Background

SASB is requesting input from issuers, investors and subject matter experts related to the possible revision of the Apparel, Accessories & Footwear industry standard regarding metrics associated with the standard’s Raw Materials Sourcing disclosure topic. The associated metrics are:

- **CG-AA-440a.1**: Description of environmental and social risks associated with sourcing priority raw materials
- **CG-AA-440a.2**: Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard

This input will assist us in achieving the following objectives:

- Improve the measurability of technical protocols to facilitate more consistent measurements, and thus, improve the comparability of resulting disclosures
- Assess existing industry frameworks and standards to determine if further alignment may improve the completeness, comparability, and cost-effectiveness of disclosures

Responses and perspectives provided during consultations will not be attributed to any individual or organization in documents or materials distributed externally. Input will directly inform the development of an Exposure Draft Standard\(^1\) which will be published for a formal public comment period later this year (2020).

Project Background

The SASB industry standard recognizes Raw Materials Sourcing as a financially material topic, and measures performance on the topic by asking companies to describe the social and environmental risks associated with sourcing priority raw materials, and to report the percentage of raw materials third-party certified to an environmental and/or social standard. However, several stakeholders have suggested that the topic’s metrics and underlying technical protocols provide unclear guidance which may result in inconsistent calculations and incomparable metrics. Furthermore, while the metrics correspond with widely accepted and used industry standards, there are discrete differences which may present an opportunity to improve the alignment with industry standards, completeness and comparability of disclosures, as well as cost-effectiveness.

\(^1\) An “Exposure Draft Standard” contains proposed updates to the standard, reflected using redline, and is subject to a 90-day public comment period. See more detailed information in SASB’s [Rules of Procedure](https://sasb.org/about-sasb/rules-of-procedure).
Consultation Objectives

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<tr>
<th>Consultations with issuers &amp; subject matter experts will seek to address SASB’s following objectives:</th>
<th>Consultations with investors will seek to address SASB’s following objectives:</th>
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<td>• Understand methodologies for defining priority raw materials, as well as the possible implications of expanding the scope of the definition.</td>
<td>• Understand if investors are aligned with SASB’s current definition of “priority raw materials,” and what positive or negative implications might arise should the SASB redefine the term to expand the scope of disclosure.</td>
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<td>• Identify and understand commonly used social and environmental standards for certifying raw materials.</td>
<td>• Confirm that the information generated by the metrics is decision-useful for investors.</td>
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<td>• Develop an understanding of existing frameworks aimed at calculating certified raw materials in products, any associated strengths and weaknesses, and level of alignment with the SASB standard.</td>
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<td>o Investigate possible positive or negative implications should SASB revise its guidance to integrate a loss rate into the calculation of metric CG-AA-440a.2, and/or clarify the methodology for weighing finished products.</td>
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<td>o Determine whether a certain industry standard or framework is preferred by the industry as a potential mechanism for addressing these concerns, and, whether further alignment with said framework would enhance comparability, completeness and cost-effectiveness of disclosures.</td>
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Questions for Companies
The questions below were designed with companies in mind. Such stakeholders are likely to have expertise in corporate sustainability, corporate reporting, and industry-specific knowledge on the standard’s disclosure topics.

Priority Raw Materials

1. SASB defines priority raw materials 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.” Do you agree or disagree with this definition? Why?

2. How does your company define “priority raw materials?”

3. Has your company identified raw materials that are consumed in smaller quantities, yet still represent noteworthy risks? Does the company devote resources to managing such risks?

4. Do you anticipate any positive or negative implications if SASB were to expand its definition of “priority raw materials” to align with the definition defined by the Textile Exchange? See definition below:

**Determining a priority FIBER / MATERIAL**

There are three ways to determine whether the FIBER / MATERIAL is a priority and therefore the necessity to complete the relevant module for an “overall” benchmark score:

**SCALE:** The FIBER / MATERIAL represents a percentage of volumetric use beyond the following thresholds: cotton $\geq 10\%$, polyester $\geq 10\%$, manmade cellulosic fibers $\geq 5\%$, and nylon, down and wool $\geq 3\%$. However, the company may decide not to complete a module, even if use is above the threshold, if they are in the process of transitioning to a more sustainable alternative (e.g. based on the company’s risk and opportunity assessment) but the transition is not yet complete.

**RISK:** The FIBER / MATERIAL represents substantial risk to the company. Risks associated with a minority (low volume) FIBER / MATERIAL include sourcing from environmentally and/or socio-economically high-risk sourcing regions, animal welfare risk, reputation risk, etc.

**OPPORTUNITY:** The FIBER / MATERIAL module should also be selected if the company has seized the opportunity to advance the sustainability of the FIBER / MATERIAL even if the FIBER / MATERIAL is below the volumetric use threshold or is not considered a risk.

5. Are there other definitions that SASB should consider? If yes, how might they enhance the standard?

Raw Material Certifications

1. What standards do you use to certify raw materials?

2. Metric CG-AA-440a.2 does not currently specify which raw materials should be included in the scope of disclosure. Do you see any disadvantage to clarifying that the scope of disclosure should match the scope identified in metric CG-AA-440a.1?
Calculation Guidance

1. If your company currently calculates this metric, are you integrating a waste factor or loss rate for certain materials?
   a. If yes, which materials are you using a loss rate to calculate certified materials?
   b. If yes, are you using a factor set by an external group (which one?), or are you calculating your own factor?
   c. If you’re not using a waste factor or loss rate in your calculation, why not?

2. If your company currently calculates this metric, how do you measure the weight of the raw material in the finished good?
   a. What barriers (if any) do you encounter when calculating the weight of certified raw materials in finished products?

3. Does your company participate in the Textile Exchange’s Corporate Fiber & Materials Benchmark?
   a. If yes, based off your knowledge of the CFMB and the SASB standard, how well-aligned are the two?
   b. If yes, do you think the SASB should align its guidance with that of the Textile Exchange? Would this result in efficiencies for your company?

4. Are you aware of other industry standards or frameworks that attempt to provide guidance on calculating similar metrics?

5. Is additional calculation guidance on the aforementioned factors necessary? Would additional guidance on such factors improve the comparability of disclosures?

6. Are there specific questions related to the items we’ve discussed that you think we should ask investors?

About SASB

SASB is an independent nonprofit organization established in 2011 to set standards for companies to use when disclosing environmental, social and governance (“ESG”) information to investors. SASB standards relate to climate change, natural resource constraints, technological innovation, human capital, and other matters that may have a material impact on the company’s financial condition.

The standard-setting process SASB follows is outlined in two governing documents: Rules of Procedure and a Conceptual Framework. SASB’s due process is characterized by evidence-based research, broad and balanced market input, public transparency, and independent oversight. It is designed to be driven by input from capital market participants such as corporations, investors, and other subject matter experts.

SASB takes an industry-specific approach to sustainability accounting, establishing standardized performance metrics for sustainability factors that are most relevant to companies in a given industry. The ability to identify business relevant ESG issues for each industry is driven by the concept of financial materiality. Generally speaking, financially material information is that which is important to a person making an investment or voting decision and which impacts the financial condition or operating performance of the company.