Subject: SASB Proposed Changes to the SASB Conceptual Framework & Rules of Procedure  
Issued: August 28, 2020  
Comments Submitted by Douglas Hileman; FSA, CRMA, CPEA, P.E.  
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I am is pleased to submit comments to SASB on Proposed Changes to the SASB Conceptual Framework & Rules of Procedure. These comments are submitted by Douglas Hileman, of Douglas Hileman Consulting LLC (“DHC”), indicated by “Commenter” throughout. I reside in the United States and have over four decades of experience with U.S. laws, regulations, ESG and auditing. I have worked for global companies and organizations for management consulting firms, a Big 4 firm, and my consultancy. I have applied EU directives, laws and regulations and International Financial Reporting Standards. I have written and audited Sustainability reports using GRI standards. In the familiar “lines of governance” model, I have experience in four lines: operations and corporate compliance; second line oversight and auditing; Internal Audit (third line); and external assurance (“fourth line”) supporting financial audits as a Subject Matter Expert and leading assurance engagements for the SEC’s Conflict Minerals Rule. I have presented on various aspects of Frameworks for Non-Financial Reporting at conferences and sessions of the Institute of Internal Auditors. I hold the Fundamentals in Sustainability Accounting (FSA) credential from SASB and auditing credentials from the IIA (not a CPA). The comments and views expressed here are my own (“Commenter”), and not those of any client, colleague, or professional organization I am involved with. I can be contacted at doug@douglashileman.com.

Q1  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?
**General Comments:** Commenter believes that, on the whole, the concepts described in the Conceptual Framework exposure draft are appropriate for a global standard-setting organization. Commenter notes aspects that are especially useful, as well as suggestions for further improvements.

1) **Create standalone attachment of Terms and Definitions.** Several passages illustrate the need for this, and value this would provide to the broad array of stakeholders reading and using SASB standards. As SASB has stated in the Conceptual Framework and supporting documents, its mission is to provide guidance and information to a broad array of stakeholders. The Conceptual Framework focuses primarily on the community interested in financial performance (and creation of shareholder value) in the short, medium, and long term. Stakeholders with this primary interest are already familiar with accounting rules, terms, and concepts. “Sustainability” is of keen interest to a much broader group of stakeholders who do not have this experience or background. [As an aside, Commenter is also submitting comments to IFRS on their Consultation Paper on Sustainability Reporting. The Consultation Paper uses some terms in ways that are confusing or misleading, and may not be consistent with SASB’s use.] SASB’s head start in this area and wide adoption of SASB disclosure standards make it an obvious party to take the lead on memorializing common nomenclature as it is intended to be used.

**Para 43 – Commendation on Terms & Definitions:** “... objectives of the SASB standards are to facilitate the disclosure of sustainability information that is financially material, decision-useful, and cost-effective.” Commenter believes this wording is exactly right, notably how SASB has described how “sustainability” drives the objective, and by extension, all other activities. This statement makes it clear that this is not equivalent to “sustainability reporting”, which may be done with the intention of being public (according to CDP or GRI, for example). This also differs from “sustainability reporting” which can consist of environmental, social and/or governance data and information provided to business partners such as customers, trade associations, rating entities, insurance carriers, or neighbors. This sustainability reporting is external, but not intended for general public consumption. The distinction between the language SASB uses in paragraph 43 and various types and intentions of “sustainability reporting” is abundantly clear. Commenter suggests: a) emphasizing this point earlier in the Conceptual Framework; and b) more widespread adoption of this description in the Conceptual Framework and other SASB documents – such as in Figure 3, as noted elsewhere in these comments.

**Other good examples:** Commenter notes that SASB’s Consultation Draft does have some excellent examples of this [“Accounting” in paragraph 7, “financially material” – notably including the word ‘financial’ – in paragraph 22). These are sprinkled throughout the document, and not easy to find.
Definitions would provide more clarity: Commenter suggests SASB reconsider terminology in paragraph 9 (including, perhaps the very definition of “sustainability accounting”), using accounting terms where appropriate (“accounting”, “disclosures”) and referencing risk management principles where appropriate.

- Disclosure, disclosure topics
- Enterprise value, shareholder value
- Report, reporting
- Sustainability, sustainability reporting, sustainability disclosures, sustainability accounting metrics

2) Sustainability Accounting Concept: Commenter suggests the concept of Sustainability Accounting would benefit from adjustment and/or clarifications on the items listed below.

- Para 9: **Clarification of Terms:** “As such, financial accounting statements (by design) capture only some elements of sustainability performance.” (emphasis added) Commenter suggests “… capture only some known or possible impacts of managing risks derived from sustainability on shareholder value creation …” (key difference emphasized). “Sustainability performance” does not equate to “financial performance” – [or financial/ shareholder value creation]. SASB has described the link between sustainability, the risks/ opportunities from sustainability, and the possible material impact on financial performance of a subset of sustainability topics nicely elsewhere in this document and other SASB publications. Commenter suggests that concepts are slightly mixed here and could lead to confusion.

- Para 10: **Clarification of Terms:** Commenter suggests that the two statements may not exactly match in their premise or making the desired point. The first sentence describes existing practice for disclosure of information beyond the scope of financial statements. The second sentence extends the concept to sustainability and designates this as “sustainability accounting.” The practice described in the first sentence is not referred to as “accounting” – it is described as a “disclosure.” Commenter notes that the sustainability field is awash in concepts and definitions of key terms. Many were proposed by thought leaders at a time when they were innovative – but perhaps the field and stakeholder needs have outgrown the original definition. Or that few saw the explosive growth in demand of sustainability-related information by the capital markets, and the need for relevant, impactful, reliable, and comparable information.
• Para 13: **Alignment with Traditional Accounting Models:** Commenter (not a CPA) poses the question of whether traditional financial accounting “sets targets” in financial reporting. Do income statements include targets for future income? Do balance sheets include targets for growth in asset value? Or are discussions of management’s plans for organizational strategies and efforts geared towards creation of future shareholder value more appropriately considered “disclosures”? This distinction highlights the value SASB could provide with a glossary of Terms and Definitions (“report”, “reporting”, etc.) (See comments for Q1).

**Q2** Should SASB describe its approach to governance in the Conceptual Framework? Is SASB’s approach to governance, as described above, sufficiently clear?

Commenter believes the approach to governance is sufficiently clear.

**Q3** 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?

Para 35 & 36 – **Commendation on Clarity.** The terms “characteristics: financial impactful, and of interest to users” are very clear and understandable. So are “prevalent” and “actionable.”

**Q4** Are the characteristics of topics 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?

Para 31, **Emphasize the value of “Assurance” done by all assurance providers.** Commenter suggests slight adjustment to this paragraph to encompass all assurance activities, such as deleting “third-party” or revising to “assurance provided by Internal Audit or third parties.” As an auditor, Commenter believes in the value of assurance. Commenter also notes that the **Internal Audit** function also provides assurance. Internal Audit is chartered by, and reports to the Board. Internal Audit conducts assurance (and advisory) engagements, applying risk-based concepts such as those used by SASB. Internal Audit applies these principles both in annual planning and on specific engagements. Internal Audit plays a key role in assurance of internal
controls over financial reporting pursuant to requirements of Sarbanes-Oxley; this value has been recognized and leveraged by companies with Internal Audit functions worldwide. Although independent, Internal Audit is not typically considered “third party.” Like any other expenditure of effort, Internal Audit also involves costs. Commenter also notes that third party assurance provided on sustainability topics may be provided by multiple parties with special expertise in the specific sustainability topics.

Commenter suggests an additional edit to acknowledge the value of all assurance providers. Paragraph 31 identifies “verifiable” as one supporting characteristic. Comment suggests minor adjustment to “… and enable assurance from Internal Audit or external assurance providers.”

Q5 When read alongside the Rules of Procedure exposure draft, are there important aspects of SASB’s approach to standard-setting that are missing from the Conceptual Framework exposure draft? Are there any material inconsistencies between the Conceptual Framework and Rules of Procedure exposure drafts?

Para 13, Figure 3: Revise the graphic to illustrate context of SASB with other Sustainability reporting and disclosures. The revision should include others in the “Group of Five” that published the “Statement of Intent … “ (September 2020). A revision to the graphic should also acknowledge B2B sustainability reporting and disclosures; this is currently not represented in any SASB graphic or in the Statement of Intent. Commenter believes Figure 3 is an excellent, simple figure that illustrates important concepts. Other figures based on this appear in the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting (“Group of Five”, September 2020). Commenter suggests this figure could be adjusted to acknowledge other sustainability reporting done by companies to fulfill needs of valid stakeholders. The outer layer indicates sustainability reporting “on critical sustainability issues … “ As with consolidated financial reporting, this incorporates the concept of materiality in the aggregate sense.

Materiality is in the eye of the beholder – and the stakeholder. Many valid stakeholder groups will continue to expect and demand sustainability reporting that is relevant for their purposes. There are many channels for “sustainability reporting” the is released external to the company, but not necessarily to the public. For example, industry sectors ask for sustainability data and information regarding their supply chains. Valid stakeholders include customers and neighbors. Sustainability reporting that is not material in the consolidated sense is nonetheless material to them. This may be pursuant to regulatory requirements (conflict minerals, product content), product labeling or quality or branding requirements, or community leaders or government officials concerned with environmental justice. This “sustainability reporting” is a substantial
commitment for companies. There is no less reason for sustainability reporting information in these channels to be relevant, aligned with the underlying ESG risk, and verifiable. Companies, these stakeholders, and all related professions would benefit from having this body of sustainability reporting depicted in this and related Figures. Figures 6 or 8 in the Statement of Intent would be an excellent starting point. Although not core to SASB’s mission, this depiction would be helpful for companies that will continue to have the need to generate this sustainability reporting data and information. Commenter does not suggest other changes to the Conceptual Framework or other aspects of SASB standards – just to acknowledge the broader universe of sustainability reporting requirements that companies face, and the context of investor-oriented matters within it.

Q 6  Additional Comments regarding the Conceptual Framework

- Include version number and other features of a controlled document. Commenter suggests that, in the final document, SASB adopt a system for numbering the version, dating the document, and providing instructions (such as in foot note or end note) on how/where to find the current version. These are features of controlled documents and can help ensure that stakeholders reference the appropriate version in years to come.

- Para 13, Suggested Clarification: “As capital markets have come to recognize the important links between sustainability performance and financial outcomes ....” Commenter notes that a fundamental driver for the creation of SASB was widespread confusion on what topics, performance and information – out of the scores (hundreds?) of options – actually were critical links. Commenter suggests slight modification, such as inserting “sustainability performance in key relevant areas and ...” Alternatively, SASB could add a sentence after this with context of the dilemma investors faced in how to appropriately identify the most relevant sustainability topics; company approach to systems, controls, and risk management/value creation; and how they monitored and reported/disclosed this process to the investment community.

- Para 17, Suggested Clarification: The Conceptual Framework indicates Human Capital as one dimension of Sustainability, further indicating that it “addresses issues that affect a company’s workforce.” Social Capital (item 2) includes the qualifier that “stakeholders that are directly or indirectly employed by the company are excluded ...” The issue of migrating human capital from full-time employees (with benefits, management responsibilities and the potential costs and liabilities that go with it) to contractor status is a topic of keen interest to many stakeholders. These two sentences do not adequately convey how SASB would consider human capital on long-term contractor arrangements (H-1B visa workers in the tech industry), or used to create shareholder value by avoiding legal classification as employees (drivers
working or on call 50+ hours per week for ride sharing services). Commenter suggests that SASB revisit these two sub-points of Paragraph 17 to make this concept of human capital clearer. The Conceptual Framework could also cite other relevant document(s) in the SASB universe that would provide – and maintain – appropriate definitions and treatment of these issues.

- **Paragraph 17, Item 5, Suggested Clarification:** The Leadership and Governance dimension of Sustainability indicates this dimension includes “conducting business activities in compliance with industry laws and regulations and in accordance with industry’s leading standards of professional integrity” (emphasis added). Commenter suggests that the word “industry” is appropriate for “leading standards” (OECD, ISO, COSO, ASTM, etc. – even GRI). However, governments promulgate laws and regulations – industry does not. Furthermore, companies must comply with requirements that are legally enforceable, but not directly by governmental entities. For example, there are sustainability provisions in contracts between buyers and sellers of businesses, and throughout the entire supply/value chain. Commenter notes that paragraph 26 refer to “compliance with applicable laws and regulations.” Commenter suggests revision of paragraph 17, Item 5 to “business in compliance with laws and regulations promulgated by sovereign entities …. “ or similar language to clarify the concept of compliance.

- **Para 30, Commendation:** “Externalities” is a concept that has been discussed from the very early days of “sustainability.” One party incurs costs while other party(ies) benefits. Commenter notes that the concept of externalities is apparent here. “Standards Board aims to establish standards for which the benefits [for whom?] resulting from the use of the Standards justify the costs [incurred by whom?] of implementation of the Standards.” Commenter supports the selection of “justify” as a concise, neutral word to put this into context.

- **Para 36, Clarification, Terms & Definitions:** “Sustainability accounting metrics” needs to be included in Terms & Definitions. Perhaps “… for purposes of SASB disclosures … “

Q7 Does the Rules of Procedure exposure draft provide a clear description of the Standards Board’s operating procedures? Are there any areas that should be further clarified?

Commenter offers no suggestions for improvement on this topic.
Q8 Does the exposure draft clearly explain the activities that the Standards Board and technical staff engage in to determine when and if standard-setting is necessary? Are these activities consistent with the mission of SASB and the objectives of the SASB Standards? Are there other activities that should be pursued to monitor the relevant industries and issues?

Mention proxy filings (Para 11): Consider mentioning shareholder proxy filings and votes received among the sources of information used for research.

Q9 Are the ways in which stakeholders can participate in SASB’s due process for standard-setting activities clear? Is it sufficiently clear how such participation may inform standard-setting outcomes? Are there other methods the Standards Board and/or technical staff should pursue to obtain market input on the Standards?

Para 16 et seq – Improve the process flow diagram by including swim lanes to delineate primary process owners. Commenter appreciates the effort that went into describing this due process and supports the notion of providing an accompanying graphic. Commenter suggests that this is an excellent candidate for depiction in a business process flow diagram, complete with swim lanes illustrating parties with key roles and responsibilities, differentiating between steps and controls, showing where public comment is solicited, and showing exactly where significant decisions are made. Commenter has experience in this effort and is willing to contribute to this effort.

Para 29: Identify and leverage the full value provided by SMEs throughout the Due Process: Commenter agrees with the mention of subject matter experts (SMEs) in “Proposing a Standards Update.” SMEs can bring knowledge of drivers, trends, current practices and gaps. SMEs can also provide perspectives on feasibility and how qualitative and quantitative information could be useful to decision-makers. Commenter notes that SMEs were not mentioned in the Conceptual Framework. SMEs can also provide value throughout the processes, such as is discussed in Paragraph 40 of the Rules of Procedure.

Q10 Is SASB’s governance structure sufficiently and clearly articulated in the document and in a way that appropriately contextualizes subsequent content in the document? Is the independence of the Standards Board clear? Is the oversight role of the Foundation Board of Directors clear?

Commenter offers no suggestions for improvement on this topic.
Q11 When read alongside the Conceptual Framework exposure draft, are there important aspects of policies and practices followed by the Standards Board that are missing from the Rules of Procedure exposure draft?

Commenter offers no suggestions for improvement on this topic.

Q12 Additional comments regarding the Rules of Procedure.

Periodic Review: Neither the research (paragraphs 10 – 11) nor post-implementation review (paragraphs 37 – 38) specify a maximum timeframe between reviews for disclosure standards. SASB has done a commendable job to date of monitoring the decision-usefulness of its mission statement, concepts, rules, and standards. Sustainability/ ESG is changing fast. There have been many substantive developments among the “group of 5” in 2020 – this during a pandemic! Nonetheless, many governance frameworks and standards do specify that some type of comprehensive review (sometimes by an independent entity) be performed within a maximum prescribed interval. The Institute of Internal Auditors’ International Professional Practices Framework (IPPF), for example, specifies an external Quality Assurance Review at least once every five years. ISO specifies certification audits on a three-year cycle, with lesser efforts on the interim years. Commenter notes that SASB’s revision process involves a diverse array, and an ample number of stakeholders such that an independent review would be burdensome and unnecessary. Commenter suggests that SASB specify that no standard shall go without review for more than a set period of time – say, five or seven years. Adding this standard piece of good governance would inspire confidence in user and need not be burdensome.

Include version number and other features of a controlled document. Commenter suggests that, in the final document, SASB adopt a system for numbering the version, dating the document, and providing instructions (such as in foot note or end note) on how/ where to find the current version. These are features of controlled documents and can help ensure that stakeholders reference the appropriate version in years to come.

Respectfully submitted,

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