practices differ significantly by business unit, product category, or geography, the entity shall describe those differences.

- 3 The entity shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:
 - 3.1 A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and dosages (amounts) of a substance it takes to cause an adverse effect.⁵
 - 3.2 A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure (i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.⁶
 - 3.3 Other approaches may include the use of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.
- 4 The entity shall discuss the operational processes it employs for chemicals management, where:
 - 4.1 Relevant operational processes used for hazard-based approaches include the exclusion of chemicals in a finished product because their use is prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in the entity's products (e.g., use of a comprehensive restricted substances list (RSL) for chemicals that are banned globally or in locations where the entity operates).
 - 4.2 Relevant operational processes that typify risk-based management include evaluating chemical hazard data, conducting assessment of exposure pathways, and identifying potential corresponding health risks through the use of screening methods and chemical risk framework tools, such as the World Health Organization's (WHO) [Human Health Risk Assessment Toolkit: Chemical Hazards](#), the International Council of Chemical Association's (ICCA) [Guidance on Chemical Risk Assessment](#), and the Outdoor Industry Association's (OIA) [ChemUnity Guide of Chemicals Management Solutions](#).
 - 4.3 Additional frameworks for hazard- and risk-based chemical assessment include those compiled by the [Organisation for Economic Co-operation and Development \(OECD\)](#).
- 5 The entity shall describe its approach to chemicals management in the context of each stage in its products lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.

⁵ Definition adapted from "International Programme on Chemical Safety (ICS) and World Health Organization, 2001, " [Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," and American Chemistry Council, "Understanding Risk and Hazard When it Comes to Chemicals," accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

⁶ Definition adapted from "International Programme on Chemical Safety (ICS) and World Health Organization, 2001, " [Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," and American Chemistry Council, "Understanding Risk and Hazard When it Comes to Chemicals," accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

- 6 The entity shall describe how it prioritizes chemicals for reduction and/or elimination from its products and how it works to incorporate alternative chemicals into product formulation and design, including through materials substitution assessments.
- 7 The entity shall describe whether it designs its products according to one or more green chemistry principles, including how it prioritizes a set of chemicals from its full product portfolio and evaluates sourcing options and potential material innovation.
 - 7.1 Green chemistry principles are defined by the [12 Principles of Green Chemistry](#).
 - 7.2 A product shall be considered to have been designed with green chemistry principles if documentation shows that tools, frameworks, standards, and/or certifications were used to incorporate one or more green chemistry principle into the design, materials selection, manufacturing processes, use-phase, and/or end-of-life disposal of the product.
- 8 The entity shall disclose whether it pursues third-party certifications to verify the chemical content of its finished products, including which certifications it holds and which products the certifications apply to.
 - 8.1 Examples of third-party certifications that verify chemical content in products include, but are not limited to, OEKO-TEX Standard 100 Certification, Eco-Passport, Bluesign, and Intertek Eco- Certification.
- 9 The entity shall describe how it works with its suppliers to manage risks and/or hazards associated with chemicals in products, including:
 - 9.1 Whether and how it works with its suppliers to implement its green chemistry program, if extant, and if it rewards suppliers for participating.
- 10 The entity may identify chemicals found in its finished products that it is targeting for reduction, elimination, or assessment for reasons, as determined by the entity, such as:
 - 10.1 There is incomplete and/or insufficient availability of toxicity information such that the entity cannot determine if the chemical is safe for use.
 - 10.2 Pending or anticipated regulations may limit or restrict the use of the chemical in the future.
 - 10.3 There is potential for environmental, but not human health, harm that the entity wishes to limit.
 - 10.4 In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the entity as being “of concern” to consumers, customers, regulators, and/or others (such as non-governmental organizations or scientific researchers).

10.5 Specific chemicals to discuss may include, but are not limited to, those found on the California Department of Toxic Substances Control [Priority Product Work Plan](#).

11 Where the entity has identified specific chemicals for elimination or substitution, it may discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals.

12 Disclosures generally correspond to the Sustainable Apparel Coalition's Higg Brand & Retail Module.

Environmental Impacts in the Supply Chain

Topic Summary

The Apparel, Accessories & Footwear industry's global supply chain contributes significantly to environmental externalities through water consumption and pollution, as well as air pollution. Water pollution results from the discharge of chemicals during water-intensive dyeing and tanning processes, while air pollution stems from the industry's energy use. These impacts have the potential to damage a company's reputation and to affect cost structures over time. The scale of this issue has historically been intensified by the fact that the industry relies on manufacturing partners in emerging markets where environmental regulations and oversight are limited. However, enhanced scrutiny on the part of stakeholders and consumers, coupled with the development of more stringent regulation in certain regions, has led companies throughout the industry to work with suppliers to reduce their environmental impact. Apparel, accessories, and footwear companies that leverage their market power to work with suppliers to improve operational efficiencies and resource consumption and limit pollution will be able to mitigate costs associated with increased resource scarcity and regulation. Further, those that engage with suppliers through monitoring, auditing, and strict standards will likely be better positioned to protect shareholder value over the long term.

Accounting Metrics

CG-AA-430a.1. Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreements

- 1 The entity shall disclose the percentage of (1) its Tier 1 supplier facilities and (2) its supplier facilities beyond Tier 1, that are in compliance with wastewater discharge permits and/or contractual agreements.
 - 1.1 Tier 1 suppliers are defined as suppliers that transact directly with the entity, such as finished goods manufacturers (e.g., cut and sew facilities).
 - 1.2 Suppliers beyond Tier 1 are the key suppliers to the entity's Tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, and/or slaughter houses).
 - 1.3 A supplier facility shall be considered to be in compliance with applicable permits and/or contractual agreements if it meets the limits established by local legal or regulatory requirements for each chemical during testing conducted by local officials and by the entity, and if the facility has not received a wastewater discharge violation during the reporting period.
 - 1.3.1 The determination of facility compliance with permits and/or contractual agreements is aligned with the Sustainable Apparel Coalition's (SAC) Higg Facility Environment Module (FEM), Section 4 - Wastewater/Effluent, Level 1, Question 2.

- 1.4 The entity shall calculate the percentages by dividing the number of supplier facilities (in each respective category) in compliance with wastewater discharge permits and/or contractual agreements by the total number of supplier facilities (in each respective category).
 - 1.4.1 The entity may indicate the degree of estimation it uses in the calculation, if the entity does not know its complete list of suppliers beyond Tier 1.

- 2 The scope of disclosure includes supplier facilities that discharge industrial wastewater from any building, activity, piece of equipment, or process that uses water and conduct any of the following: dyeing, tanning, lamination, laundry/washing, wet finishing, boiler blow-down, steam generation, cooling waters, cleaning, printing, screen printing, and degreasing.
 - 2.1 Wastewater treatment may occur on-site at the supplier facility and off-site (i.e., sent to a wastewater treatment facility).

- 3 If the entity reports against a wastewater standard in addition to – or in lieu of – reporting to a permit and/or contractual agreement, the entity may disclose the percentage of its Tier 1 supplier facilities, and supplier facilities beyond Tier 1, that meet all parameters specified in the applicable wastewater standard(s).
 - 3.1 Wastewater standards are wastewater guidelines other than permits and/or contractual agreements, including, but not limited to: the [Zero Discharge of Hazardous Chemicals \(ZDHC\) Programme Wastewater Guidelines](#), [BSR Sustainable Water Group Water Quality Guidelines](#), and [The Institute of Public & Environmental Affairs \(IPE\) wastewater guidelines](#).
 - 3.1.1 The determination of facility meeting of all parameters specified in the applicable wastewater standards is aligned with the SAC’s Higg FEM, Section 4 - Wastewater/Effluent, Level 1, Question 2.
 - 3.2 The entity shall calculate the percentages by dividing the number of supplier facilities (in each respective category) that meet all parameters specified in the applicable wastewater standard(s) by the total number of supplier facilities (in each respective category).

Note to **CG-AA-430a.1**

- 1 The entity shall discuss, where applicable, its supply chain risks associated with discharge of water from supplier facilities and describe how it manages these risks.
 - 2.1 The scope of disclosure includes, but is not limited to:
 - 2.1.1 Environmental constraints, such as the ability to maintain compliance with regulations focused on the quality of effluent discharged to the environment, the ability to eliminate existing and emerging pollutants of concern, and the ability to maintain control over storm water discharges

- 2.1.2 Operational and/or financial constraints, such as increased liability and/or reputational risks, restrictions to discharges and/or increased operating costs due to regulation, stakeholder perceptions and concerns related to water discharges (e.g., those from local communities, non-governmental organizations, and regulatory agencies), and the ability to obtain discharge rights or permits
 - 2.1.3 How risks may vary by discharge destinations, including surface water, groundwater, or wastewater utilities
- 3 The entity shall briefly characterize the treatment methods used for wastewater discharge at supplier facilities, where treatment methods include:
 - 3.1 Primary treatment is defined as screening and settling—clarification in which solids settle and oil and grease float.
 - 3.2 Secondary treatment is defined as biological decomposition—degradation of organic content with aerobic and/or anaerobic biological treatment.
 - 3.3 Tertiary treatment is defined as any additional method to further improve water quality, such as disinfection, nutrient removal, or reverse osmosis/ultra filtration.
 - 3.4 The entity may disclose the percentage (by volume) of water treated and returned to the environment by each treatment method.
- 4 The entity shall describe the reasons for choosing wastewater discharge requirements for supplier facilities, which may include, but are not limited to:
 - 4.1 The type of effluents being discharged from supplier facilities
 - 4.2 The regulatory or voluntary standards that the entity or its suppliers are subject to
 - 4.3 The environmental setting of supplier facilities
 - 4.4 The financial implications of choosing such wastewater standards
- 5 The entity shall discuss how its wastewater discharge requirements address:
 - 5.1 Illegal substances
 - 5.2 Legally regulated substances
 - 5.3 Substances or discharge parameters that are not regulated or prohibited by law, but may be a specific pollutant or risk to textile manufacturing, such as use of pesticides, allergenic dyes, or tin-organic compounds, and pH value

- 6 The entity may describe its procedure for testing wastewater quality at supplier facilities, including the frequency of testing, whether testing is done internally or externally, and the testing parameters used.
- 7 The entity may describe any practices, programs, technology, or methods it utilizes to manage and improve wastewater quality and chemical formulations used at its supplier facilities.
 - 7.1 Relevant programs to discuss include adherence to certification schemes with wastewater discharge standards, including, but not limited to: [the Zero Discharge of Hazardous Chemicals \(ZDHC\) Programme Wastewater Guidelines](#), [BSR Sustainable Water Group Water Quality Guidelines](#), and [The Institute of Public & Environmental Affairs \(IPE\) wastewater guidelines](#).
 - 7.2 Disclosure is aligned with the SAC's Higg FEM, Section 4 - Wastewater/Effluent, Level 1, Question 2.

CG-AA-430a.2. Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment

- 1 The entity shall disclose the percentage of (1) Tier 1 supplier facilities, and (2) supplier facilities beyond Tier 1, that have completed the Sustainable Apparel Coalition's (SAC) [Higg Facility Environmental Module \(Higg FEM\)](#) assessment or an equivalent environmental data assessment.
 - 1.1 Tier 1 suppliers are defined as suppliers that transact directly with the entity, such as finished goods manufacturers (e.g., cut and sew facilities).
 - 1.2 Suppliers beyond Tier 1 are the key suppliers to the entity's Tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, and/or slaughter houses).
 - 1.3 The entity shall calculate the percentages by dividing the number of supplier facilities (in each respective category) that have completed the Higg FEM assessment or an equivalent environmental data assessment by the total number of supplier facilities (in each respective category).
 - 1.3.1 The entity may indicate the degree of estimation it uses in the calculation, if the entity does not know its complete list of suppliers beyond Tier 1.
 - 1.4 Supplier facilities shall be considered to have completed the assessment if the entity fully completes the applicable [Higg FEM Assessment Questions](#).
- 2 If the entity collects environmental inventory data from its suppliers without using the Higg FEM, the environmental data assessment shall be considered equivalent to the Higg FEM if the entity gathers inventory data and reduction targets for all applicable categories and criteria covered in the Higg FEM, including data on:

2.1 Environmental Management System

2.2 Energy & GHG

2.3 Water

2.4 Wastewater

2.5 Waste

2.6 Air Emissions

2.7 Chemicals Management

Labor Conditions in the Supply Chain

Topic Summary

The treatment of workers and the protection of worker rights in the Apparel, Accessories, & Footwear industry's supply chain is of growing concern among consumers, regulators, and leading companies. Critical aspects of this issue include employee health and safety, fair pay, child labor, and forced labor. Although companies continue to improve performance on this issue, the industry's reliance on a multitiered system of suppliers, subcontractors, labor recruitment firms, and part-time workers makes it difficult to manage. Because companies in the industry typically contract with suppliers in countries with the lowest direct costs, the industry's products are often manufactured in countries that have limited regulations or enforcement protecting workers. This dynamic can heighten a company's exposure to reputational risks and impacts on short- and long-term costs and sales. Such effects can arise from increasing regulation and its enforcement in response to high-profile safety or labor incidents, production disruptions due to strikes and other labor-related work stoppages, or through a shift in demand away from companies associated with such incidents. Companies with strong supply chain standards, monitoring, and engagement with suppliers to address labor concerns may therefore be better positioned to protect shareholder value over the long term.

Accounting Metrics

CG-AA-430b.1. Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor

- 1 The entity shall disclose the percentage of its (1) Tier 1 supplier facilities, and (2) supplier facilities beyond Tier 1, that have been audited to a labor code of conduct during the reporting period.
 - 1.1 Tier 1 suppliers are defined as suppliers that transact directly with the entity, such as finished goods manufacturers (cut and sew facilities).
 - 1.2 Suppliers beyond Tier 1 are the key suppliers to the entity's Tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, and/or slaughter houses).
 - 1.3 Audits are defined as visits to a supplier's facility and review of records to ensure compliance with the code of conduct.
 - 1.4 A labor code of conduct is a corporate policy, standard, or contract that outlines a set of working conditions, labor practices, and environmental health and safety requirements for suppliers and contractors. At a minimum, a code of conduct ensures that suppliers are in compliance with regulations.

- 1.4.1 Labor criteria in the code of conduct shall include, at a minimum, an assessment of worker hours/excessive overtime, nondiscrimination, minimum age requirements, compensation practices, freedom of association (worker involvement and communication), worker treatment and development (anti-harassment and anti-abuse policies), and termination and retrenchment policies.
 - 1.4.2 Environmental health and safety criteria in the code of conduct shall include, at a minimum, an assessment of building and occupational safety hazards and environmental provisions relating to human health and safety, including criteria focused on compliance with environmental laws, environmental permits, pollution prevention and source reduction, hazardous materials management, wastewater and solid waste management, and air emissions levels.
 - 1.4.3 Examples of apparel industry codes of conduct include the Fair Labor Association (FLA) [Workplace Code of Conduct](#) and [Compliance Benchmarks](#), and the Outdoor Industry Association (OIA) [Code of Conduct](#) in the Fair Labor Toolkit.
- 1.5 The entity shall calculate the percentages as the number of the entity's supplier facilities (in each respective category) that have been audited during the reporting period divided by the total number of the entity's supplier facilities (in each respective category).
 - 1.5.1 The entity may indicate the degree of estimation it uses in the calculation if the entity does not know its complete list of suppliers beyond Tier 1.
- 1.6 The scope of audits includes those conducted by the following parties:
 - 1.6.1 An internal corporate representative
 - 1.6.2 A third-party auditor
 - 1.6.3 Other brands or external third parties not commissioned by the entity in lieu of having an audit conducted solely for the entity's purpose
- 2 The entity may disclose the extent to which it has reduced audit duplicity by accepting audits conducted by other brands or external third parties.
- 3 The entity shall disclose the standards to which it measures labor code of conduct compliance.
 - 3.1 For internally developed supplier code(s) of conduct, the entity shall disclose the public location where such code(s) can be viewed.
- 4 The entity shall disclose the percentage of the total audits of its supplier facilities (regardless of tier) that were performed by an independent third-party auditor.

- 4.1 An independent third-party audit is defined as an audit conducted by an independent external organization to determine that the supplier facility complies with specific standards.
- 4.2 The entity shall calculate the percentage as the number of audits that were performed by an independent third-party auditor divided by the total number of audits conducted.
- 4.3 The scope includes audits conducted at Tier 1 supplier facilities as well as those beyond Tier 1.
- 5 The entity may describe its approach to auditing supplier facilities, including how the entity adjusts the scope and frequency of monitoring for supplier facilities based on potential risk factors and the continuous performance of the facility.
- 6 The entity may describe how it assesses and prioritizes its supply chain partners (including subcontractors) to determine the level of risk associated with each in terms of labor conditions, including:
 - 6.1 If the entity maintains an ongoing list of the Tier 1 suppliers and suppliers beyond Tier 1 involved with the production of its goods
 - 6.2 If the entity records information about risk factors that impact performance on labor standards for manufacturers that have been mapped to determine proper levels of oversight and monitoring
- 7 Disclosures generally correspond to the Sustainable Apparel Coalition's Higg Brand & Retail Module.

CG-AA-430b.2. Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits

- 1 The entity shall disclose the rate of its suppliers' non-conformance with external labor code of conduct audit standards or internally developed supplier code(s) of conduct and the rate at which those instances of non-conformance have been subject to corrective action.
 - 1.1 A non-conformance is defined as a finding of violation of a local law or one or more aspects of a code of conduct that has been corroborated by more than one source (e.g., management interview, worker interview, payroll review, and/or on-site observation) unless that single source is incriminating.
 - 1.2 Priority non-conformances are defined as the highest severity of non-conformance and require escalation by auditors or the entity. Priority non-conformances may arise from: a significant risk to labor conditions, safety, or the environment; non-compliance with relevant regulatory requirements; or failure to adequately address prior minor non-conformances. These may also be referred to as "high-risk violations," "severe violations," or "major deficiencies." Examples of what constitutes a priority non-conformance in an apparel, accessories, or footwear supplier facility audit include the indicators of a "Major Deficiency" outlined in the OIA [Code of Conduct](#).

- 1.3 The entity shall calculate the priority non-conformance rate as the number of priority non-conformances identified in the supply chain divided by the total number of facilities audited.
- 1.4 The scope of disclosures includes facilities audited by the entity, by other brands, or by external third parties commissioned by the entity in lieu of having an audit conducted solely for the entity's purpose.
- 2 The entity shall disclose its corrective action rate for priority non-conformances with external labor code of conduct audit standards or internally developed supplier code(s) of conduct.
 - 2.1 A corrective action is defined as the timely completion of a corrective action plan that has been designed to eliminate the cause of a detected non-conformance, including the implementation of practices or systems to eliminate any non-conformance and ensure there will be no reoccurrence of the non-conformance, as well as verification that the corrective action has taken place.
 - 2.2 The entity shall calculate the corrective action rate as the number of corrective actions that address non-conformances divided by the total number of non-conformances that have been identified.
- 3 Where relevant, the entity may disclose the number of contracts with suppliers that were terminated as a result of non-conformances.
- 4 The entity may provide a breakdown of levels in the supply chain where non-conformances occurred (Tier 1, Tier 2, or other), or by geographic region.

Note to **CG-AA-430b.2**

- 1 The entity shall discuss additional context around supply chain auditing, such as:
 - 1.1 Audit methodologies and criteria (e.g., management system investigation, worker interviews, management interviews, document review, visual observations)
 - 1.2 Relationship with suppliers (e.g., length, nature)
 - 1.3 Timeline to resolve priority non-conformances (e.g., immediate for locked or no fire exits, 30 days for involuntary labor, 60 days for delays in payments to workers, 90 days for expired health and safety certificates)
 - 1.4 Efforts to increase supply chain transparency (e.g., supplier demonstration of compliance, supplier ability to provide timely robust data and supporting evidence)
 - 1.5 Efforts to build capacity with its suppliers to improve labor conditions in the supply chain (e.g., development of supplier workplace code of conduct, worker benefit programs at supplier factories)

CG-AA-430b.3. Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain

- 1 The entity shall list the three labor conditions issues and the three environmental health and safety issues that pose the greatest potential risk in the entity's supply chain.
 - 1.1 A risk may be identified as one that poses the greatest potential risk because: (a) the entity has determined its potential to cause accidents or incidents at supplier facilities, (b) it was identified as a non-conformance most frequently in labor code of conduct audits, and/or (c) the entity has determined it to have the greatest potential to cause financial and/or reputational harm to the entity or its suppliers if left uncorrected.
- 2 Labor conditions risks include the following, related to the criteria outlined in the entity's labor code of conduct or audit criteria: excessive worker hours, violations in minimum age requirements, unfair compensation practices, lack of freedom of association rights, unfair worker treatment (harassment or abuse), or other labor conditions risks identified by the entity.
- 3 Environmental health and safety risks include the following, related to the criteria outlined in the entity's environmental, health, and safety code of conduct or audit criteria: unsafe building and occupational safety hazards, noncompliance with environmental permits, unsafe levels of air and water pollution, improper management of hazardous substances, wastewater and solid waste disposal violations, or other risks identified by the entity.
- 4 The entity may discuss any trends within the labor and environmental, health, and safety risks in its supply chain, such as how frequently the greatest risks were identified through monitoring, differences between geographic regions, or the level in the supply chain at which these risks occur (i.e., Tier 1 level or beyond Tier 1).
- 5 The entity may include a discussion of strategies and efforts to reduce the occurrence of the greatest labor conditions and environmental, health, and safety risks in its supply chain including, but not limited to:
 - 5.1 Tracking closure of corrective actions
 - 5.2 Capacity building efforts, such as analysis of root causes and management systems and engagement with workers in the remediation process
 - 5.3 Supplier training
 - 5.4 Self-auditing and reporting support
 - 5.5 Participation in multi-stakeholder initiatives
 - 5.6 Providing incentives or mandating sanctions for labor and environmental, health, and safety performance
- 6 Disclosures generally correspond to the Sustainable Apparel Coalition's Higg Brand & Retail Module.

Raw Materials Sourcing

Topic Summary

The Apparel, Accessories & Footwear industry relies on numerous raw materials as key inputs for finished products, including cotton, leather, wool, rubber, and precious minerals and metals. Sustainability impacts related to climate change, land use, resource scarcity, and conflict in regions where the industry's supply chain operates are increasingly shaping the industry's ability to source materials. The ability of companies to manage potential materials shortages, supply disruptions, price volatility, and reputational risks is made more difficult by the fact that they source materials from geographically diverse regions through supply chains that often lack transparency. Failure to effectively manage this issue can lead to reduced margins, constrained revenue growth, and/or higher costs or capital. The types of risk associated with sourcing different materials can require different solutions, including engaging with suppliers, enhancing transparency, using certification standards, and/or using innovative alternative materials. Companies that are most proactive are likely to reduce their exposure to price volatility and potential supply disruptions, while improving their brand reputation and developing new market opportunities.

Accounting Metrics

CG-AA-440a.1. Description of environmental and social risks associated with sourcing priority raw materials

- 1 The entity shall discuss its strategic approach to managing environmental and social risks that arise from sourcing priority raw materials (disclosure corresponds to the Sustainable Apparel Coalition's Higg Brand & Retail Module (BRM)).
 - 1.1 Priority raw materials are defined as those that are essential to the entity's principal products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, consistent with 17 CFR 229.101.
- 2 Disclosure shall include the methodology of how the entity identified priority raw materials.
- 3 Raw materials include synthetic fibers and fabrics, natural fibers and fabrics, cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to:
 - 3.1 Cotton, rayon, polyester, acrylic, spandex, nylon, rubber, leather, wool, flax, silk, hemp, and down
- 4 The entity shall disclose the priority raw materials that comprise its products regardless of whether the entity purchased the materials directly or its suppliers purchased the materials.
- 5 Environmental supply chain risks include, but are not limited to:

- 5.1 Climate change impacts (e.g., changing temperatures and/or water stress) on natural fiber crop production that may affect their price and availability
 - 5.2 Legislation on greenhouse gases (GHG) affecting the price of petroleum which may affect the price of petroleum-derived raw materials
 - 5.3 Tightening environmental regulations for suppliers that could affect the cost or availability of raw materials they supply
 - 5.4 Lack of full traceability to the source of the raw materials, which may hinder the ability to identify compliance incidents that could lead to negative effects on brand reputation
 - 5.5 Improper land use practices within the supply chain that may affect the yield of natural fiber raw materials
 - 5.6 Other environmental factors that may have an impact on the entity's ability to source raw materials for its products
- 6 Social supply chain risks include, but are not limited to:
- 6.1 Suppliers' animal welfare, labor, and human rights practices that may affect the entity's reputation
 - 6.2 Sourcing materials from regions of conflict which may affect the price and availability of raw materials
- 7 If the entity identifies cotton as one of its priority raw materials, it shall discuss its vulnerability to cotton-growing regions with water stress and how it manages the risk of price variability due to sourcing cotton from these regions.
- 7.1 The entity may identify its known sources of cotton for High (40—80%) or Extremely High (>80%) Baseline Water Stress using the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct.
- 8 The entity 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.
- 8.1 Relevant strategies to discuss include: due diligence practices, supply chain auditing, partnerships with industry groups or nongovernmental development organizations, using substitute materials, research and development into materials with less environmental or social risks, supplier diversification, implementing supply chain codes of conduct, training or engagement programs, supplier audits and/or certifications, and research into the full traceability of material sources, among other strategies.

CG-AA-440a.2. Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard

- 1 The entity shall disclose the percentage of raw materials that are third-party certified to an environmental or social sustainability standard.

- 1.1 Environmental and social sustainability standards are defined as standards that address environmental and social impacts that result from the primary sourcing of raw materials, such as standards for organic or recycled content, animal welfare, and/or fair labor.
- 1.2 Environmental and social sustainability standards include, but are not limited to:
 - 1.2.1 Outdoor Industry Association's Content Claim Standard (CCS)
 - 1.2.2 Textile Exchange's Recycled Claim Standard, Global Recycled Standard, Organic Cotton Standard, and Responsible Down Standard
 - 1.2.3 Certified Organic
 - 1.2.4 Control Union Global Organic Textile Standard
 - 1.2.5 Better Cotton Initiative
 - 1.2.6 Forestry Stewardship Council certification (for lyocell and rubber)
 - 1.2.7 Rainforest Alliance leather products
 - 1.2.8 Global Organic Textile Standard
 - 1.2.9 STeP by OEKO-TEX®
 - 1.2.10 OEKO-TEX® Standard 100
 - 1.2.11 ECO PASSPORT
 - 1.2.12 Cradle to Cradle
 - 1.2.13 Bluesign
- 1.3 The entity shall calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity's finished products.
 - 1.3.1 The scope of raw materials third-party certified to an environmental and/or social standard includes raw materials derived using a process third-party certified to an environmental and/or social standard.
 - 1.3.2 The scope of disclosure includes third-party certifications that are based on environmental best practices, social best practices, or both.
- 2 The entity shall disclose the percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard.

- 2.1 The entity shall calculate the percentage as the weight of raw materials that are certified to each respective third-party environmental and/or social standard divided by the total weight of raw materials that compose the entity's finished products.

- 3 The entity may discuss its use of other sustainable materials that may not be third-party certified, but may demonstrate an environmental lifecycle benefit, and fibers such as reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

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