Sustainability Accounting Standards Board

Standards Board Meeting

Tuesday, June 23, 2020

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Welcome & Agenda Overview

June 23 2020 Standards Board Meeting
Objectives for Today’s Meeting

- Standard-setting Agenda & project pipeline overview
- Discuss progress on projects
- Consider staff recommendations on projects
### Meeting Overview

#### Public Meeting

<table>
<thead>
<tr>
<th>Time</th>
<th>Agenda Item</th>
<th>Discussion Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:00am – 9:30am</td>
<td>Welcome &amp; Overview&lt;br&gt; - Meeting overview&lt;br&gt; - Standards-setting agenda &amp; project pipeline overview</td>
<td>Bryan Esterly, David Parham, Jeff Hales</td>
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<td>9:30am – 11:00am</td>
<td>For Discussion&lt;br&gt; - Content Moderation on Internet Platforms&lt;br&gt; - Conceptual Framework&lt;br&gt; - Rules of Procedure</td>
<td>Greg Waters, Shivani Kuckreja</td>
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<td>11:00am – 12:30pm</td>
<td>For Decision*&lt;br&gt; - Plastics Risks and Opportunities in Pulp &amp; Paper Products and Chemicals Industries&lt;br&gt; - Tailings Management in Extractives&lt;br&gt; - Systemic Risk in Asset Management</td>
<td>Anton Gorodniuk, Ekaterina Hardin, Gail Glazerman</td>
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*Decision-making session

Note: Short breaks planned on as needed basis in between sessions
Standards-setting Agenda & Project Pipeline Overview

David Parham
Director of Research – Projects
Project Pipeline – 2020 Project Timelines

Note: One or more standard setting projects may be proposed upon completion of a research project.
COVID-19 and actions in response to pandemic have a diverse range of ESG implications

One of the most prominent areas include impacts related to Human Capital, with potential implications for our current research project

Invited market participants to contact Research Team to provide views
Implications of COVID-19 for the SASB Standards

Research Team is actively monitoring the evolving body of evidence.

Top-Down Research:
- Tracking COVID-19 developments, and analyzing potential ESG implications
- Assessing these broad implications against our taxonomy of sustainability issues, including for human capital
- May inform potential standard-setting projects

Bottom-Up Research:
- Industry-specific impacts through sector coverage
- Analysts remain actively engaged with market participants
Technical Corrections
Plan to address known technical issues in standards

- Nearly 1000 metrics across the 77 industry standards—each with a robust technical protocol
- With increased use of the standards in the market, occasionally a technical issue is surfaced
- Staff plans to initiate a process to address known technical issues in standards by bringing such issues and their resolutions to the Board
- Issues are narrow in scope—typically, a correction or clarification that does not alter the intent of the metric, but improves the technical accuracy of the standard
- Volume of technical issues is expected to be modest
- Technical corrections process is necessary to maintain the standards on a semi-regular basis

Staff welcomes stakeholders that have identified any technical issues in the standards to communicate with staff (as well as broader standards feedback): https://www.sasb.org/provide-feedback/
Content Moderation on Internet Platforms

Greg Waters
Analyst, Technology & Communications Sector Lead
Content Moderation on Internet Platforms – *Discussion*

1. Consultation period highlights

2. Review of Content Moderation Taxonomy
   - Social issues
   - Relevant business activities

3. Board Discussion
   - Taxonomy
   - Standard-Setting
Content Moderation Research Project Update
Staff Targets Project completion at the Q3 Standards Board Meeting

Objective

- Identify what SASB considers as “content moderation” issues and the industries/business activities to which they apply
- Categorize content moderation issues through the lens of SASB’s General Issue Categories
- Deliver recommendation to Standards Board on whether to proceed to standard-setting

Project Background

- News media has covered a variety of issues related to online content, the role that platforms play and the nature of their responsibility. Related issues have clear implications for value creation at major companies in the sector
- No clear understanding of industry applicability beyond three social media companies at project launch
- Given interrelatedness of many content moderation issues, there was a lack of clarity in how SASB should categorize them in its framework

Project Outcomes

- Evidence-based “taxonomy” of content moderation themes as they apply to SASB’s General Issue Categories across relevant SICS industries
- Recommendation to the Standards Board on whether to proceed to standard-setting in one or more industries/areas

Project Lead: Greg Waters
Project website: https://www.sasb.org/standard-setting-process/current-projects/content-moderation-on-internet-platforms-research-project/

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June 23, 2020 Standards Board Meeting
Project Timeline
Target project completion: Q3 2020

2020 Q1

Targeted Consultation Period

2020 Q2

Taxonomy Development

2020 Q3

Recommendation Development

Research & Consultation

Project Launch

Board Decision

Board Update
Consultation Period Highlights (to Date)

Broad range of market input informed Taxonomy and staff views on standard-setting

❖ **Issuers** from the following SASB SICS Industries:
  - Internet Media & Services (*social media, other platforms*)
  - Software & IT Services (*gaming, cloud-based services*)
  - Telecommunication Services (*ISPs*)

❖ **Investors** from the U.S. and Europe, including:
  - Asset managers & asset owners
  - Investor groups focused on engaging tech in this area

❖ **Subject Matter Experts**, including:
  - Academics
  - NGOs, field-building/advocacy groups
  - Journalists

Investors view this issue as financially material at social media platforms
  - Variety of viewpoints on nature/magnitude of risk

Experts believe the issues are more broadly applicable than currently understood
  - “Trust & Safety” an emerging job function
## Content Moderation Taxonomy

Staff Has Identified 3 Key Social Issues

<table>
<thead>
<tr>
<th>Theme</th>
<th>Social issue/externality</th>
<th>SASB GIC</th>
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</table>
| **Harmful Content**        | • Platforms can enable the sharing (and amplification) of content with negative impacts, such as:  
• Hate speech/incitement of violence  
• Child Sexual Abuse Material (CSAM)  
• Some types of misinformation         | **Product Quality & Safety**  
or  
**Customer Welfare**       |
| **User Privacy & Freedom of Expression** | • Content moderation decisions themselves have social consequences on privacy and freedom of expression  
• Staff refers to these decisions, and decision-making structures, as **content governance** | **Further Review**  
(PQ&S, CW or Privacy) |
| **Worker Health & Safety** | • Workers reviewing content may experience secondary trauma and PTSD  
• Much of this work is done through contracted third-parties | **Employee Health & Safety**  
or  
**Supply Chain Management** |
## Content Moderation Taxonomy
### Business Activity Applicability

<table>
<thead>
<tr>
<th>Social Issue</th>
<th>Social Media Platforms</th>
<th>Messaging Services</th>
<th>Game Publishers &amp; Platforms</th>
<th>Internet infra/cloud services</th>
<th>Outsourced Services</th>
<th>Internet Service Providers</th>
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<tr>
<td><strong>SASB SICS Industry</strong></td>
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<td><strong>User Privacy &amp; Freedom of Expression</strong></td>
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<td><strong>Worker Health &amp; Safety</strong></td>
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Board Discussion and Input: Taxonomy

Are the three social issues outlined in the Taxonomy sufficiently distinct and clear?
While research and consultation continues, **staff is increasingly likely to recommend standard-setting in the Internet Media & Services industry** given the evidence gathered to date.

**Question 1:**

*Staff has focused its initial research and consultation on the large-scale internet platforms, where there appears to be a compelling case for financial materiality.*

- How important is it to the Board to assess the body of evidence and obtain market input on the smaller scale firms?
Question 2:

The link to financial impact is dynamic and rapidly evolving. For example, there are few laws currently requiring Internet platforms to action harmful content, although there appears to be significant regulatory momentum in this area. This regulatory momentum, especially from lawmakers in the United States and European Union, is a significant driver of investor interest.

How does the Standards Board weigh potential regulatory action versus current law in this area, noting that such potential action is a driver of investor interest and may have considerable implications for financial value?

While research and consultation continues, staff is increasingly likely to recommend standard-setting in the Internet Media & Services industry given the evidence gathered to date.
Board Discussion on Standard-setting: Question 3

While research and consultation continues, staff is increasingly likely to recommend standard-setting in the Internet Media & Services industry given the evidence gathered to date.

Question 3:

Worker health & safety does not appear to be as prominent an area of focus for investors as the other two themes, and there appears to be a lack of standards or cross-industry practices for protecting the mental health of content moderators. However, initial research and consultation suggests there could be significant financial impact attached to this issue.

❖ What information would help Standards Board members determine whether this area is appropriate for standard-setting?
Next Steps

1. **Further consultations**
   - Focus on social media platforms
   - Review of Taxonomy with stakeholders

2. **Research**
   - Revise Taxonomy
   - Document evidence of financial impact
   - Detailed analysis of current disclosures in Transparency Reports
   - Further determinations on SASB General Issue Categories

3. **Drafting of a standard-setting proposal for Board review at a future meeting**
Content Moderation on Internet Platforms

Staff welcomes feedback on the Taxonomy and areas of further research regarding harmful content and content moderation themes (Taxonomy to be made public after further review and revisions)

https://www.sasb.org/standard-setting-process/current-projects/content-moderation-on-internet-platforms-research-project/

Greg Waters
Analyst, Sector Lead– Technology & Communications

greg.waters@sasb.org
We’ll be back after a short break
Conceptual Framework & Rules of Procedure

Shivani Kuckreja
Associate Analyst
Conceptual Framework & Rules of Procedure – Discussion
Session agenda

1. Discussion on the complementary nature of SASB’s Conceptual Framework and Rules of Procedure documents

2. Review of the project objectives & what’s been done so far

3. Board discussion on key Conceptual Framework and Rules of Procedure items

4. Upcoming public comment period
Complementary Documents

SASB RULES OF PROCEDURE
SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)
February 2017

SASB CONCEPTUAL FRAMEWORK
SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)
February 2017
Conceptual Framework Governance Project Overview

Project duration: Q3 2019 – estimated Q4 2020

SASB’s Conceptual Framework document was published in February of 2017 and does not reflect SASB’s updated mission statement, nor does it reflect SASB’s global reach, and the document contains outdated assumptions, definitions, and data. The Conceptual Framework project will revise the current, published Conceptual Framework document while correcting for its shortcomings.

Objective

Conceptual Framework document objectives:

• Details the principles, objectives, assumptions, and definitions that guide SASB’s thinking and approach to Standard-setting/revising

• Guides the work of SASB’s research team and Standards Board and communicates SASB’s thinking to external stakeholders

Project Background

Project Outcomes

Anticipated Outcome

Present a revised Conceptual Framework document to the Standards Board to publish in place of our current Conceptual Framework document.

Project Lead: Shivani Kuckreja (Shivani.Kuckreja@sasb.org)

Project website:

SASB’s Rules of Procedure document was published in February of 2017 and does not reflect SASB’s updated mission statement, nor does it reflect SASB’s sole focus on a project-based approach. The Rules of Procedure project will ensure that the operations and Standard-setting/revising processes detailed in the document reflect SASB’s procedures today.

Rules of Procedure document objectives:
- Details SASB’s project-based model & due process
- Communicates how external stakeholders can engage with SASB

Anticipated Outcome

Project Lead: Shivani Kuckreja (Shivani.Kuckreja@sasb.org)

Progress to Date (Conceptual Framework)
Internal teamwork, team offsite, external discussion group, and Standards Board review

- **2019 Q3**: Project Lead presented project to the Standards Board for approval
- **Q4**: Project Lead prepared a revised draft of the document and prepared for the offsite
- **2020 Q1**: Conceptual Framework offsite & the start of the revision process
- **Q2**: Continue through the revision process
- **Q3**: Project Launch
- **Q4**: Board Decision
- **2021 Q1**: Board Update
Progress to Date (Rules of Procedure)
Internal team revisions and Standards Board Review

- Project Lead presented project to the Standards Board for approval
- Continue through the revision process

Timeline:
- 2019 Q3
- Q4
- 2020 Q1
- Q2
- Q3
- Q4
- 2021 Q1

Key Events:
- Project Launch
- Board Decision
- Board Update
The Revised Conceptual Framework…

• Contains revised SASB Foundation mission statement

• Improves clarity around SASB as a global standard-setter

• Places SASB into a broader landscape of corporate reporting (the prior version only contrasted sustainability reporting with traditional financial accounting)

• Contains improved language for financial materiality that more effectively communicates SASB’s audience and time horizon

• Simplifies the discussion of SASB’s three fundamental tenets (evidence-based, industry-specific, and market-informed)

• Contains revised and more succinct characteristics of topics and metrics
The Revised Conceptual Framework…

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• Simplifies the discussion of SASB’s three fundamental tenets (evidence-based, industry-specific, and market-informed)

• Contains revised and more succinct characteristics of topics and metrics
Key discussion items
Discussion items

• Six principles vs. tenets and objectives & industry specificity
• Transparency
• Characteristics of topics and metrics
• **RoP Memo Q2:** Do you agree with the idea of eliminating the six principles and instead referring to the tenets and objectives detailed within the Conceptual Framework document?

• **RoP Memo Q3:** Are the principles that guide our standard-setting process sufficiently clear through relying on: 1) the Conceptual Framework core objectives and fundamental tenets, and 2) the “Operating Procedures” section of the Rules of Procedure? For example, is the importance of transparency in the process adequately clear in the Rules of Procedure?
Discussion items

• Six principles vs. tenets and objectives & industry specificity
• Transparency
• Characteristics of topics and metrics
Is the importance of “transparency” in the standard-setting process highlighted sufficiently in the Conceptual Framework?

**CF Memo Q4.** Should the importance of transparency throughout the standard-setting process be incorporated more directly into the fundamental tenets detailed in the revised Conceptual Framework? Or addressed more directly in the Rules of Procedure?

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**Fundamental Tenets of SASB’s Approach to Standard Setting**

While the reporting landscape is likely to evolve over time, as will SASB standards, there are three fundamental tenets that guide SASB’s approaches to standard setting – namely, that SASB standards, and changes to those standards, will be evidence-based, industry-specific, and market-informed.

1. **Evidence-Based.** The Standards Board conducts extensive research to identify evidence of financial impact associated with sustainability topics and relies on robust and diverse sources of credible evidence that support different types of financial impacts. To help ensure that the disclosure topics identified are relevant for an industry over time, the Standards Board evaluates evidence based on the underlying industry structure, regulatory environment, and financial drivers of an industry, and by focusing on long-term trends rather than anecdotal impacts from a specific corporation. This research is supplemented by evaluating the current state of affairs in an industry or sector, to ensure emerging sustainability topics are included in the standards as they become relevant.

2. **Industry-Specific.** Companies operating in a specific industry are likely to have similar business models and use resources in similar ways, therefore, they are likely to have similar sustainability risks and opportunities. The Standards Board develops sustainability accounting standards at the industry level, focusing on issues that are closely tied to resource use, business models, and other factors at play in the industry.

3. **Market-Informed.** The Standards Board actively solicits input and carefully weighs the perspectives of all market participants (i.e., industry experts, including corporate professionals, investors, creditors, lenders) perspectives in considering which aspects of a sustainability topic warrant standardized disclosure and in determining how to frame, describe, and measure those aspects for the purposes of standardization. Ultimately, the standards are intended to support SASB’s mission, and market input is a crucial input into the Standards Board’s assessments about the extent to which proposed standards or revisions to the standards are mission-aligned.

The above tenets represent SASB’s approach to standard setting at a high level. For additional information on how the Standards Board embeds these tenets into its standard setting activities, see SASB’s Rules of Procedure.
Discussion items

- Six principles vs. tenets and objectives & industry specificity
- Transparency
- Characteristics of topics and metrics
CF Memo Q5: Do you agree with the approach taken to simplify the discussion of characteristics? Do you have specific concerns with any of the items added or omitted? Are there any characteristics that you believe are missing?

Is each definition clear and additive to your understanding of topics and metrics?

CHARACTERISTICS OF SUSTAINABILITY TOPICS
The Standards Board considers the following set of characteristics when considering sustainability topics for inclusion in an industry standard.

- **Financially relevant.** Topics are linked to operational and/or financial performance through at least one of the following channels: (1) revenues or costs, (2) assets or liabilities, and/or (3) cost of capital or risk profile.
- **User interest.** Topics are of interest to investors, creditors, and/or lenders when assessing aspects of financial performance or long-term enterprise value to inform their capital allocation decisions or related decisions associated with their rights as a capital provider.
- **Actionable.** Topics are actionable if they capture sustainability risks or opportunities for which companies have the ability to alter the profile of expected future cash flows associated with that topic, in terms of the amount, timing, or uncertainty of that impact.
- **Prevalent.** Topics are prevalent if they are likely to apply to many companies within the industry and across geographies.

At the level of accounting metrics, the Standards Board considers two key characteristics when evaluating metrics to capture performance on a sustainability topic – namely, that they should be representationally faithful and complete, as described below:

- **Representationally faithful.** A metric is representationally faithful if performance on the metric correlates with performance on the disclosure topic it is intended to address.
- **Complete.** A set of metrics is complete if individually, or as a set, the metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic.

In addition to the two primary characteristics discussed above, there are other supporting characteristics of sustainability metrics that the Standards Board considers:

- **Comparable.** Metrics are comparable if they yield information that allows users to identify companies with similar or different performance on a sustainability topic without creating a false appearance of being so.
- **Neutral.** Metrics are neutral if they are free from bias and value judgment on behalf of the Standards Board, so that they yield an objective measure of performance related to the disclosure topic they are intended to address.
- **Verifiable.** Metrics are verifiable if their calculation or production can be replicated by others who follow the same guidance. Verifiability can help support the development of effective internal controls and external assurance.

While the above items capture characteristics that are intrinsic to the metrics and the associated sustainability topic, the Standards Board also considers how the metrics relate to users of the standards and the resulting disclosures, as reflected in the following two characteristics:

- **Aligned.** Metrics are aligned if they are based on or consistent with other standards or guidance already in use. Aligned metrics allow companies to use one metric for multiple reporting purposes.
- **Understandable.** Metrics are understandable if the intended primary user of that information can accurately interpret how that metric is intended to be used.
Revisions to Topic-level Characteristics

**Revised characteristics**

**CHARACTERISTICS OF SUSTAINABILITY TOPICS**

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- **Financially relevant.** Topics are linked to operational and/or financial performance through at least one of the following channels: (1) revenues or costs, (2) assets or liabilities, and/or (3) cost of capital or risk profile.

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- **Prevalent.** Topics are prevalent if they are likely to apply to many companies within the industry and across geographies.

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**Principles in original document**

- **Potential to affect corporate value.** Through research and stakeholder input, the SASB identifies topics that can or do affect operational and financial performance through three channels of impact: (1) revenues and costs, (2) assets and liabilities, and (3) cost of capital or risk profile.

- **Of interest to investors.** The SASB addresses issues likely to be of interest to investors by assessing whether a topic emerges from the “total mix” of information available through the existence of, or potential for, impacts on five factors: (1) direct financial impacts and risk; (2) legal, regulatory, and policy drivers; (3) industry norms, best practices, and competitive drivers; (4) stakeholder concerns that could lead to financial impacts; and (5) opportunities for innovation.

- **Relevant across an industry.** The SASB addresses topics that are systemic to an industry and/or represent risks and opportunities unique to the industry and which, therefore, are likely to apply to many companies within the industry.

- **Actionable by companies.** The SASB assesses whether broad sustainability trends can be translated into industry-specific topics that are within the control or influence of individual companies.

- **Reflective of stakeholder (investor and issuer) consensus.** The SASB considers whether there is consensus among issuers and investors that each disclosure topic is
Revisions to Metric-level Characteristics

**Revised characteristics**

**Characteristics of Sustainability Accounting Metrics**

At the level of accounting metrics, the Standards Board considers two key characteristics when evaluating metrics to capture performance on a sustainability topic – namely, that they should be representationally faithful and complete, as described below:

- **Representationally faithful.** A metric is representationally faithful if performance on the metric correlates with performance on the disclosure topic it is intended to address.
- **Complete.** A set of metrics is complete if individually, or as a set, the metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic.

In addition to the two primary characteristics discussed above, there are other supporting characteristics of sustainability metrics that the Standards Board considers:

- **Comparable.** Metrics are comparable if they yield information that allows users to identify companies with similar or different performance on a sustainability topic without creating a false appearance of being so.
- **Neutral.** Metrics are neutral if they are free from bias and value judgment on behalf of the Standards Board, so that they yield an objective measure of performance related to the disclosure topic they are intended to address.
- **Verifiable.** Metrics are verifiable if their calculation or production can be replicated by others who follow the same guidance. Verifiability can help support the development of effective internal controls and external assurance.

While the above items capture characteristics that are intrinsic to the metrics and the associated sustainability topic, the Standards Board also considers how the metrics relate to users of the standards and the resulting disclosures, as reflected in the following two characteristics:

- **Aligned.** Metrics are aligned if they are based on or consistent with other standards or guidance already in use. Aligned metrics allow companies to use one metric for multiple reporting purposes.
- **Understandable.** Metrics are understandable if the intended primary user of that information can accurately interpret how that metric is intended to be used.

**Criteria in original document**

- **Fair Representation:** A metric adequately and accurately describes performance related to the aspect of the disclosure topic it is intended to address, or is a proxy for performance on that aspect of the disclosure topic;
- **Useful:** A metric will provide useful information to companies in managing operational performance on the associated topic and to investors in performing financial analysis;
- **Applicable:** Metrics are based on definitions, principles, and methodologies that are applicable to most companies in the industry based on their typical operating context;
- **Comparable:** Metrics will yield primarily (a) quantitative data that allow for peer-to-peer benchmarking within the industry and year-on-year benchmarking for an issue, but also (b) qualitative information that facilitates comparison of disclosure;
- **Complete:** Individually, or as a set, the metrics provide enough data and information to understand and interpret performance associated with all aspects of the sustainability topic;
- **Verifiable:** Metrics are capable of supporting effective internal controls for the purposes of data verification and assurance;
- **Aligned:** Metrics are based on those already in use by issuers or are derived from standards, definitions, and concepts already in use by issuers, governments, industry associations, and others
- **Neutral:** Metrics are free from bias and value judgment on behalf of the SASB, so that they yield an objective disclosure of performance that investors can use regardless of their worldview or outlook; and
- **Distributive:** Metrics are designed to yield a discernable range of data for companies within an industry or across industries allowing users to differentiate performance on the topic or an aspect of the topic.
Next steps for the Conceptual Framework & Rules of Procedure
Conceptual Framework Project Timeline

Target project completion: 2020 Q4

2019 Q3
- Project Lead presented project to the Standards Board for approval

Q4
- Project Lead prepared a revised draft of the document and prepared for the offsite

2020 Q1
- Conceptual Framework offsite & the start of the revision process
- Continue through the revision process

Q2
- 90-day Exposure Draft Public Comment Period

Q3
- Respond to public comments & make the appropriate revisions

Q4
- Project Lead to present the revised Conceptual Framework to the Standards Board for approval to publish as official document

2021 Q1

Research & Consultation

Board Decision

Board Update
Rules of Procedure Project Timeline
Target project completion: 2020 Q4

- **2019 Q3**
  - Project Lead presented project to the Standards Board for approval

- **2019 Q4**
  - Continue through the revision process

- **2020 Q1**
  - 90-day Exposure Draft Public Comment Period

- **2020 Q2**
  - Respond to public comments & make the appropriate revisions

- **2020 Q3**
  - Project Lead to present the revised Rules of Procedure to the Standards Board for approval to publish as official document

- **2020 Q4**
  - Continue through the revision process

- **2021 Q1**
  - Project Launch
  - Board Decision
  - Board Update
  - Research & Consultation

June 23 2020 Standards Board Meeting
Key Points for the Public

- The 90-day public comment periods (for both the Conceptual Framework and Rules of Procedure) are proposed to begin, pending Board approval, in early August 2020.

  - The start of both public comment periods will be announced on SASB’s website.
  - SASB encourages stakeholders to provide feedback through comment letters.
  - SASB will post comment letters on its website.
Conceptual Framework & Rules of Procedure Projects

To learn more about the Conceptual Framework project, please visit: https://www.sasb.org/standard-setting-process/current-projects/conceptual-framework/

To learn more about the Rules of Procedure project, please visit: https://www.sasb.org/standard-setting-process/current-projects/rules-of-procedure/

Shivani Kuckreja
Associate-Analyst
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Appendix
Proposed improvements to how financial materiality is characterized

FINANCIALLY MATERIAL
To help meet the needs of capital markets, SASB standards should identify sustainability topics that are reasonably likely to have financially material impacts on companies.

Information is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of financial performance and long-term enterprise value.

SASB evaluates sustainability issues for inclusion in the standards by assessing whether a given topic is reasonably likely to materially affect the financial condition, operating performance, or risk profile of companies within an industry.

The time horizon over which financial materiality is evaluated can vary based upon many factors, including industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, and the planning horizons used by management for strategic decision-making for this business. Because capital providers making assessments of financial performance and long-term enterprise value seek information that is relevant to their decision making, another key piece of evidence for SASB’s decision making is evidence of interest in a topic from providers of financial capital.

SASB recognizes that each company is responsible for determining what information is material to its business and what information it should disclose.
We’ll be back after a short break
Plastics Risks and Opportunities in Pulp & Paper Products and Chemicals Industries

Gail Glazerman, CFA
Analyst, Resource Transformation and Renewable Resources Sector Lead
Plastics Risks and Opportunities – *Decision*

Session agenda

1. Propose standard-setting project covering both the Chemicals and Pulp & Paper Products industries

2. Review market feedback from research project

3. Discuss recent developments and research supporting staff recommendation

4. Review proposed scope of project and highlight a few potential challenges and considerations
Plastics & Bio-Alternatives in Pulp & Paper and Chemicals

Standard-Setting Project Proposal

Problem Statement

Intensifying focus on the externalities of plastics use has contributed to an escalating regulatory environment and shifting customer demand for packaging. These risks and opportunities do not appear to be fully captured in the existing Pulp & Paper Products and Chemicals standards, but there is reason to believe they could be deemed financially material.

Summary of Staff Recommendation

Staff recommends the Board initiate a standard-setting project on this issue for both the Pulp & Paper Products and Chemical industries. Staff believes that, in light of the evidence around financial impact and investor interest, there is a significant opportunity to improve the quality of the standards for both industries.

Highlights of Recommendation

Single project covering both industries: while final topic and metrics may differ, staff recommends proceeding as a single project covering both industries.

Preliminary timeline – staff estimates the project will take 12-18 months with an initial 6 month phase of consultation/research to support development of an Exposure Draft.

Resources – Staff believes this project can be executed by the Sector Lead without requiring material additional assistance.
Background – Research Project

At the December 2019 Standards Board meeting the Board discussed the possibility of modifying the Pulp & Paper Products and Chemicals industry standards to incorporate risks and opportunities posed by recent developments related to single-use plastics and staff initiated a research project to assess investor sentiment.

- Global repercussions of China’s decision to effectively ban the import of recycled waste
- Mounting consumer concerns about the externalities of plastics waste, particularly in oceans
- Increasing government regulation of certain single-use plastics
- The increasing number of commitments by end users (e.g. global food and consumer goods companies) to ensure their packaging is 100% reusable, recyclable and/or compostable
For several months staff has been conducting **investor consultations** to assess whether investors/analysts view shifting dynamics around single-use plastics as financially material for either or both industry and if inclusion in a SASB standard could provide decision-useful information. Some key **themes** that arose:

<table>
<thead>
<tr>
<th>Plastics is an important issue</th>
<th>Need to incorporate full lifecycle assessment</th>
<th>Rapidly emerging area-implications for metrics</th>
<th>Potential areas of financial impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Broad recognition that focus on plastics is an important issue</td>
<td>• Important to maintain raw material/substrate neutrality</td>
<td>• General recognition this involves a rapidly emerging regulatory and demand environment which could prove a challenge defining quantitative metrics at this time</td>
<td>• Many discussions identified potential areas of financial impact (revenues, costs, R&amp;D, Capex, intangibles)</td>
</tr>
<tr>
<td>• Somewhat less familiarity with potential impacts on the Pulp &amp; Paper Products industry vs Chemicals</td>
<td>• Any resulting metrics need to encapsulate a circularity/full lifecycle view</td>
<td>• Even qualitative information could be useful</td>
<td>• However, some believed it might take several years for these impacts to fully manifest</td>
</tr>
<tr>
<td>• Investors are actively engaging on this issue with corporate managements</td>
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</tbody>
</table>

For several months staff has been conducting investor consultations to assess whether investors/analysts view shifting dynamics around single-use plastics as financially material for either or both industry and if inclusion in a SASB standard could provide decision-useful information. Some key themes that arose:

- Broad recognition that focus on plastics is an important issue
- Somewhat less familiarity with potential impacts on the Pulp & Paper Products industry vs Chemicals
- Investors are actively engaging on this issue with corporate managements

**Need to incorporate full lifecycle assessment**

- Important to maintain raw material/substrate neutrality
- Any resulting metrics need to encapsulate a circularity/full lifecycle view

**Rapidly emerging area-implications for metrics**

- General recognition this involves a rapidly emerging regulatory and demand environment which could prove a challenge defining quantitative metrics at this time
- Even qualitative information could be useful

**Potential areas of financial impact**

- Many discussions identified potential areas of financial impact (revenues, costs, R&D, Capex, intangibles)
- However, some believed it might take several years for these impacts to fully manifest
Recent Developments: 1Q 2020

- China announced plans to ban the use of certain single-use plastics, following similar moves by the European Union, India and Canada, amongst others.
- Finnish paper company UPM-Kymmene announced a €550 million investment in a wood-based chemical facility.
- Governments have delayed and/or rolled back some plastic bans reflecting fears of contamination due to COVID-19.
- Some large restaurants such as Starbucks have stopped filling reusable cups in response to the pandemic.
- Sell-sided research departments of Bank of America, Morgan Stanley and Citi published large reports related to the issue of plastic waste.

Source: company report

Source: company report

Source: businessinsider.com March 5, 2020

Source: businessinsider.com March 5, 2020
Staff Recommendation

Proceed to Standard-Setting

Investor interest
- Staff believes there is sufficient indication of investor interest and financial materiality to proceed to standard-setting for this issue for both the Chemicals and Pulp & Paper Products industry

Structure
- Recommend initiating a single project under GIC: Product Design and Lifecycle Management. Final topics/metrics could differ for each industry. Rationale:
  - Underlying research and many investor/subject matter expert consultations will likely cover both industries.
  - Proceeding as a single project would avoid duplicate administrative tasks and minimize the risk of confusion

Timing
- While preliminary – project would likely require 12-18 months, starting with a 6-month research/consultation period informing development of an Exposure Draft.
Prioritization & Criteria

Standard-setting Agenda Prioritization

This project seeks to address an emerging issue where there appears to be a substantial gap in the standards for two industries. This is supported by research, investor feedback received through consultations on the issue, as well as the existence of multiple investor-led initiatives on this subject.

- There are multiple investor-led initiatives working on this issue, further demonstrating demand.

Standard-setting Criteria

- **The scope of the project is clearly defined**, consisting of two industries and the issue of single-use plastics/bio-alternatives.

- The Project addresses a **pervasive issue for many of companies operating in these industries** (though, not every company in each industry will be equally impacted).

Staff views this as a **feasible issue to address through standard-setting**; however, identification of quantitative metrics may prove challenging given the evolving nature of the demand/regulatory environment and need to ensure neutrality in metric selection.

- **Staff believes it has sufficient capacity** to execute the project.
Scope & Rationale: Chemicals Industry

For the Chemical industry, staff seeks to add a topic and supporting metrics that would reflect an issuer’s broad strategy to manage the risks and identify opportunities associated with the changing landscape around single-use plastics, including, but not limited to a narrow focus on renewable feedstocks.

Market feedback from investors was highly consistent, indicating this was a financially material issue for the industry and one worth pursuing for potential addition to the standards. Factors cited:

### Potential financial impacts

- An investor cited a study that estimated shifting demand for plastics could equate to ~1% drag on industry topline
- Other areas of potential financial impact: R&D, capex and intangible assets.
- Several chemical companies discuss new business activities such as products incorporating renewable feedstocks.

### Relevance

- This issue appears to be pervasive - packaging demand shifts are being driven by large multinationals. Governments in many global regions are implementing bans
- Not every chemical company will have the same (or any) exposure to single-use plastics.
Current Chemicals Standard Topics

- Greenhouse Gas Emissions
- Hazardous Waste Management
- Genetically Modified Organisms
- Air Quality
- Community Relations
- Management of the Legal & Regulatory Environment
- Energy Management
- Safety & Environmental Stewardship of Chemicals
- Operational Safety, Emergency Preparedness & Response
- Water Management
- Workforce Health & Safety

Product Design for Use-phase Efficiency:
Revenue from products designed for use-phase resource efficiency
Scope & Rationale: Pulp & Paper Products Industry

For the Pulp & Paper Products industry, staff seeks to add a topic and supporting metrics that would reflect strategy associated with a broad range of bio-alternatives (replacements for fossil fuel based products), including but not constrained to wood-based resin alternatives for plastics.

Feedback less conclusive

• Feedback from market consultations was not quite as definitive as it was for Chemicals
• Several investors expressed support for pursuing standard-setting around this issue for the Pulp & Paper Products industry.

Tangible impacts?

• After the research project was initiated a European paper company announced a €550 million capital project to build a wood-based chemical plant.
• This appears to demonstrate financial materiality

Sell-side interest

• Some sell-side research has recognized potential demand shifts away from plastics.
• A sell-side report indicated ‘alternatives to plastic-based packaging have seen some incremental demand.’ And identified potential paper company beneficiaries.
<table>
<thead>
<tr>
<th>Current Pulp &amp; Paper Products Standard Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse Gas Emissions</td>
</tr>
<tr>
<td>Air Quality</td>
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<tr>
<td>Energy Management</td>
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<tr>
<td>Water Management</td>
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</tbody>
</table>
Potential Challenges and Other Considerations

**Ensure substrate neutrality/full lifecycle assessment**

- Important to ensure neutrality and identify metrics which encapsulate a full lifecycle assessment and not just focus on a single element (e.g. waste).
- Many investors expressed concern that focusing on one issue such as waste could lead to unintended consequences and it is important to consider the entire lifecycle.

**Timing of financial impacts**

- While most investors/analysts consulted saw this issue as potentially financially material – many noted it could take years for the financial impacts to fully manifest.

**Rapidly evolving issue – impact on metric selection**

- Given the rapidly changing regulatory/market dynamics associated with plastics some investors suggested it may prove challenging to identify suitable quantitative metrics at this time. But overall indication was even qualitative metrics could be useful.
Discussion Topics

Do you agree with the staff recommendation to add this project to the standard-setting agenda?

- Do you have any specific questions or concerns at this stage related to investor interest and financial materiality of this issue for the Pulp & Paper Products industry in particular?

- Do you agree with the proposed project scope—i.e., the Product Design & Lifecycle Management general issue category for both the Chemicals and Pulp & Paper Products industries?

- Do you agree it makes sense to proceed as a single project at this phase rather than as two distinct projects?

- How do you evaluate the stated challenges around standard-setting, including the rapid regulatory developments, quantification of performance, and forward-looking nature on aspects of the financial impact?
Next steps

1. Project Team to further define the project plan

2. Commence consultations focusing on representatives from both industries and further research

3. Publish Exposure Draft
Staff welcomes feedback and comments on this project


Gail Glazerman, CFA
Analyst, Sector Lead– Renewable Resources and Resource Transformation

gail.glazerman@sasb.org
Standard-setting Agenda Prioritization

Governance Documents

Thematic Issue – Materiality

**Industry Standard: Evaluating New or Emerging Issues**

Globalization

Alignment

Thematic Issue – Measurement

**Industry Standard: Reevaluating Existing Content – Materiality**

Industry Scope and Structure Issues, Including New Industry Standards

Technical Protocol Issues

Standards Application Guidance

**Industry Standard: Reevaluating Existing Content – Measurement**
We’ll be back after a short break
Tailings Management in Extractives

Ekaterina Hardin
Analyst, Extractives & Minerals Processing Sector Lead
Review findings from latest consultation and research

Board discussion and decision on recommendation for treatment of topics

Discuss next steps and project timeline
Objective

Project Background

Catastrophic tailings storage facility failures in 2014 (Canada), 2015 (Brazil), and 2019 (Brazil) confirmed the materiality of the topic but revealed incompleteness of its metrics. The Investor Mining & Tailings Safety Initiative, formed in 2019, is developing disclosure metrics with industry cooperation that could be referenced in the standards.

Project applies to two industry standards: 1) Metals & Mining and 2) Coal Operations.


Project Outcomes

Provide topics and metrics for companies to disclose management of tailings facilities.

Provide metrics for companies to address social impacts from mismanagement of tailings storage facilities.

Revise metrics to improve global applicability.

Project Lead: Ekaterina Hardin

Project Timeline
For decision today: treatment of topics

- **2019 Q4**
  - Consultation Period

- **Q1**
  - Exposure Draft Development

- **Q2**
  - Global Tailings Review working group delivers final standard

- **Q3**
  - Exposure Draft Public Comment Period

- **Q4**
  - Final Standards Revision

**Project Launch**: June 23, 2020
**Standards Board Meeting**: June 23, 2020

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Findings from latest consultation and research
## Consultation Overview

### 50+ consultations

<table>
<thead>
<tr>
<th>Composition</th>
<th>Expertise</th>
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<tbody>
<tr>
<td>Companies</td>
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<td>Investor Relations</td>
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<td></td>
<td>TSFs Engineering</td>
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<td></td>
<td>Tailings Management</td>
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<tr>
<td>Investors</td>
<td>Asset owners</td>
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<td>Asset managers</td>
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<td>Lenders</td>
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<td>Industry Associations</td>
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<td>Civil Societies</td>
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<td>Academia</td>
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Tailings storage facilities risks have both environmental and social impacts. High level executives’ accountability need was highlighted.

Waste management topic is still material but separate from tailings storage facilities failure prevention topic.

Good news for our ability to align with globally applicable metrics from multiple ongoing initiatives on tailings.
Research and consultation surfaced sustainability impacts of waste and tailings that span environmental, social, and governance issues.

**INDUSTRY OPERATIONS**

- Waste & tailings generation (slurry, coal refuse)
- Tailings storage facilities and their management

**RISKS**

- Improper disposal
- Toxic releases
- Failure of tailings storage facilities
- Lack of appropriate failure preparedness and response plans

**IMPACTS**

- Environmental contamination
- Catastrophic environmental damage
- Loss of life
- Damage or loss of infrastructure
- Loss of assets
Current Disclosure Topic
Inadequate coverage of structural integrity and social impacts of mismanagement

Environment: WASTE & HAZARDOUS MATERIALS MANAGEMENT

Waste & tailings generation (slurry, coal refuse)

Tailings storage facilities and their management

INDUSTRY OPERATIONS

RISKS

Improper disposal

Toxic releases

IMPACTS

Environmental contamination

Failure of tailings storage facilities

Lack of appropriate failure preparedness and response plans

Catastrophic environmental damage

Loss of life

Damage or loss of infrastructure

Loss of assets

NOT MEASURED
Treatment of topics – for decision
## Comparison of 3 Options

<table>
<thead>
<tr>
<th>RISKS</th>
<th>CURRENT STANDARD</th>
<th>OPTION 1</th>
<th>OPTION 2</th>
<th>OPTION 3</th>
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<tbody>
<tr>
<td>Toxic releases</td>
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<tr>
<td>Environmental contamination</td>
<td>Waste &amp; Hazardous Materials Management</td>
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<tr>
<td>Tailings storage facilities</td>
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<td>Tailings storage facilities</td>
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<td>Management</td>
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<td>Management</td>
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<tr>
<td>Failure of tailings storage facilities</td>
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<tr>
<td>Lack of appropriate failure preparedness and response plans</td>
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</table>

### STAFF RECOMMENDATION

- **OPTION 1**: Add: Tailings Management
- **OPTION 2**: ADD Emergency Preparedness & Response Topic; REVISE scope of W&HMM Topic
- **OPTION 3**: EXPAND scope of W&HMM Topic
## Analysis of 3 Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Creates topic home for additional S metrics</th>
<th>Creates topic home for additional G metrics</th>
<th>Focuses each topic on only one GIC (E or G)</th>
<th>Aligned with current company reporting</th>
<th>Aligned with working initiatives reporting direction</th>
<th>Aligned with SASB Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Narrow waste topic, add tailings management topic</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
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</tr>
<tr>
<td>2 expand waste topic, add emergency response topic</td>
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<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>3 expand waste topic</td>
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</table>

©SASB June 23 2020 Standards Board Meeting
Questions for the Board

1. Do you suggest any other alternatives or considerations to the approach on disclosure topics?

2. Do you support the topic treatment recommended by staff?
Next Steps

1. Continue to engage with key tailings initiatives for alignment and global applicability.

2. Develop metrics to measure social and management issues. Assess global applicability of hazard potential classification metric.

3. Target exposure draft for Q3 board meeting.
Tailings Management in Extractives

Staff welcomes feedback and comments on this project


Ekaterina Hardin
Analyst
ekaterina.hardin@sasb.org
Appendix
Staff Recommendation on Disclosure Topics
Split Waste topic, add Tailings Management topic

**PROPOSED DISCLOSURE TOPICS**

**INDUSTRY OPERATIONS**
- Waste & tailings generation (slurry, coal refuse)

**RISKS**
- Improper disposal
- Toxic releases

**IMPACTS**
- Environmental contamination

**Environment:**
**WASTE & HAZARDOUS MATERIALS MANAGEMENT**
- Waste & tailings generation (slurry, coal refuse)
- Improper disposal
- Toxic releases
- Environmental contamination

**Leadership & Governance:**
**TAILINGS MANAGEMENT**
- Tailings storage facilities and their management
- Failure of tailings storage facilities
- Lack of appropriate failure preparedness and response plans
- Catastrophic environmental damage
- Loss of life
- Damage or loss of infrastructure
- Loss of assets
### Alternative Option 2 on Disclosure Topics

Expand Waste topic, add Emergency Response topic

<table>
<thead>
<tr>
<th>PROPOSED DISCLOSURE TOPICS</th>
<th>INDUSTRY OPERATIONS</th>
<th>RISKS</th>
<th>IMPACTS</th>
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<tr>
<td>Environment:</td>
<td>Waste &amp; tailings</td>
<td>Improper disposal</td>
<td>Environmental contamination</td>
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<tr>
<td>WASTE &amp;</td>
<td>generation (slurry,</td>
<td>Toxic releases</td>
<td>Catastrophic environmental damage</td>
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<td>HAZARDOUS MATERIALS</td>
<td>coal refuse)</td>
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<td>Loss of life</td>
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<td>MANAGEMENT</td>
<td>Tailings storage</td>
<td>Failure of tailings</td>
<td>Damage or loss of infrastructure</td>
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<td></td>
<td>facilities and their</td>
<td>storage facilities</td>
<td>Loss of assets</td>
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Leadership & Governance:

<table>
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<tr>
<th>EMERGENCY PREPAREDNESS &amp; RESPONSE</th>
<th>Leadership &amp; Governance:</th>
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<tr>
<td>Loss of assets</td>
<td>Emergency Preparedness &amp; Response</td>
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<td>Lack of appropriate failure</td>
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<td>preparedness and response plans</td>
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</tbody>
</table>
## Alternative Option 3 on Disclosure Topics

Expand Waste topic to include all aspects of Tailings Management

### Proposed Disclosure Topics

**Environment:**
- **Waste & Hazardous Materials Management**

### Industry Operations

- Waste & tailings generation (slurry, coal refuse)
- Tailings storage facilities and their management

### Risks

- Improper disposal
- Toxic releases
- Failure of tailings storage facilities
- Lack of appropriate failure preparedness and response plans

### Impacts

- Environmental contamination
- Catastrophic environmental damage
- Loss of life
- Damage or loss of infrastructure
- Loss of assets

---

**June 23 2020 Standards Board Meeting**
Materiality of tailings facility storage management topic

Recent catastrophic tailings storage facility failures confirmed the materiality of the topic already in the Metals & Mining and Coal Operations standards.

**Brumadinho, Brazil, 2019**
Vale. Dam collapse killed 248 people and caused severe environmental impacts.
- Vale’s total cost reached $6.5 billion.
- Vale is also the subject of an anti-corruption lawsuit and is required to present guarantees of $1.5 billion to cover an eventual sanction (May 27, 2020).

**Mariana, Brazil, 2015**
Samarco. Two mining dams collapsed, killing 19 and polluting the water supply.
- $262 million to fund mitigation and remedial measures.
- $6 billion settlement to restore the severely damaged environment and compensate the affected communities.

**Mount Polley, British Columbia, Canada, 2014**
Imperial Metals. Tailings pond failed and released mine waste slurry into Polley Lake.
- $37.3 million net loss due to the loss of copper and gold production at the mine
- $67.4 million in remediation costs
Initiatives working on improving tailings risk management disclosure

Global investors are working with companies worldwide to build consensus around disclosure. We expect these groups to be a key source for globally applicable metrics.

**Investor Mining & Tailings Safety Initiative**

Following Vale 2019 catastrophe, the Church of England Pensions Board and the Swedish Council of Ethics of the AP Funds established the Investor Mining & Tailings Safety Initiative. The group’s 100+ investor members represent $13 trillion in assets under management. The Initiative wrote to 726 extractive companies seeking enhanced disclosure on the management of tailings storage facilities.

**Global Tailings Review**

The International Council on Mining and Minerals, the United Nations Environment Programme and the Principles for Responsible Investment established The Global Tailings Review, which is working on Tailings Management Standard that aims to improve performance and demonstrate transparency of tailings facilities management.

**Guides and standards**

Such as Initiative for Responsible Mining Assurance Standard, Mining Association of Canada Tailings Guide, Towards Sustainable Mining Standards.
Recommended Updated Waste & Hazardous Materials Management Topic Description in Metals & Mining (Draft)

Recommendation 1

Topic Descriptions (suggested existing topics changed are marked in red):


The Metals & Mining industry generates large volumes of mineral processing, non-mineral and smelting wastes, including slags and tailings, some of which may be toxic, hazardous, or chemically reactive. Impoundments. Mineral processing sometimes also requires use of hazardous chemicals for tailings metal extraction. Mining waste can cover large areas of land. This be treated and disposed or stored in impoundments or old mine pits. Improper storage or disposal of hazardous materials or mining waste can present a significant long-term threat if the impoundments burst, collapse, or leak, leading to the loss of life or damage to property and ecosystems. Mineral wastes are also often stored in-pit, using abandoned open pit surface mines. Such storage can create the human health and ecosystem, including poisoning, and potential for groundwater and surface water contamination and could affect the stability of active mines in the area that is used for drinking and agriculture purposes. Companies that reduce and recycle waste streams while implementing policies to manage risks related to the integrity of tailings facilitieshazardous materials handling may enjoy lower regulatory and litigation risks, remediation liabilities, and costs. Additionally, tailings can contain hazardous chemical residues from extraction and processing operations. Companies' ability to manage the sourcing, transport, use, and disposal of mining and metal processing chemicals and by-products can reduce associated risks.
Recommended Updated Waste Management Topic Description in Coal Operations (Draft)

Recommendation 1

**Topic Descriptions** (suggested existing topics changed are marked in red):

Draft *Coal Operations* Industry Standard: **Waste Management** topic summary

Handling of solid rock and clay waste, process refuse, and liquid coal waste containing hazardous substances like mercury, arsenic, and cadmium poses operational and regulatory challenges for coal operations companies. Coal slurry or tailings ponds, *when mismanaged*, can present a significant threat if the impoundments burst, collapse, or leak, *contaminate* water supplies *leading to destruction* of lives, property, and ecosystems, *with associated financial potential adverse environmental impacts that or impacts to human health*. *These impacts may include: carry financial implications such as regulatory penalties, compensation payments, and remediation or compliance obligations*. Permitting of mining operations may be affected, lowering a company’s revenue or requiring *additional expenditures prior to approval*. Companies’ ability to lower the number and size of tailings ponds and ensure the structural integrity of impoundments can help minimize such impacts.
Recommended New Tailings Management Topic Description for Metals & Mining, and Coal Operations (Draft)

Recommendation 1

Topic Descriptions


The metals and mining [coal operations] industry faces significant operational hazards, particularly those associated with the integrity of tailings storage facilities (TSFs). A [rare] failure of such facilities (e.g. dam failure) can release significant volumes of waste streams and hazardous materials into the environment, potentially leading to high consequence impacts on the ecosystems, human livelihood, local economies, and communities. Such catastrophic incidents may result in significant financial losses for companies and may erode their social license to operate. Robust processes to manage tailings facilities and their associated risks can help prevent such incidents from occurring, and strong safety culture and emergency response plans can mitigate the impacts and financial implications of such events should they occur. Companies that adopt robust practices to manage and maintain the integrity of tailings facilities may do so through assigning accountability for TSFs management at the highest levels of the company; conducting frequent internal reviews of TSFs structural integrity and ensuring that corrective actions are implemented in timely manner; and enabling independent review of site operation, with public disclosure of the findings. Finally, company obligations related to long-term remediation and compensation for damages may result in additional financial impacts; the ability for companies to meet such obligations after an incident occurs is an additional component of emergency preparedness.
We’ll be back after a short break
Systemic Risk in Asset Management

Anton Gorodniuk
Lead Analyst, Financials Sector Lead
Systemic Risk in Asset Management – *Decision*

Session agenda

1. Review findings from latest consultation and research

2. Board decision on recommendation to remove metric
Systemic Risk in Asset Management Standard-setting Project Overview
Project approved Q4 2019 – expected codification Q4 2020

The project evaluates the Systemic Risk Management topic in the Asset Management & Custody Activities industry standard, including potential improvements to the scope of the topic and the associated accounting metrics.

Objective

Project Background

• Criteria for Metric Selection Alignment: two out of four accounting metrics may no longer satisfy: fair representation, usefulness, and alignment.

• Emerging Products: changing product trends that are not currently captured by the standard may contribute to, or result in, exposure to systemic risk.

• Lack of Decision-Useful Information: current content of the standard is not adequately measuring performance on the topic

Project Outcomes

• Update Disclosure Topic:
  • Holistically capture key risk management challenges companies in the industry face
  • Address unintended impacts on customers and society as a whole

• Improve Usefulness of Accounting Metrics
  • Revise and/or add accounting metric(s) that meet metrics characteristics of the SASB Conceptual Framework

Project Lead: Anton Gorodniuk

Consultation Summary

*As of 6/04/2020. For the purposes of this project, feedback from the same entity as a corporate issuer and as an investor is counted separately, yet outreach to several contacts within the same team is counted once.
Profile of Stakeholders Consulted

**Corporate**
- Risk Officers
- Enterprise Risk Managers
- Liquidity Risk Managers
- Public Policy

**Investors**
- Credit analysts
- Portfolio managers
- Equity analysts
Staff Recommendation

**Remove** accounting metric **FN-AC-550a.1** – Percentage of open-end fund assets under management by category of liquidity classification

**Interim project decision.** Staff is not proposing release of an exposure draft for public comment at this time.
Staff Reasoning: Regulatory Changes

**Regulatory Action:** The SEC rescinds the requirement that funds publicly disclose aggregate liquidity classification information about their portfolios

- **The Original Rule Intent:** promote effective liquidity risk management throughout the fund industry and to enhance disclosure regarding fund liquidity and redemption practices

**Revision Driver:** feedback provided by “interested parties” through public comment letters to the SEC

- **Stakeholder Reasoning:** “such disclosure may confuse and mislead investors”

**Metric characteristics:**

- **Aligned**
- **Representationally faithful**
Staff Reasoning: SASB Reporters

Examples of SASB reporters that omit the metric from their disclosures

**BlackRock**

**State Street**

Entities above cite lack of usefulness and informativeness, as well as potential risk of confusing investors as reasons for omitting the metric – *Aligned with the SEC reasoning*

*Consultation feedback is supportive of the removal*
Next Steps

1. Staff continues research and stakeholder consultation
   - New Metrics Research → Liquidity and NAV risk
   - Existent Metric Usefulness → Exposure to securities lending
   - Existent Metric Usefulness → Exposure to underwriting of derivatives

2. Staff develops an exposure draft standard

3. Standards Board releases exposure draft for public comment
For Standards Board’s Decision

**Remove** accounting metric **FN-AC-550a.1** – Percentage of open-end fund assets under management by category of liquidity classification

*Interim project decision.* Staff is not proposing release of an exposure draft for public comment at this time.

*Process-related decision.* Transparency of the standard-setting process. Communicate preliminary decisions to support adoption.
Systemic Risk in Asset Management Standard-setting Project

- Staff continues to seek feedback on the Project from subject-matter experts

- Consultation agenda is available on the Project page


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Upcoming Standards Board Meetings
2020 Standards Board Meetings

• September 17 & 18
• December 2

Additional Standards Board meetings scheduled as needed with a minimum of 10 days public notice. Standards Board Meeting Calendar & Archive page contains full details of meeting dates and registration links to access live stream of the public meetings. Recordings and a summary of meeting outcomes are available shortly after each meeting.

Sign-up to receive notice of public meetings and to receive standard-setting updates: https://www.sasb.org/contact/
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