December 22, 2020

Sustainability Accounting Standards Board (SASB)
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Via email: comments@sasb.org

RE: Proposed Changes to the SASB Conceptual Framework and Rules of Procedure

To Whom It May Concern:

The American Bankers Association\(^1\) (ABA) appreciates the opportunity to comment on the Exposure Draft *Proposed Changes to the SASB Conceptual Framework and Rules of Procedure* (Proposal). The Proposal updates the basic concepts, principles, definitions, and objectives that guide the SASB in its approach to setting sustainability disclosure standards. SASB’s mission is “to establish industry-specific disclosure standards across environmental, social and governance topics that facilitate communication between companies and investors about financially material, decision-useful information. Such information should be relevant, reliable and comparable across companies on a global basis.” SASB currently publishes metrics specifically related to seventy-seven industries, of which six are related to banking.\(^2\)

With this in mind, the demand for sustainability-related information from companies has grown dramatically over the past few years and asset managers are often basing investment decisions and portfolio allocations on specific sustainability\(^3\) metrics. ABA members consist of lenders, investment bankers, asset managers, investment analysts and custodians and, consequently, bring perspectives from both the users of the information as well as the preparers.

ABA supports efforts to set cost-effective standards for voluntary sustainability disclosures and believes SASB is reaching out with questions that are generally appropriate for an organization seeking to set sustainability disclosure standards. With this in mind, we make the following observations:

1. Reliability of Environmental Metrics Will be Challenging

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\(^1\) The American Bankers Association is the voice of the nation’s $20.3 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard $15.8 trillion in deposits, and extend more than $11 trillion in loans. Learn more at [www.aba.com](http://www.aba.com).

\(^2\) Those standards address asset management and custody activities, commercial banks, consumer finance, investment banking and brokerage, mortgage finance, and security and commodity exchanges.

\(^3\) The terms “Sustainability” and “ESG (for Environmental, Social and Governance factors)” may be used interchangeably in this letter.
ABA presumes that metrics issued by a disclosure standard-setter primarily for the benefit of investors will be included within company annual reports to investors. However, at this point, most companies will be unable to provide assertions, in accordance with the Sarbanes-Oxley Act, related to the effectiveness of internal controls over foreseeable climate-related estimates. In other words, the nascent nature of environmental risk management means that reliable quantitative measurements of relevant metrics may not be possible for many years.

We understand that SASB has not yet issued specific reporting standards that address climate change metrics in any substantial fashion. However, financing of greenhouse gas (GHG) emissions is at the forefront of banking sustainability discussions occurring today. With this in mind, a standard to estimate greenhouse gas emissions within bank lending portfolios would require methods to estimate emissions of bank borrowers and the many supply chains that support them. Generally accepted methods to measure such emissions are not in wide use today and, while methods could be developed in the near future, they may prove to be irrelevant if there are no infrastructural mechanisms to incentivize or enforce their accuracy. Until such mechanisms are in place, which may foreseeably include a carbon tax regime and audit requirements, it will be difficult to understand how to evaluate both the cost effectiveness and reliability of such information. Without reliability, such metrics can mislead both investors and other SASB stakeholders. Without reliability, most companies – fearing liability resulting from potential perceived misstatements – will choose not to disclose SASB metrics.

As SASB continues to explore standards addressing climate and other environmental metrics, the Board must continue to evaluate such considerations so they maintain the high quality that a standard-setter should maintain. This may take many years before compliance becomes a reality.

2. Assessments of Materiality Can Differ between Investors and Preparers

The understanding of “financial materiality” to preparers of information may often conflict with those of investors, as investment decisions and portfolio allocations are now often based on specific thresholds related to nonfinancial (e.g. ESG-related) information. For example, ESG-related investment funds often have “yes/no” investment criteria related to board membership or involvement in activities considered “controversial”. Such metrics may not be considered financially material to the preparer, but they would be critical to these specific investors.

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4 Many refer this to as Scope 3 emissions, which also would include emissions from both upstream and downstream value chains.

5 In addition to the lack of widely used methods to measure Scope 3 emissions, as well as the lack of a widely-implemented method for banks to measure financed emissions, there are yet-to-be issued standards regarding the measurement and reporting of emissions that are removed or sequestered, as well as emissions that are avoided. ABA believes that many investors and other stakeholders will also find such measures relevant.
With this in mind, we also believe that investor priorities related to ESG topics can rapidly change and evolve. For example, an investor’s perception of a bank’s commitment toward addressing the environment can change significantly if their focus changes from the financing of Scope 1 and 2 GHG emissions (Direct and indirect emissions from sources that are owned or controlled by the company) to those of Scope 3 emissions (also including those in the company’s supply and value chains).\(^6\) In turn, materiality may also change if a company’s operations or products that address certain positive environmental objectives (for example, climate change adaption) are achieved at the expense of other environmental objectives (for example, sustainable use of water).

SASB should, thus, work with the Securities and Exchange Commission and other financial regulators in addressing how preparers should consider materiality in this fast-evolving environment.

3. More Work is Needed to Address the Completeness of Certain Sustainability Metrics

There may be no other private industry that is as dedicated to financial inclusion, including the access and affordability of its products and services by lower and middle income people, than the banking industry. Compliance with the Community Reinvestment Act further makes this a critical aspect of our business. With this in mind, however, ABA notes that current SASB standards related to this issue may omit significant efforts banks make toward such inclusion goals. For example, certain SASB metrics target only loan balances, while bank efforts can often additionally consist of investments in debt securities, as well as equity and partnership investments. Many banks also regularly make charitable contributions to foundations that are strictly dedicated toward the same inclusion goals.

With this in mind, we look forward to working with SASB in assessing the completeness of banking industry metrics and encourage SASB to further reach out to preparers in other industries to accomplish the same.

In summary, we support SASB’s efforts to become an important standard-setter of sustainability disclosures. However, we also believe that this will necessarily address climate risk measurement and such measurements may take years before reliable information will be available. On the following pages are more detailed responses to certain questions in the Proposal. They address not only the concerns expressed above, but also specific technical observations directly asked by SASB.

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\(^6\) An example of Scope 3 emission measurement would include a manufacturer that assembles materials that are 1) petroleum-based and 2) shipped from overseas. Though the entity’s manufacturing center and warehouse may be low GHG-emitting, the GHG emissions of its products and its suppliers (who may often perform other manufacturing and shipping processes), can be significant.
Thank you for your attention to this matter and for considering our recommendations. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss this further.

Sincerely,

Michael L. Gullette
APPENDIX: RESPONSES TO CERTAIN QUESTIONS POSED IN THE PROPOSAL

Question 1 – Globally applicable sustainability accounting standards

Do you believe the concepts described in the Conceptual Framework exposure draft are appropriate for a global standard-setting organization? Are there concepts or principles that warrant discussion in—or removal from—the Conceptual Framework to help the Standards Board more effectively develop standards that have global applicability?

ABA Response

We believe that the concepts described in the Proposal are generally appropriate for a standard-setter. SASB’s approach, core objectives and characteristics of decision-useful information appear to address the key concerns of company management and their investors. With this in mind, however, the proposed conceptual framework is unclear how reliability – a key characteristic noted in the SASB mission – is addressed. We believe that reliability of information is a critical aspect of decision-useful information and, combined with the concept of “financial materiality”, forms the basis in assessing the “cost effectiveness” of information.

As SASB considers disclosure standards that may include quantitative environmental metrics (such as those relating to greenhouse gas (GHG) emissions), reliability becomes a significant concern. Not only are there growing expectations for banks to disclose their own GHG emissions, but also to measure and disclose emissions they are financing (in other words, the emissions of its borrowers). Quite simply, however, there are no generally accepted standards for measuring GHG emissions that are in wide use today and systems to comprehensively measure such emissions – those that measure not only direct and indirect company emissions, but also those within a company’s supply and value chains – rarely exist at banks or its borrowers.7

Further, the term “reliability” implies there will be internal controls over such reporting and the need for this information to be audited. This will naturally add to the assessment of cost effectiveness. However, as reliability relates to disclosure of certain climate risks in a loan portfolio, quantitative estimates may often rely on assumptions that are highly speculative and have no basis in historical experience or market prices to base their reasonableness. For example, certain companies currently estimate the “transition risks” (the risks to the value of assets from transitioning to a lower carbon-based economy) of certain assets and investments based on assumptions related to the price of carbon though—at least in the U.S. – there is currently no (and never has there been an) economy-wide price of carbon. As an economy-wide price for carbon would be highly dependent on taxation levels or regulatory practice, it is difficult to foresee how to see how internal controls over such bias will be designed in context of such long-term forecasts. While there may be scientific studies that can support certain aspects of these estimates, they likely are not subject to the internal controls that support assertions made

7 There are currently efforts to develop standards that measure what portions of a borrower’s emissions are being financed by the lender.
in accordance with Sarbanes-Oxley auditing requirements. In summary, without infrastructural incentives to manage carbon risks (such as through audit requirements and/or carbon taxation), the challenges of reliable reporting are daunting.

Fortunately, such estimates likely have little impact on investment allocation decisions in the current environment. However, as reporting related to climate risk becomes more mainstream, we foresee a time when they will. With this in mind, SASB must be mindful that decision-useful information that is reliable\(^8\) may require many years before the necessary infrastructural foundations are sufficient to collect the necessary information in order to reasonably estimate certain environmental exposures.

**Question 3 — Definition of Financial Materiality**

Are all aspects of the proposed definition of financial materiality clear and understandable? Does the definition accurately reflect SASB’s mission to facilitate communication between companies and investors about financially material, decision-useful sustainability information?

**ABA Response**

In an effort for SASB standards to be global in scope, the Proposal replaces U.S.-based discussions of financial materiality and defines materiality in a manner similar to one that is used in International Financial Reporting Standards. With that specific point in mind, we believe that the Proposal’s references to “short-, medium, and long-term” time frames and “financial performance and enterprise value” are unneeded and can bring confusion to preparers of such information. For example, while we acknowledge that the noted time frames may clarify to investors that SASB standards are not meant to be useful solely for short-term investment decisions, we also believe that materiality should be assessed on an entity-by-entity basis by the preparers of this information and current internal control requirements could be interpreted to require separate analysis by them over each of the different noted timeframes.

All that said, however, we also strongly encourage the SASB to specifically address the real-life implications of the current ESG investment environment. ESG-based portfolios are already being designed by asset managers for their clients and financial materiality related to fund allocation decisions can often, for practical purposes, be non-existent. For example, managers currently make “in or out” portfolio allocations based on various ESG topics, including specific metrics on board membership, as well as specific involvement or investment in certain specific activities. Further, as more scrutiny is brought to certain activities, we anticipate that how “activities” is defined may also evolve. For example, as it relates to cannabis banking, commercial banks currently face questions as to whether they are able to provide banking services not only to cannabis growers or retailers, but also to the service providers of these

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\(^8\) We note that, in 2011, the Financial Accounting Standards Board replaced the term “reliable” as a characteristic of decision-useful information with the term “Faithful Representation” and that the Proposal’s term “Representationally Faithful” is a characteristic defined in this Proposal. While some may believe that the term “reliable” could be simply deleted from the SASB mission, the same concern related to reliability exists. As it applies to financing of emissions, some may question how representationally faithful climate-related emissions disclosures could be without taking into account “Scope 3” emissions, which include those expended by both upstream manufacturers in a supply chain and downstream users of a manufactured product.
entities. Very similarly, investor perception related to the materiality of financed GHG emissions can change based on whether Scope 1 and 2 emissions are solely measured versus also including Scope 3 emissions. ABA further notes that the European Union’s issuance of an environmental taxonomy highlights the challenge that exists where the perceived materiality of certain positive aspects of a company’s operations (which, for example, may be focused on climate change adaption) may conflict with how those operations or products may adversely affect other environmental objectives (such as the sustainable use of water). How companies will assess materiality must take on various considerations that are far more complex than in use in today’s financial reporting environment.

As SASB considers disclosures related to measuring climate-related exposures, financial materiality (or lack thereof) must be considered in these lights. How preparers of such information should address materiality is critical and we recommend SASB work with the Securities and Exchange Commission and other financial regulators to address these differences.

**Question 4 – Characteristics of topic and metric selection**

Are the characteristics of topic and metric selection (as framed and defined in the exposure draft) supportive in establishing standards that produce financially material, decision-useful, and cost effective information (i.e., SASB’s three core objectives)? Are the definitions of the characteristics sufficiently clear? Are any characteristics that may be supportive of the objectives of the Standards missing, and therefore should be added? Are any characteristics redundant or misaligned with these objectives, and therefore should be removed?

**ABA Response**

As defined in the Proposal, we agree that accounting metrics should be “Complete” to understand and interpret performance on the sustainability disclosure topic. With this in mind, there is likely no other industry that, as part of its business model, reaches out specifically to lower and middle income constituents. ABA observes that current standards relating to “access and affordability” of products do not consider the full range of relevant activities that banks perform. For example, certain SASB metrics target only loan balances, while bank efforts can normally consist of investments in debt securities and equity and partnership investments. Many banks also regularly make charitable contributions to foundations that are strictly dedicated toward the same inclusion goals. Bank performance related to this key sustainability issue is, thus, much more than merely issuing loans.9

ABA notes that these activities can be highly impacted by banking regulations related to the Community Reinvestment Act (CRA) and that CRA is currently under review by the banking agencies. The metrics that underlie the SASB standards may, therefore, change. With these things in mind, ABA is happy to work with SASB in reviewing metrics that will achieve SASB’s

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9 ABA also observes that certain metrics detailed in the current SASB standards relate to loan balances and not to loan originations or increases in loan commitments. Many may believe the latter two metrics are likely better indicators of periodic performance rather than reporting mere balances at period-end.
goals of complete, decision-useful and cost effective information as circumstances and regulations change in the industry.