SUSTAINABILITY ACCOUNTING STANDARDS BOARD
SASB™

THE STATE OF DISCLOSURE

2016

An analysis of the effectiveness of sustainability disclosure in SEC filings

TABLE OF CONTENTS

Foreword

I joined the SASB board of directors because I believe that, while the U.S. capital markets and regulatory system are the best in the world, they can still be—and, indeed, must be—improved for the benefit of investors, issuers, and markets. That belief drove my focus more than 10 years ago, when I was Director of Corporation Finance at the SEC, and continues to do so today.

In today's rapidly changing business landscape, investors often look beyond financial statements to understand how companies create long-term value. Financial reporting today has not kept pace with both company managers and investors' interest in broader categories of information that are also material to operations and financial performance. Recognition of this point explains in large part why the SEC included sustainability matters as a subject in its disclosure effectiveness initiative and why it has received extensive comment favoring more and improved sustainability information.

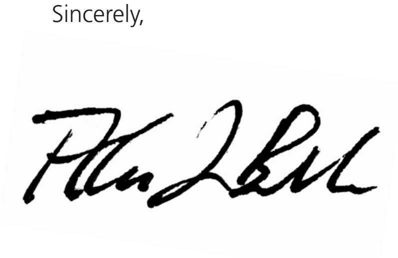
SASB's sustainability accounting standards respond to the call for improved sustainability disclosure. Indeed, the emphasis of SASB standards on securities-law concepts of materiality and their focus on industry standards represent a natural evolution of traditional financial reporting and a practical pathway to the goal of more effective sustainability disclosure. Moreover, while sensible and forward-looking regulation is important, a company should not only aim for compliance in its disclosure practices, but also help establish and enhance best practices. Considering the SASB standards is one way to achieve that objective.

In this inaugural report, SASB presents a review and analysis of current sustainability disclosures included in hundreds of SEC filings across every major industry. The findings serve as both a reason for optimism and a reminder that much work remains to be done. Although companies appear to have increasingly recognized the risks and opportunities involved in managing material sustainability issues, they have also struggled to communicate them effectively to their investors.

To be clear, this report is a review of disclosure—not performance. It's up to the market to assess the latter. In doing so, markets would benefit from improved quality, consistency, and comparability of information, rather than the boilerplate that, according to this report, currently characterizes more than half of the disclosures reviewed.

This report suggests that companies can do better and provides some examples as to how that is accomplished. It is provided in the spirit of contributing to the debate as to the ways in which we can improve sustainability reporting effectively and responsibly.

Sincerely,



Alan Beller
Member of the Sustainability Accounting Standards Board
Former Director of the Division of Corporation Finance, U.S. Securities and Exchange Commission

Executive Summary

In today's rapidly changing business climate, investors are increasingly looking beyond financial statements for a more complete picture of a company's ability to create value over the long term. For example, in response to a recent effort by the U.S. Securities and Exchange Commission (SEC) to modernize its disclosure requirements, investors made a resounding call for improved sustainability disclosure. Although companies have begun to address a growing number of sustainability factors in their SEC filings that have impacted—or are likely to impact—their financial condition or results of operations, the quality of these disclosures has been lacking. This puts investors at a disadvantage when it comes to fully understanding their risk exposures.

In this report, the Sustainability Accounting Standards Board (SASB), which aims to improve the effectiveness of SEC reporting through the use of standardized disclosure, presents the findings of its analysis of existing sustainability disclosure. In this analysis, SASB reviewed the latest-available 10-K or 20-F filing for up to the top 10 companies in every industry, categorizing disclosures on the most crucial, industry-specific sustainability topics according to their effectiveness. SASB's analysis uncovered the following major points:

- Overwhelmingly, companies have recognized the existence of, or the potential for, material impacts related to the sustainability topics included in SASB standards. Indeed, 69 percent of companies in the analysis reported on at least three-quarters of the sustainability topics included in their industry standard, and 38 percent provided disclosure on every SASB topic.

- In all, 81 percent of entries analyzed, across all sectors and topics, included some form of disclosure; this is a clear indication that companies acknowledge the majority of the sustainability factors identified in SASB standards are currently having--or are reasonably expected to have--material impacts on their business.

- The most common form of disclosure—across the majority of industries and topics—was generic boilerplate language, which is inadequate for investment decision-making. Such vague, non-specific information was used 53 percent of the time when companies addressed a SASB topic.

- Companies used metrics—obviously more useful to investment analysis—in less than 24 percent of the cases where disclosure occurred. Importantly, even in these cases the metrics were non-standardized, and therefore lacked comparability from one industry firm to the next.

These findings, among all others contained in this report, demonstrate that, by and large, companies are taking a minimally compliant approach to sustainability disclosure, providing the market with information that is inadequate for making investment decisions. SASB exists to solve this problem by providing a materiality-focused market standard for sustainability disclosure to ensure more detailed, more effective, more comparable disclosure that is decision-useful for investors and cost-effective for companies.

Ultimately, this report sheds light on various trends and patterns related to the effectiveness of sustainability disclosure, including how it differs across industries, sectors, topics, market capitalization, region, and more. As such, it provides a baseline for sustainability disclosure quality against which future improvement—or lack thereof—may be measured. It also answers: "Which industries provide the most effective disclosure and which provide the least?" Armed with this information, investors will have a more complete picture of the risks and opportunities they face, and a deeper understanding of where in their portfolio those risks are likely to be uncompensated.

> "Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman."
>
> - U.S. SUPREME COURT JUSTICE LOUIS BRANDEIS

Introduction

Effective decision-making requires useful data. Indeed, the transparent disclosure of material information is an essential component of an efficient market. This is why the 1933 and 1934 Securities Acts require public corporations to regularly report this information, and why the U.S. Securities and Exchange Commission (SEC) makes it freely available to the public. However, transparency alone is not always enough; accountability is also important. Without it, investors and the public may drown in what the U.S. Supreme Court has called "an avalanche of trivial information."[1]

As such, this report, for the first time, presents an analysis of the emerging and rapidly evolving practice of material sustainability disclosure, providing a baseline against which future analyses may be measured. It finds that sustainability factors are increasingly exposed to the sunlight of transparency, but much less so to the electric light of accountability. As the quantity of such information has proliferated, its quality has not kept pace.

Investors and their portfolio companies have become increasingly aware of the link between sustainability factors and business outcomes. For example, increased energy efficiency can lead to operational cost savings; effective resource management can reduce input price volatility and the risk of supply disruptions; and stronger data security practices can mitigate the risk of fines, litigation, and reputational harm, while also lowering a firm's cost of capital. As a result, the investment community—in particular, those with longer term views—are increasingly asking for improved disclosure around financial risks based on non-financial information, while companies have begun to disclose more information about how they manage key sustainability issues but provide little in the way of financial impact. In short, companies may be providing more data but are not currently applying the same rigor to sustainability disclosure that they do with financial disclosure. This market incongruity creates a challenge for investors who need to better understand the material risks and opportunities they face in allocating capital.

In large part, the proliferation of sustainability reporting has been a response to regulatory influence. For example, in 2010 and 2011, the SEC issued guidance on disclosure related to climate change and cybersecurity matters, respectively.[2,3] In both releases, the Commission reiterated that unless a company's management can determine that these issues are not reasonably likely to have a material impact on its financial condition or operating performance, disclosure is required under Regulation S-K.

In a 2016 concept release on disclosure effectiveness, the Commission explored the possibility of more robust and/or specific disclosure requirements for sustainability information, an indication

Materiality and Sustainability

Materiality is a fundamental principle of mandated disclosure in the United States. The concept of materiality recognizes that some information is important to investors in making investment decisions.

According to the U.S. Supreme Court, information is material if there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."[+]

The SEC's Regulation S-K requires that certain sustainability-related information be disclosed. Regulation S-K sets forth the specific disclosure requirements associated with Form 10-K and other SEC-required filings and, among other things, requires that companies describe known trends, events, and uncertainties that are reasonably likely to have material impacts on their financial condition or operating performance in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K or 20-F.[++]

SASB's industry-specific sustainability accounting standards, which are designed for integration into MD&A and other relevant sections of SEC filings, address precisely these topics. In its process for identifying topics, SASB observes the definition of "materiality" under the U.S. securities laws.

[+] TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976).
[++] 17 CFR §229.303

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

2 Interpretation: Commission Guidance Regarding Disclosure Related to Climate Change, Securities and Exchange Commission (February 2, 2010).

3 CF Disclosure Guidance: Topic No. 2 – Cybersecurity, Division of Corporation Finance, Securities and Exchange Commission (October 13, 2011).

that this type of reporting is likely to continue to expand. Indeed, two-thirds of all non-form letters the Commission had received in response to the release discussed sustainability disclosure, and 80 percent of those called for improved disclosure of sustainability factors in SEC filings.[4] (See "Supporting Improved Disclosure Effectiveness" sidebar.)

4 SEC website, "Comments on Concept Release: Business and Financial Disclosure Required by Regulation S-K," accessed Aug. 15, 2016, at https://www.sec.gov/comments/s7-06-16/s70616.htm.

However, the increasing volume of sustainability information included in mandatory filings, such as Forms 10-K and 20-F, has highlighted a shortcoming of such disclosure. In the absence of standards, like those used for the reporting of most financial data, companies have taken a wide variety of approaches to presenting material sustainability information. So, although this type of information has become increasingly available, it has not always proved to be particularly useful because it cannot be compared from one company to the next due to inconsistent reporting methods. Naturally, investors, creditors, and other users of this information are less concerned with its quantity than with its quality, and thus far its quality has been extremely inconsistent.

IMPROVING DISCLOSURE EFFECTIVENESS

In choosing to buy, sell, or hold a security, investors adopt an essentially economic perspective. They attempt to allocate their limited capital as productively as possible among several mutually exclusive opportunities. This type of decision cannot be made realistically when comparable information is not available. Indeed, 79 percent of global institutional investors say they are

Supporting Improved Disclosure Effectiveness

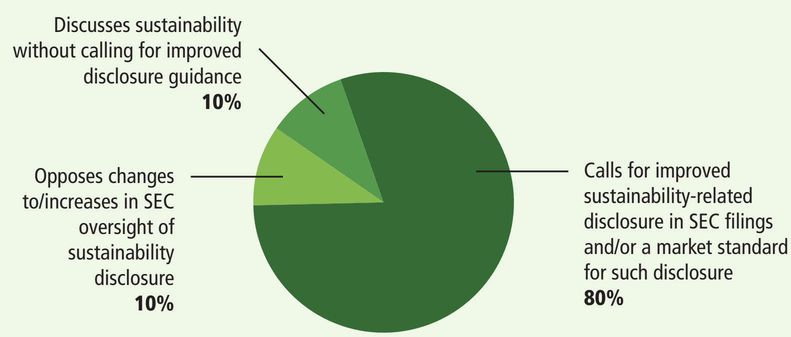
On April 13, 2016, the Securities and Exchange Commission (SEC) issued a Concept Release outlining the various measures it is considering as part of an effort to modernize Regulation S-K, which establishes the non-financial statement reporting requirements for publicly listed corporations in the U.S.[5] Among those considerations is the disclosure of sustainability information.

Despite the fact that sustainability disclosure was a relatively minor topic of discussion in the SEC release (covering about four of its 92 pages), two-thirds of the more than 276 non-form comment letters the Commission received in response addressed sustainability-related concerns.[6] Eighty percent of sustainability-related letters called for improved disclosure of sustainability-related information in SEC filings, with only 10 percent of letters opposing SEC action on the matter.

This groundswell of interest in sustainability means that, in the words of one of Wall Street's leading law firms, "the sustainability topic is clearly on the table at this point, and the Commission will sooner or later have to–and should–address it."[7]

In this context, this report may serve as a numerical baseline of the effectiveness of existing disclosure on material sustainability matters.

SEC Comment Letters (276 total)



5 SEC Concept Release No. 33-10064, Business and Financial Disclosure Required by Regulation S-K, https://www.federalregister.gov/articles/2016/04/22/2016-09056/business-and-financial-disclosure-required-by-regulation-s-k

6 During the comment period, which closed July 21, 2016, the SEC received more than 25,000 comment letters. Most of these were form letters calling for improved disclosures of political spending, international tax issues, and sustainability plans; however, 276 non-form letters were also submitted.

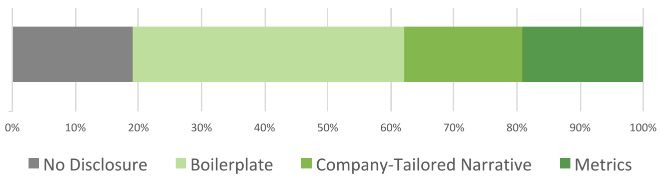
7 Sullivan & Cromwell LLP, Business and Financial Disclosure Required by Regulation S-K – File No. S7-06-16, Comment letter to the Securities and Exchange Commission, (August 9, 2016); available at https://www.sec.gov/comments/s7-06-16/s70616-354.pdf.

dissatisfied with the comparability of sustainability reporting between companies in the same industry.[8]

Standardized sustainability disclosures would not only enable investors to make useful comparisons among companies, they would also provide a longitudinal perspective on each company's progress over time. Nevertheless, as this report illustrates, current sustainability disclosures lack comparability across most issues in every industry. In fact, the largest share of such information is characterized by boilerplate language. (See Figure 1.)

Figure 1. Sustainability disclosure in SEC filings for FY 2015[9]

(All Topics in 79 Industries across 10 Sectors - 4081 Total Disclosures)



In addition to creating potential legal risk for corporate issuers, boilerplate disclosures—generic statements that are not specifically tailored to the individual company and the risks it faces—are, of course, inadequate for investment decision-making. In the absence of a market standard against which to compare such disclosures, the Supreme Court has found vague statements such as "puffery" to be "too untethered to anything measurable […] to communicate anything that a reasonable person would deem important to a securities investment decision."[10] Meanwhile, researchers have found that investors and analysts are better able to assess fundamental risk when firms' disclosures are more detailed and avoid vague or abstract language.[11] Further, another study found that comparability not only lowers the cost of acquiring information but also helps analysts forecast earnings more accurately.[12]

It is worth noting that even the sustainability disclosures currently using metrics are rarely comparable across peer companies. (See "What Gets Measured Doesn't Always Get Managed" sidebar.) Without standards, each company uses its own metrics, chooses its own scope, and employs its own calculation methods.

8 PwC, "Sustainability Goes Mainstream," May, 2014.

9 This and all subsequent bar charts summarize the results of a SASB analysis performed between May and August 2016 using the latest annual SEC Filings (i.e., Forms 10-K and 20-F) for the top companies, by revenue, in each SICS industry (maximum of 10 companies).

10 City of Monroe Employees Ret. Sys. v. Bridgestone Corp., 399 F.3d 651 (6th Cir. 2005).

11 Hope, Ole-Kristian and Hu, Danqi and Lu, Hai, The Benefits of Specific Risk-Factor Disclosures, February 26, 2016, Rotman School of Management Working Paper No. 2457045; Singapore Management University School of Accountancy Research Paper No. 2015-35.

12 de Franco, Gus, and Kothari, S.P. and Verdi, Rodrigo S. The Benefits of Financial Statement Comparability, *Journal of Accounting Research*, 2011, vol. 49, issue 4, pages 895-931.

What Gets Measured Doesn't Always Get Managed

Many companies have attempted to apply more rigor to measuring, managing, and reporting on their material sustainability risks and opportunities. However, in the absence of a standardized accounting format, it remains virtually impossible for investors—or even company management—to benchmark a firm's performance against that of its peers.

For example, in the Cruise Lines industry, two companies provided the following disclosures related to Fuel Use & Air Emissions, a topic included in SASB's provisional standard for the industry. Both companies used quantitative metrics to measure their performance on the issue—a high quality disclosure. However, without a standardized format for this disclosure, the information is nearly impossible to compare.

Royal Caribbean

"We have also taken a number of other steps to improve the overall fuel efficiency of our fleet, including our new ships on order, and, accordingly, reduce our fuel costs. We continue to work to improve the efficiency of our existing fleet, including improvements in operations and voyage planning as well as improvements to the propulsion, machinery, HVAC and lighting systems. The overall impact of these efforts has resulted in a 21.4% improvement in energy efficiency from 2005 through 2014 and we believe that our energy consumption per guest is currently the lowest in the cruise industry."

Carnival Corp.

"[W]e are designing more energy efficient ships that will enter our fleet in the future, while continuing toward reducing the fuel consumption of our existing fleet. We had voluntarily set a goal of delivering a 20% reduction (per unit) from our 2005 baseline of CO2e emissions from shipboard operations by 2015. We achieved our goal one year ahead of schedule and have set a new goal to achieve a 25% CO2e emissions reduction (per unit) from our 2005 baseline by 2020. We measure our ability to use direct energy efficiently by calculating the amount of primary source energy we consume."

Both companies provided larger discussions around these metrics, and Carnival also included a table of data breaking down its fuel consumption and emissions, including GHG, NO_x, and SO_x, along with footnotes on the company's methodology for calculating the data. Although investors can see from these efforts that management at both companies has given considerable thought to relevant risks and taken steps to address them, it remains difficult—if not impossible—to make a meaningful comparison between the two, or to benchmark their performance against the industry as a whole.

Just as with financial information, investors need sustainability information that is decision-useful. The decision-usefulness of sustainability information is enhanced when it is representationally fair, comparable, complete, verifiable, neutral, and distributive. Standardized sustainability metrics that support these characteristics, such as those included in the provisional standards developed by the SASB, will help investors more effectively price risk and compare performance. No other sustainability reporting framework provides this benefit.

ANALYZING THE CURRENT STATE OF DISCLOSURE

SASB has analyzed the current state of disclosure on the set of 434 provisional disclosure topics included in each of its industry-specific SASB provisional standards. The analysis, the findings of which are highlighted in this report, identifies and categorizes the disclosure practices of the top 10 companies[13], by revenue, in each of the 79 industries in SASB's Sustainable Industry Classification System™ (SICS™). Overall, 713 annual SEC filings were analyzed, the majority of which covered disclosure for Fiscal Year 2015.[14]

The analysis identified relevant disclosures in the latest available Form 10-K, or in the equivalent sections of the latest available Form 20-F (see "Scope of Analysis" sidebar). It then classified each disclosure based on the following categories:

Note: Generally speaking, disclosure effectiveness tends to improve with specificity. However, sometimes the use of metrics alone is insufficient without context provided by discussion and analysis. This is why many SASB metrics include a combination of both quantitative and qualitative disclosures. As appropriate—and consistent with Rule 12b-20[15]—when disclosing information related to a sustainability topic, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported.

- **No Disclosure:** The company does not provide disclosure relevant to the topic under analysis.

Scope of Analysis

This analysis, performed between May and August of 2016, covers disclosures in the following sections of Forms 10-K and 20-F:

Regulation S-K	10-K	20-F	Section Name
§229.101	1	4B	Business
§229.503(c)	1A	3D	Risk Factors
§229.103	3	8A7	Legal Proceedings
§229.303	7	5	MD&A
§229.305	7A	11	Quantitative and Qualitative Disclosures about Market Risks
§229.1010	8	8	Financial Statements

By the numbers

Disclosure topics in SASB standards: 434

Annual SEC filings analyzed: 713

- 10-K Filers: 597
- 20-F Filers: 116

- **Boilerplate:** The company provides disclosure using generic language that could be applicable to most, if not all, issuers in the industry. Such disclosure, which could apply to any company in the industry, has not been sufficiently tailored to reflect the company's specific and unique circumstances, including, but not limited to, its past performance, future targets, and individual risk/opportunity management strategies. The disclosure, thus, does not provide the reader with sufficient and significant information that would allow for differentiation between the company and most, if not all, of its peers. Boilerplate disclosure may include generic industry-level language, such as descriptions of regulations affecting the company/industry, and/or generic company-level language, such as the use of words like "we," "our company," etc.

- **Company-Tailored Narrative:** The company provides disclosure using specific language which can only be understood in the context of the issuer. Such disclosure has been sufficiently tailored to reflect the company's specific and unique circumstances, including, but not limited to, its past performance, future targets, and individual risk/opportunity management strategies. The disclosure, thus, provides the reader with sufficient and significant information that allows for the differentiation between the company and most, if not all, of its peers. If analyzed outside the context of the company, such disclosure would not be applicable to other issuers. However, such disclosure

13 Due to industry composition, the number of companies analyzed for some industries is fewer than ten: Health Care Distributors (7 companies), Security & Commodity Exchanges (4), Rail Transportation (7), Car Rental & Leasing (3), Cruise Lines (3), Tobacco (4), Drug Retailers & Convenience Stores (5), Appliance Manufacturing (9), Toys & Sporting Goods (8), Biofuels (9), Wind Energy (2), Fuel Cells & Industrial Batteries (3), Forestry & Logging (6), and Real Estate Services (9).

14 The analysis was performed on 692 unique companies; twenty-one companies were analyzed for more than one industry; these companies were considered "representative" for industries that are not their primary SICS industry; most filings were submitted to the SEC in Q1 2016 and are available via EDGAR.

15 17 CFR 240.12b-20 - Additional information. "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made not misleading."

may not provide information allowing for quantitative comparisons between companies. (Note: This category includes the qualitative "discussion and analysis" disclosures contained in SASB's provisional standards.)[16]

- **Metrics:** The company provides disclosure using quantitative performance indicators which, by their nature, can only be understood in the context of the issuer. This excludes non-performance figures, such as a company's goals and/or targets (see "Company-Tailored Narrative"). (Note: This category includes the quantitative metrics contained in SASB's provisional standards.)

The following excerpts from SEC filings illustrate each category of disclosure. The examples address the topic of water management in the Alcoholic Beverages industry.

BOILERPLATE

"The availability of clean water is a limited resource in many parts of the world, facing unprecedented challenges from climate change and the resulting change in precipitation patterns and frequency of extreme weather, overexploitation, increasing pollution, and poor water management. We have implemented an internal strategy in order to considerably reduce the use of water in our operative plants. However, as demand for water continues to increase around the world, and as water becomes scarcer and the quality of available water deteriorates, we may be affected by increasing production costs or capacity constraints, which could adversely affect our business and results of operations."

Source: Ambev S.A., Form 20-F for FY ending 30/December/15

COMPANY-TAILORED NARRATIVE[17]

"Water is one of the major components of our products, so the quality and quantity of available water is important to our ability to operate our business. If droughts become more common or severe, or if our water supply were interrupted for other reasons, high-quality water could become scarce in some key production regions for our products, including Tennessee, Kentucky, California, Finland, Canada, and Mexico… In fiscal 2014, we set new, more ambitious environmental sustainability goals, focused on… reducing our water use and wastewater discharges per unit of product by 30% by 2023 (versus 2012 baseline year). These goals support our ambition to be a sustainability leader within our industry, and extend programs beyond our operational borders into the supply chain."

Source: Brown-Forman Corp., Form 10-K for FY ending 30/April/16

METRICS

"Water is the main ingredient in all of our brands. To sustain production growth and respond to the growing global demand for water, we aim to improve efficiency, minimising our water use, particularly in water-stressed areas … This year we improved water use efficiency by 10.4% and reduced absolute water withdrawals by 2,876,000 cubic metres. In water-stressed locations, we have reduced water wasted by 33.4%. For example in Brazil, investing in optimising water use at our Paraipaba distillery significantly reduced total water withdrawals in this acutely water-stressed location. At our breweries in Kaasi, Ghana, and at our two sites in Nigeria, water use per litre brewed has improved by 29% and 4% respectively, through improving water management and new ways of working … Water used for agricultural purposes on land under Diageo's operational control extends to 622,150 cubic metres and is reported separately from water used in our direct operations. The majority of this irrigation water is in respect of sugar cane.

Water efficiency by region by year (l/l)[(i),(ii),(iii)]	2007	2013	2014	2015
North America	6.7	6.5	5.3	5.1
Europe	7.9	6.7	7.0	6.7
Africa	9.6	6.4	5.9	5.5
Latin America and Caribbean	21.9	21.0	20.6	6.9
Asia Pacific	7.0	6.7	5.7	5.7
Diageo (total)	8.6	7.1	6.7	6.0 [(iv)]

(i) 2007 baseline data and data for each of the intervening years in the period ended 30 June 2014 have been restated in accordance with Diageo's environmental reporting methodologies.
(ii) In accordance with Diageo's environmental reporting methodologies, total water used excludes irrigation water for agricultural purposes on land under the operational control of the company.
(iii) Figures include [United Spirits Limited] USL.
(iv) As disclosed on page 29, Diageo total water efficiency by region excluding USL is also 6.0l/l."

Source: Diageo PLC, Form 20-F for FY ending 30/June/15

16 In a handful of cases, entries identified as a Provisional D&A Standard might include the use of metrics: e.g. CN0101-03: Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emission-reduction targets, and an analysis of performance against those targets.

17 The disclosure example includes quantitative information in the form of company-specific sustainability targets. These types of figures fall outside the scope of the "Metrics" definition, which focuses on actual *performance* metrics.

The SASB standard for the Alcoholic Beverages industry includes two metrics related to this topic (one quantitative and one qualitative) as follows:

Metric	Category	Unit of Measure	Code
(1) Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	Quantitative	Cubic meters (m3), Percentage (%)	CN0202-02
Discussion of water management risks and description of management strategies and practices to mitigate those risks	Discussion and analysis	N/A	CN0202-03

Given that SASB metrics are rigorously developed to provide decision-useful disclosure and the use of a market standard is the only way investors will be able to compare performance,[18] it makes intuitive sense to differentiate their use from that of non-SASB metrics. Indeed, future editions of this annual analysis will make such a distinction. However, for the purposes of this year's report, SASB chose to combine all metrics (including SASB and non-SASB measures) for two reasons:

- The SASB standards are not yet codified. SASB's existing sustainability accounting standards are provisional, and the organization is currently involved in a process of deep consultation with issuers and investors to better assess (a) the relevance and decision-usefulness of the standards and (b) the feasibility and cost-effectiveness of their implementation. As a result, some of the topics and metrics included in the provisional standards may change slightly as they evolve from provisional status to final codification.
- SASB topics may contain multiple metrics, and each metric may include multiple measurements. Until the standards are codified and their use is fully implemented by corporate issuers, it is difficult to judge decisively what constitutes a disclosure using "SASB metrics" (i.e., Some or all of the metrics included in the topic? Some or all of the measurements included in the metric?) SASB concluded that the value to be gained from identifying "partial" use would not be additive in light of the objectives of this report.

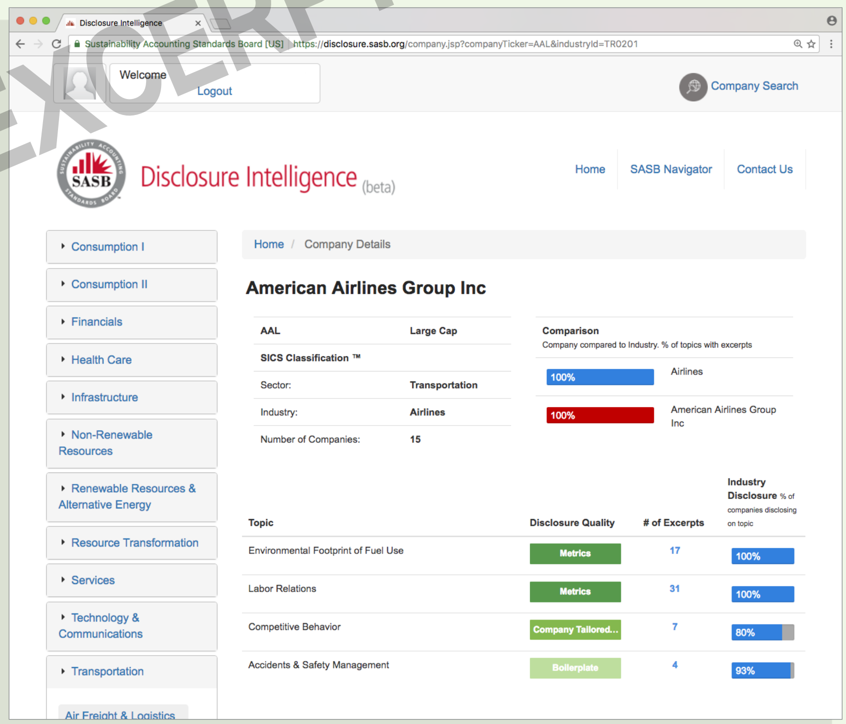
Finally, an important parameter of this analysis is that, with few exceptions,[19] each company is considered in the context of its primary SICS industry. (See Appendix.). Many companies, of course, operate in multiple industries, for example through vertical integration within the supply chain or horizontal integration across product and service offerings. For such companies, SASB's analysis of their SEC filings was framed by the disclosure topics included in the sustainability accounting standard for their primary industry, which can be identified using the SICS Look-Up Tool on the SASB website. The analysis of a given firm's disclosure will extend to multiple industries, where appropriate, in future editions of this report, as well as in future iterations of SASB's Disclosure Intelligence Tool (see "SASB's Disclosure Intelligence Tool" sidebar).

18 Sustainability Accounting Standards Board, Conceptual Framework (April, 2016).

19 Twenty-one companies were analyzed for more than one industry; these companies were considered "representative" for industries that are not their primary SICS industry (e.g., disclosures from Walt Disney Co. were analyzed for both Media Production & Distribution, its primary SICS industry, and for Leisure Facilities, its secondary industry).

SASB's Disclosure Intelligence Tool

The analysis presented in this report covers sustainability disclosures by the top 10 companies in each of 79 SICS industries, representing about 12 percent of the approximately 5,500 companies listed on the NYSE and Nasdaq exchanges.[20, 21]



However, using technology to meet the challenge of scale, SASB has also developed an approach that allows it to extend this analysis to all firms publicly listed in the U.S.

SASB's Disclosure Intelligence Tool, which is available in the online SASB Navigator, presents the first comprehensive look at the quality of corporate sustainability disclosures in SEC filings, including Forms 10-K, 20-F, and 40-F.

The tool is the result of work that began in 2015 as an experiment using machine learning to identify and assess information contained in the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system, which provides investors and the public with free access to more than 21 million corporate filings.

SASB's artificial intelligence (AI) uses the "bag of words" approach to natural language processing and information retrieval. This popular model has been applied to a variety of academic uses and commercial projects, such as email spam filtering. By converting thousands of documents into hundreds of thousands of "bags of words," the model allows SASB to measure various characteristics of sustainability information, both within a given disclosure and across the aggregation of disclosures. For example, SASB can determine the relevance of a given disclosure by comparing its vector space (an algebraic model of the text) to the corresponding SASB topic description. Additionally, SASB can begin to assess the quality of a disclosure by measuring the frequency of certain words to determine their TF-IDF (term frequency/inverse document frequency), a statistical measure that can be used to differently weight certain terms based on the idea that unique words tend to be more powerful or meaningful (i.e., less boilerplate). Finally, SASB can combine the "bags of words" with a smaller set of tagged data to create a semi-supervised learning algorithm that teaches the model to become more effective at classifying information over time.

The result of this ambitious effort is a comprehensive database and analysis of sustainability disclosures, containing millions of excerpts and covering the entire U.S. equity market. The current data set includes the most recent fiscal year, but over time will expand to cover additional years' worth of information. This will better enable investors to not only identify where uncompensated risks and opportunities exist in their portfolios, but to see how trends in disclosure reflect the evolution of a company's, industry's, or sector's approach to specific sustainability issues.

The SASB Navigator, which also includes the SASB standards, industry research, and performance ranges on SASB topics, can be accessed at http://navigator.sasb.com.

20 NYSE, Q1 2016 Investor Presentation (June 2016), available at http://ir.theice.com/~/media/Files/I/Ice-IR/events-presentations/presentation/1q16-investor-presentation.pdf.

21 Nasdaq website, "NASDAQ Companies," retrieved August 1, 2016, available at http://www.nasdaq.com/screening/companies-by-industry.aspx?exchange=NASDAQ.

HOW TO USE THIS REPORT

In the sections that follow, readers will find tables, rankings, and excerpts intended to provide an overview of how public companies are currently reporting material sustainability information in mandatory filings to the SEC. With this analysis, investors will be able to see, for the very first time, where they are or are not making informed decisions with respect to key sustainability topics. In the process, they will develop a more nuanced understanding of the risk-return profile of their holdings.

For example, when a given SASB topic is characterized by a preponderance of boilerplate disclosure, or none at all, an investor can assume that any risks or opportunities associated with the topic are not being accurately reflected in company stock prices. Investors who adopt a more fundamental, bottom-up approach to portfolio construction may wish to compare the disclosure practices of specific companies to these industry benchmarks. Further, the prevalence of such low-quality disclosure across all topics within an industry or sector may indicate significant risk exposure for investors, particularly those using a top-down, sector-based approach. (See "Interpreting the Results" sidebar.)

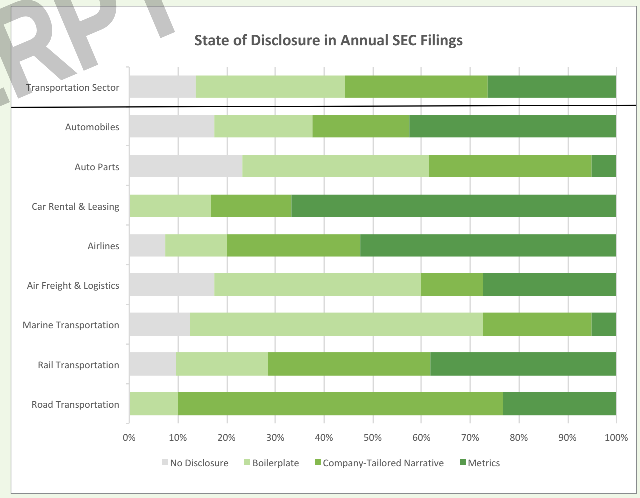
In future annual editions of this report, SASB will track the progress of prevailing disclosure practices, and evaluate not only the use of any metrics but the use of SASB metrics. The latter will be possible once SASB standards have been codified, which is currently on target for use in the 2017 reporting cycle. This year's analysis will serve as the baseline for future analyses.

Additionally, in using this report and the information it contains, asset owners and managers may wish to consider how they can use their influence to help improve the quality of the material sustainability information being disclosed to the U.S. capital markets. For example:

- Investors might engage with SASB's sector analysts during the codification process to help improve relevance and decision-usefulness of the standards.

- Investors might encourage their portfolio companies to practice more effective disclosure of material sustainability information by incorporating SASB standards into their SEC filings

Interpreting the Results



- Bar charts represent the **percentage of entries analyzed, across all topics in the sector, industry**, etc. to fall within each category of disclosure effectiveness.

- Bar charts represent all possible disclosure entries analyzed (i.e., "all topics"), including those for which no disclosure was provided. Note that certain sections of the analysis also refer to "reported topics," which represents only those entries for which disclosure was provided.

FOOD AND BEVERAGE (CONSUMPTION I)

The sector's sustainability profile is characterized by generally higher levels of impact associated with the environment, along with social capital, both in direct operations and along the supply chain. Except for Household & Personal Products, most industries in the sector showed average levels of reporting on SASB topics (81 percent), with the highly regulated Tobacco industry as the standout both in terms of disclosure levels and quality of information provided. Alcoholic and non-alcoholic beverage manufacturers also showed high levels of disclosure. Nevertheless, the use of boilerplate language was extremely common (52 percent) across most industries. Boilerplate was especially common when addressing the environmental and social impacts of supply chains while non-disclosure was most prevalent for business model and innovation issues. The sector used very few metrics (9 percent).

Sector Disclosure Practices		
Type of Disclosure	All Topics	Reported Topics
No Disclosure	19%	-
Boilerplate	52%	65%
Tailored Narrative	20%	24%
Metrics	9%	11%

TOPIC SPOTLIGHT

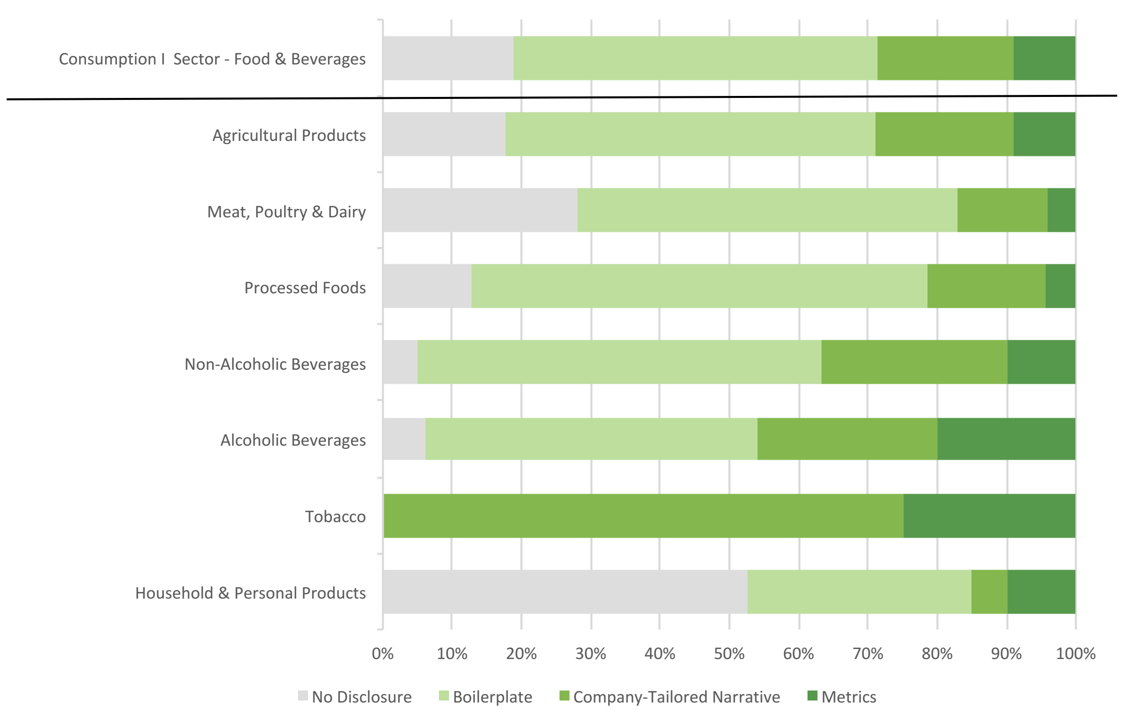
Food Safety

Food safety-related topics are included in the Provisional Standards for three industries in the sector: i.e., Agricultural Products; Meat, Poultry & Dairy; and Processed Foods. While many companies in these industries have procedures in place to address food quality and safety, the FDA estimates that there are about 48 million cases of foodborne illness in the U.S. every year with roughly 128,000 cases involving hospitalization and more than 3,000 result in death.[1] According to analysis of recent recalls, the average food recall costs a company $30 million, which drops directly to the bottom line, highlighting the direct business risk that recalls pose to companies.[2] All companies analyzed for these industries recognized the existence of or potential for material impacts related to this topic; however, boilerplate language was used in two-thirds of entries. When available, quantitative disclosure typically took the form of financial impacts due to product recalls. The following excerpts illustrate the differences in disclosure practices on this topic for companies in the Processed Foods industry.

1 "Foodborne Illnesses: What You Need to Know," Food and Drug Administration. May 27, 2014; "Worst Foodborne Illness Outbreaks in U.S. History," Health line, February 27, 2013.

2 "The 'hidden' benefit of implementing food chain visibility", PWC. July 2012.

Figure 10. Sustainability disclosure in SEC filings for FY 2015 (Consumption I sector)



Sample Disclosures

Topic: Food Safety

Industry: Processed Foods

SASB METRICS:

- Global Food Safety Initiative (GFSI) audit conformance: (1) major non-conformance rate and associated corrective action rate and (2) minor non-conformance rate and associated corrective action rate
- Percentage of ingredients sourced from supplier facilities certified to a Global Food Safety Initiative (GFSI) scheme
- Notice of food safety violations received, percentage corrected
- Number of recalls issued, total amount of food product recalled

BOILERPLATE

"Concerns with the safety and quality of food products could cause consumers to avoid certain food products or ingredients. We could be adversely affected if consumers in our principal markets lose confidence in the safety and quality of certain food products or ingredients. Adverse publicity about these types of concerns, whether or not valid, may discourage consumers from buying our products or cause production and delivery disruptions... If our food products become adulterated, misbranded, or mislabeled, we might need to recall those items and may experience product liability claims if consumers are injured. We may need to recall some of our products if they become adulterated, misbranded, or mislabeled. A widespread product recall could result in significant losses due to the costs of a recall, the destruction of product inventory, and lost sales due to the unavailability of product for a period of time. We could also suffer losses from a significant product liability judgment against us. A significant product recall or product liability case could also result in adverse publicity, damage to our reputation, and a loss of consumer confidence in our food products, which could have an adverse effect on our business results and the value of our brands."

Source: General Mills, Inc. Form 10–K for FY ending 29/May/2016.

COMPANY-TAILORED NARRATIVE

"The manufacture and sale of consumer food products is highly regulated. In the United States, our activities are subject to regulation by various government agencies, including the Food and Drug Administration, the Department of Agriculture, the Federal Trade Commission, the Department of Commerce and the Environmental Protection Agency, as well as various state and local agencies. Similar agencies also regulate our businesses outside of the United States. We believe our Product Excellence Program provides us with an effective product quality and safety program. This program is integral to our global supply chain platform and is intended to ensure that all products we purchase, manufacture and distribute are safe, are of high quality and comply with applicable laws and regulations. Through our Product Excellence Program, we evaluate the supply chain including ingredients, packaging, processes, products, distribution and the environment to determine where product quality and safety controls are necessary. We identify risks and establish controls intended to ensure product quality and safety. Various government agencies and third-party firms as well as our quality assurance staff conduct audits of all facilities that manufacture our products to assure effectiveness and compliance with our program and applicable laws and regulations."

Source: The Hershey Company. Form 10–K for FY ending 31/Dec/2015.

METRICS

"We are also a party to a number of lawsuits and claims arising out of our ongoing business operations. Among these, there are lawsuits, claims, and matters related to the February 2007 recall of our peanut butter products. Among the matters outstanding during fiscal 2016 related to the peanut butter recall was an investigation by the U.S. Attorney's office in Georgia and the Consumer Protection Branch of the Department of Justice into the 2007 recall. Just prior to the end of fiscal 2015, we negotiated a resolution of this matter, which resulted in an executed plea agreement pursuant to which ConAgra Grocery Products will plead guilty to a single misdemeanor violation of the Food, Drug & Cosmetics Act. The plea agreement is subject to court approval. If the plea is accepted by the U.S. District Court for the Middle District of Georgia, the government's investigation into the 2007 recall will conclude and ConAgra Grocery Products will make payments totaling $11.2 million to the federal government."

Source: ConAgra Foods, Inc. Form 10–K for FY ending 29/May/2016

TOPIC SPOTLIGHT

Health & Nutrition

The topic of Health & Nutrition is included in the SASB Provisional Standards for two industries in the sector: i.e., Processed Foods and Non-Alcoholic Beverages. According to the Centers for Disease Control and Prevention, the estimated annual medical cost of obesity in the U.S. was $147 billion in 2008 U.S. dollars; the medical costs for people who are obese were $1,429 higher than those of normal weight.[3] In their annual SEC filings, all companies in the analysis recognized the risks and/or opportunities from changing consumer preferences toward healthier,

3 "Adult Obesity Facts," Centers for Disease Control and Prevention, March 28, 2014.

more nutritious products. Moreover, half of disclosure examples analyzed used a company-tailored narrative, typically in the form of an overview of brands offering low-calorie alternatives and/or research and development efforts to achieve a specific reduction in content of certain ingredients such as sodium, added sugars, or saturated fats. The following excerpts illustrate the differences in disclosure practices on this topic for companies in the Non-Alcoholic Beverages industry.

Sample Disclosures

Topic: Health & Nutrition

Industry: Non-Alcoholic Beverages

SASB Metrics:

- Revenue from (1) zero- and low-calorie, (2) no-added-sugar, and (3) artificially sweetened beverages
- Description of the process to identify and manage products and ingredients of concern and emerging dietary preferences

BOILERPLATE

"We may not effectively respond to changing consumer preferences, trends, health concerns and other factors. Consumers' preferences can change due to a variety of factors, including the age and ethnic demographics of the population, social trends, negative publicity, economic downturn or other factors. For example, consumers are increasingly concerned about health and wellness, focusing on the caloric intake associated with regular CSDs, the use of artificial sweeteners in diet CSDs and the use of natural, organic or simple ingredients in LRB products. As such, the demand for CSDs has decreased as consumers have shifted towards NCBs, such as water, ready-to-drink teas and sports drinks. If we do not effectively anticipate these trends and changing consumer preferences and quickly develop new products or partner with an allied brand in that category in response, then our sales could suffer. Developing and launching new products can be risky and expensive. We may not be successful in responding to changing markets and consumer preferences, and some of our competitors may be better able to respond to these changes, either of which could negatively affect our business and financial performance."

Source: Dr. Pepper Snapple Group, Inc. Form 10–K for FY ending 31/Dec/2015.

COMPANY-TAILORED NARRATIVE

"Consumer demand continues to shift towards more nutritious products and we are accelerating our efforts to meet this demand by reducing sodium, added sugars and saturated fat in many of our products while continuing to invest in growing our nutrition businesses… In 2015, we continued to refine our beverage, food and snack portfolio to meet changing consumer demands by developing a broader portfolio of product choices, including: launching beverage options that contain no high fructose corn syrup and are made with natural flavors; building on our important nutrition platforms and brands – Quaker (grains), Tropicana (fruits and vegetables), Gatorade (sports nutrition for athletes) and Naked Juice (juices and smoothies); expanding our whole grain products globally; and expanding our portfolio of nutritious products in growing categories, such as dairy, hummus and other refrigerated dips, and baked grain snacks"

Source: PepsiCo, Inc. Form 10–K for FY ending 26/Dec/2015.

METRICS

"In our company we are conscious that weight issues and obesity are worldwide health problems, which need a collective effort for their solution. We believe that neither beverages nor any other product by itself is the direct cause of these problems, as they are complicated issues related to dietary habits and physical activity. However, as industry leaders, we would like to be a part of the solution. That is why we are committed to find, together with public and private institutions of the countries where we operate, a comprehensive solution to this problem. Through innovation, we have developed new products and expanded the availability of low or zero calorie beverages as well as bottled water in different presentations, adapted to consumers' lifestyle. Approximately 40% of our brands are calorie free or low- or non-caloric beverages. In addition, we inform our consumers through front labeling on nutrient composition and caloric content of our beverages. We have been pioneers in the introduction of the Guideline Daily Amounts (GDA), and we perform responsible advertising practices and marketing. We voluntarily adhere to national and international codes of conduct in advertising and marketing, including communications targeted to minors which are developed based on the Responsible Marketing policies and Global School Beverage Guidelines of The Coca-Cola Company, achieving full compliance with all such codes in all of the countries where we operate. Moreover, we actively promote exercise, proper nutrition and healthy habits to promote an energetic balance, demonstrating our commitment to encourage physical activity among consumers. In general, more than 6.1 million people in 2015 benefited from physical activity events we sponsored, and more than 509,000 people in 2015 and 2.5 million people in the period from 2010 to 2015, benefited from our own health and physical activity programs."

Source: Coca-Cola FEMSA, S.A.B. de C.V. Form 20–F for FY ending 31/Dec/2015.