STANDARD-SETTING PROJECT

RAW MATERIALS SOURCING IN APPAREL

PROPOSED CHANGES TO THE SASB APPAREL, ACCESSORIES & FOOTWEAR STANDARD

INVITATION TO COMMENT
ON EXPOSURE DRAFT AND BASIS FOR CONCLUSIONS

Issued: June 3, 2021
Comments due: September 2, 2021

Prepared by the Sustainability Accounting Standards Board®
Notice of public comment period on proposed changes to the SASB Apparel, Accessories & Footwear Standard on performance measurement for the Raw Materials Sourcing disclosure topic.

The SASB Standards Board invites comments on the enclosed exposure draft, particularly on questions included in the Questions for Respondents section (pp. 5–7) through September 2, 2021. Interested parties may submit comments in one of two ways:

- using the public comments form on the Raw Materials Sourcing in Apparel project page on the SASB website; or
- emailing comments to comments@sasb.org with the subject line “Raw Materials Sourcing in Apparel Exposure Draft.”

The Standards Board and the technical staff track and consider all comments received. All comments submitted will be on the public record and posted on the SASB website. Although the Standards Board may not provide specific responses to each public comment, the Standards Board will acknowledge receipt of, review, and summarize the public comments received.

Upon conclusion of the 90-day public comment period, the Standards Board will consider and deliberate on all received comments. At that time, the Standards Board may pursue further revisions of the Apparel, Accessories & Footwear Standard or may approve the revisions as presented in the enclosed exposure draft. Upon approval by the Standards Board, the updated version will supersede the current version (Version 2018-10) of the Standards.
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Overview

The following exposure draft proposes changes to the Apparel, Accessories & Footwear Standard on the disclosure topic of Raw Materials Sourcing and its associated metrics, CG-AA-440a.1 and CG-AA-440a.2.

The basis for conclusions summarizes the considerations of the SASB Standards Board in developing the exposure draft, including how the proposed changes were guided by the SASB Conceptual Framework.

Key changes proposed in the exposure draft include:

1. Aligning the definition of “priority raw materials” with existing industry standards;
2. Expanding disclosure on the following for each priority raw material: environmental and social factors most likely to impede sourcing, associated business risks and opportunities, and management’s plan to address these risks;
3. Disclosing 1) the total amount of priority raw materials purchased, and 2) the amount of certified priority raw materials purchased instead of the percentage in finished products;
4. Providing a rationale for why third-party standards or certifications are selected for each priority raw material; and
5. Suggesting a tabular reporting format for disclosure.

On May 25, 2021, the Board voted to release the exposure draft for a 90-day public comment period through September 2, 2021. The Board welcomes responses from companies, investors, and subject matter experts, as well as other interested parties and the public, especially to the questions for respondents on pp. 5–7.

The Raw Materials Sourcing in Apparel project page on the SASB website contains further information on the standard-setting project.

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1 CG-AA-440a.1. Description of environmental and social risks associated with sourcing priority raw materials.
2 CG-AA-440a.2. Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.
Questions for Respondents
The Standards Board invites comments on the enclosed Apparel, Accessories & Footwear Exposure Draft, particularly on the questions below. Comments are most helpful if they:

(a) address the questions as stated;
(b) indicate the question, industry, disclosure topic, and/or metric to which they relate;
(c) contain a clear rationale; and
(d) include any alternatives the Board should consider, if applicable.

Respondents do not need to comment on all the questions posed.

Question 1: Does the proposed change to the “priority raw materials” definition in the qualitative metric (CG-AA-440a.1) improve (1) alignment with common industry practices and guidance, (2) cost of implementation for companies, and (3) usefulness of disclosures?

The proposed changes to the qualitative metric³ include revising the definition of “priority raw materials” to align with a widely used industry definition. The proposed change expands the definition to include materials that may be used in smaller quantities but that present critical sustainability risks and opportunities. See pp. 12–13 for a discussion of the proposed change.

Question 2: Do you agree with the rationale to structure metrics by priority raw material (e.g., cotton, leather, etc.) versus by another component such as sourcing region or environmental/social factor (e.g., water scarcity, animal welfare, etc.)?

Market input and research suggest that the environmental and social factors most likely to impact a company’s ability to reliably source priority raw materials vary drastically by material. Therefore, the proposed changes add structuring metrics and resulting disclosures by priority raw material. See pp. 13-14 for a discussion of the proposed changes.

Question 3: Do the proposed changes to the quantitative metric (CG-AA-440a.2) improve the comparability, completeness, and usefulness of disclosures?

The proposed changes to the quantitative metric⁴ add a disclosure on total priority raw material purchases to improve the completeness of disclosure and usefulness for investors. There are also proposed changes to standardize calculations to enhance the comparability of disclosures. See pp. 14–16 for a discussion of the proposed changes.

³ CG-AA-440a.1. Description of environmental and social risks associated with sourcing priority raw materials.
⁴ CG-AA-440a.2. Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.
Question 4: The Board considered two approaches to revise the list of certifications/standards included in metric CG-AA-440a.2. Do you have a preference between the two approaches, and if so, why? What principles would you consider when evaluating the credibility and/or selection of third-party certifications/standards?

The Board considered two approaches to revise the list of certifications/standards included in metric **CG-AA-440a.2, Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard**. The first option maintains the current approach, which provides an illustrative list of certifications/standards that companies can reference. The Board also discussed replacing the list of examples with a set of principles for certifications/standards identification and selection. The Board deliberated the pros and cons of each approach and is interested to gain the market’s input on this issue. See p. 17 for additional discussion.

Question 5: Do you agree with the Board’s conclusion to not expand the scope of the Raw Materials Sourcing disclosure topic to include materials used for packaging?

Staff received suggestions to include raw materials used in packaging in the scope of the Raw Materials Sourcing disclosure topic. Staff research and consultations found that investor interest tends to focus more on the end-of-life environmental impacts associated with disposing packaging than on the environmental and social factors that may threaten production of raw materials for packaging. Therefore, the Board determined that expanding the disclosure topic scope to include packaging would not be appropriate given the different underlying sustainability issues of interest. See pp. 18–19 for additional discussion.

Question 6: Do the proposed changes improve the usefulness of disclosures for companies identified in the industry scope (companies involved in design, manufacturing, wholesaling, and retailing)?

SASB’s Sustainable Industry Classification System® identifies the scope of the Apparel, Accessories & Footwear industry to include companies involved in design, manufacturing, wholesaling, and retailing. Despite the differences in business operations and positioning along the apparel value chain, industry disclosures and market input suggest that companies within the scope of the industry identify raw materials sourcing as critical risk and regularly initiate corresponding management strategies. Given the diversity of business models, constructing a set of useful metrics is complex. The proposed changes aim to provide inclusive guidance to companies within the industry to facilitate disclosures that represent performance on the topic. See pp. 19–20 for additional discussion. The Board welcomes comments on this issue, particularly from vertically integrated apparel, footwear, and/or accessories companies, manufacturers, brands that purchase finished goods, and retailers.
Basis for Conclusions on Proposed Changes to the Apparel, Accessories & Footwear Standard
Introduction

1 The basis for conclusions accompanies, but is not part of, the “Exposure Draft of Proposed Changes to the Apparel, Accessories & Footwear Standard” (exposure draft) as part of the Raw Materials Sourcing in Apparel standard-setting project. The basis for conclusions summarizes the considerations and rationale of the SASB Standards Board (the Board) in developing the exposure draft. Individual Board members gave greater weight to some factors than to others.

2 The basis for conclusions is organized as follows:
   a) Summary of proposed changes
   b) Why was the project added to the standard-setting agenda?
   c) How was the exposure draft developed?
   d) What is the basis for the Board’s proposed changes to the standard?
   e) Additional deliberations

Summary of proposed changes

3 The Board proposes revisions to the metrics for the Raw Materials Sourcing disclosure topic in the Apparel, Accessories & Footwear Standard. The proposed revisions aim to enhance decision usefulness, primarily through improved comparability with a complete set of metrics. In addition, the proposed revisions seek to increase verifiability and alignment with existing industry tools.

   a) Revise metric **CG-AA-440a.1.** Description of environmental and social risks associated with sourcing priority raw materials (“the qualitative metric”) to **CG-AA-440a.1.** (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion of business risks and/or opportunities associated with the environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities.

   b) Revise metric **CG-AA-440a.2.** Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard (“the quantitative metric”) to **CG-AA-440a.2.** (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard.

4 The Board also proposes minor revisions to the Raw Materials Sourcing topic summary to clarify the disclosure topic scope.

5 The sections below discuss the Board’s deliberations to arrive at the proposed changes. A redline version of the proposed changes to the metrics and topic summary is provided for reference on pp. 30 - 37.
Why was the project added to the standard-setting agenda?

Companies in the Apparel, Accessories & Footwear industry ("apparel industry") increasingly recognize that there are opportunities to mitigate environmental and social impacts and risks at the raw materials production phase of the apparel value chain. The Raw Materials Sourcing disclosure topic and associated metrics in the Apparel, Accessories & Footwear Standard measure how companies manage environmental and social risks associated with sourcing raw materials.

As companies in the industry have prepared disclosures on this topic, they have provided feedback to technical staff on several elements of the associated metrics:

a) **Definition of “priority raw materials”**: The definition of “priority raw materials” in metric CG-AA-440a.1 is not aligned with a widely used industry definition, and the current definition does not sufficiently account for materials used in small quantities that still may represent critical sourcing risks and opportunities to companies.

b) **Calculation guidance for measuring materials**: Companies expressed concerns with the ability to produce comparable and verifiable disclosures with a lack of calculation guidance in metric CG-AA-440a.2. There is no guidance on if, or how, companies should account for materials lost or wasted throughout production; nor does it specify how companies should calculate the weight of certified materials in finished products.

c) **Referenced third-party certifications and standards**: Companies noted that some of the third-party standards referenced in current metric CG-AA-440a.2 are not compatible with the standard’s guidance to use the weight of materials to calculate the percentage of certified raw materials.

In response to this market feedback, the Board approved a standard-setting project in February 2020 to further clarify and improve the Raw Materials Sourcing disclosure topic and associated metrics.

How was the exposure draft developed?

As a general practice, the Board and technical staff actively monitor topics identified in each industry standard by assessing corporate disclosures and the effectiveness of the relevant standards at capturing performance on the issue in a decision-useful manner. Technical staff also monitor industry developments and solicit input from market participants and subject matter experts on the need for standard setting.

Since this project was added to the agenda, the technical staff has conducted research and engaged in consultations with companies, investors, and subject matter experts, including the

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5 **CG-AA-440a.1.** Description of environmental and social risks associated with sourcing priority raw materials.

6 **CG-AA-440a.2.** Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.
SASB Standards Advisory Group, to support development of the exposure draft. The technical staff contacted more than 55 stakeholders and had in-depth discussions with 28 stakeholders (9 investors, 11 companies, and 8 subject matter experts). Stakeholder consultations centered on questions posed in a project briefing document.

The research and consultation conducted by the technical staff led to a series of deliberations (discussed below) by the Board on key issues, considerations, and challenges related to the development of the exposure drafts. The Board concluded that the changes proposed in the enclosed exposure drafts have a sufficient basis in evidence and stakeholder input to proceed with conducting a public comment period.

Additional information related to the standard-setting process that the Board follows to maintain and update the SASB Standards can be found on the SASB website, in the Rules of Procedure, and/or in the Conceptual Framework. Additional project-specific information can be found on the Raw Materials Sourcing in Apparel project page on the SASB website.

What is the basis for the Board’s proposed changes to the standard?

The proposed revisions aim to enhance the completeness, comparability, alignment, and verifiability of the two associated metrics in the Raw Materials Sourcing disclosure topic. The two metrics complement each other and are intended to provide complete information to understand and interpret performance on the disclosure topic.

Through market feedback and research, the Board recognized several areas in which different definitions and approaches are used across the qualitative and quantitative metrics, which could limit the comparability and decision-usefulness of the resulting data. The following section summarizes the Board’s considerations that informed the proposed revisions on both metrics and specifically addresses the project focus areas related to market input on clarifying the definition of “priority raw materials,” calculation guidance, and referenced third-party standards.

Clarifying the scope of the Raw Materials Sourcing disclosure topic

Market input suggests that companies and investors often interpret the Raw Materials Sourcing disclosure topic to encompass both (a) the external environmental and social factors that affect a company’s ability to reliably source raw materials and (b) the environmental and social externalities created by raw material suppliers through their operational activities. However, the latter (environmental and social externalities created as a result of supply chain operations) are not intended to be captured by the Raw Materials Sourcing topic but rather are the focus of two separate disclosures topics on supply chain management.7

The proposed revisions to the Raw Materials Sourcing disclosure topic aim to clarify its focus on how environmental and social factors (such as climate change, water scarcity, land use, resource scarcity, and regional conflict in the supply chain) impact the ability of companies in the industry

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7 Environmental Impacts in the Supply Chain and Labor Conditions in the Supply Chain.
to source key raw materials such as cotton, leather, wool, and precious metals. For example, the Raw Materials Sourcing disclosure topic scope would include apparel company performance impacts from cotton price volatility in 2010 when global cotton prices tripled from $0.78 to more than $2.27 per pound as a result of weather events in China and Pakistan constraining supply. In contrast, environmental impacts such as water pollution resulting from a discharge of chemicals during wet processing would be captured by another disclosure topic: Environmental Impacts in the Supply Chain.

Focus on priority raw materials
While companies in the apparel industry rely on a wide range of materials as inputs for finished products, a subset of materials usually makes up the bulk of a company’s materials use. Companies recognize that proactive management of these key priority raw materials within their supply chains can mitigate business risks around materials shortages, supply disruptions, price volatility, and reputational risks, and can ultimately enhance their ability to reliably source materials. For example, Swedish apparel brand H & M Hennes & Mauritz AB includes the following discussion on raw material sourcing in its 2020 annual report:

Cotton is currently the H&M group’s biggest and most important raw material. Higher temperatures and water shortages will most likely affect the ability to grow cotton in many of the world’s cotton-growing regions. Long-term, the company believes that this will affect the availability and price of cotton. Price increases in other raw materials can also be expected.

The current qualitative metric (CG-AA-440.1) focuses on environmental and social risks associated with priority raw materials, while the quantitative metric (CG-AA-440a.2) asks for disclosure broadly for all raw materials that are third-party certified. Investors suggested that the consistent usage of “priority raw materials” across metrics will improve focus on the most salient materials rather than all raw materials, thereby improving the decision-usefulness of disclosures. The proposed revision includes updating metric CG-AA-440a.2 to align with CG-AA-440a.1 and focus on priority raw materials:

| Current metric: | CG-AA-440a.2 Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard |
| Proposed metric: | CG-AA-440a.2 (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard |

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9 According to the Global Organic Textile Standard, wet processing is the processing stage at which textile substrate is treated with colourants and/or chemicals. See more at [https://global-standard.org/certification-and-labelling/who-needs-to-be-certified/wet-processing](https://global-standard.org/certification-and-labelling/who-needs-to-be-certified/wet-processing).

The current qualitative metric CG-AA-440a.1 defines priority raw materials in accordance with US financial reporting guidance on business descriptions as materials used in final products that generate more than 10 percent of consolidated revenue. Market feedback from companies indicated that the definition should be made more globally applicable. Specifically, companies and investors frequently contrasted SASB’s definition of “priority raw materials” to the definition developed by the Textile Exchange, a global nonprofit organization with 425 members that aims to establish best practices and fair business models for the apparel supply chain, from farm to retail. The Textile Exchange defines a company’s priority materials based on the volume of raw material it uses and the relative sustainability risks and opportunities related to each raw material.

Market feedback also raised a concern that the current guidance in the standard may be incomplete, as it would likely exclude materials used in smaller quantities that pose significant risks and opportunities. The Textile Exchange’s definition, by factoring in risks and opportunities as additional criteria to materials’ volume, allows companies to account for materials that may be used in smaller quantities but that may present critical risks and opportunities, potentially leading to a more complete and representationally faithful list of a company’s priority raw materials.

Most of the investors consulted preferred the Textile Exchange’s definition and suggested that SASB revise its definition to focus on materials that represent the most salient risks as well as those used in the largest quantities. In addition, many companies within the industry already report using the Textile Exchange’s definition via its Corporate Fiber & Materials Benchmark program, suggesting that alignment with this widely used program may improve cost-effectiveness for companies to implement the standard.

Thus, the consensus expressed from both companies and investors provided the Board with confidence to align SASB’s “priority raw materials” definition with that of the Textile Exchange. The revised definition also eliminates reference to U.S. financial reporting guidance, providing a more global definition already in use by companies across Europe, Asia, and North America.

Disclosures by material

Research and market feedback surfaced a consistent theme of the breadth of materials used in the apparel industry and, equally, the drastic variations of the environmental and social factors that are likely to impact particular materials. Examples include cotton and other plant-based materials such as jute, synthetic fibers (e.g., polyester and polyamide), man-made cellulosics, and animal fibers/materials such as wool, down, silk, and leather. Production of such materials can be heavily impacted by environmental and social factors such as climate change, water

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11 According to metric CG-AA-440a.1, “priority raw materials are defined as those that are essential to the entity’s principal products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, consistent with 17 CFR 229.101.”


13 In 2019, 173 companies, including subsidiaries, participated in the Corporate Fiber & Materials Benchmark.
scarcity/quality issues, deforestation, poor working conditions, human rights abuses, animal welfare, and land use issues. The environmental or social factors of highest concern are dictated in large part by the type of material; for example, social factors such as animal welfare may pose a critical threat to sourcing leather but do not apply to natural fibers such as cotton.

The proposed revision adjusts the structure of each metric to produce disclosures that are organized by priority raw material type. A suggested table format on how to organize the disclosure for each metric is also included in the proposed revision (see the exposure draft) to improve the comparability and decision-usefulness of the resulting disclosure.

- The proposed revisions to the qualitative metric (CG-AA-440a.1) are structured for companies to discuss for each company-identified priority raw material the respective (a) environmental and/or social factor(s) most likely to threaten sourcing, (b) business risks and/or opportunities associated with the environmental and social factors, and (c) management strategies for addressing business risks and opportunities.

- The proposed revisions to the quantitative metric (CG-AA-440a.2) are structured similarly for entities to disclose for each company-identified priority raw material the (a) amount of purchased material and (b) amount of that material that is certified to a third-party environmental and/or social certification or standard.

Relative amount of each priority raw material

Investors also emphasized that the current quantitative metric (CG-AA-440a.2) has limited usefulness without additional context on each priority raw material’s relative share to total priority raw materials. For example, disclosures under the current quantitative metric would indicate only that 50 percent of cotton is certified to a third-party certification/standard. The disclosure does not provide visibility into whether cotton makes up a majority or a small share of all priority raw materials for the company. Furthermore, when considered in conjunction with disclosures from the qualitative metric (CG-AA-440a.1), it is challenging to understand the relative magnitude of the identified environmental and social factors, associated business risks, and appropriateness of implemented management strategies.

The proposed revision to the quantitative metric includes an additional data point on the amount purchased of each priority raw material to provide the broader context and improve the completeness of the resulting disclosure. This disclosure has been considered before by SASB, but research at the time indicated the industry was not yet monitoring and collecting this data, posing challenges to the cost-effectiveness of compiling such information. More recent market feedback and industry disclosures indicate a different industry landscape where such disclosures are aligned with industry practices and unlikely to significantly increase the costs associated with preparing such disclosures. Additionally, the Board recognizes that not all materials are measured using weight; the proposed changes include guidance and flexibility to provide data in an alternative, more appropriate unit of measure for the material, such as surface area.
Finally, the quantitative metric is proposed to be revised from percentage of materials to absolute amount of materials. The Board does not believe that this change affects the underlying data required for disclosure, and thereby will not impact the preparation costs for disclosure. Equally, the revision still enables users to calculate the percentage of certified materials from the absolute value data points, while providing further flexibility to perform additional analyses.

When raw materials are measured

The current quantitative metric (CG-AA-440a.2) provides guidance to “calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.”

Companies reiterated the complexity associated with calculating the weight of certified priority raw materials in finished products as well as the lack of guidance for calculating materials wastage during the production cycle.

This feedback led to research and deliberations on whether measuring certified materials found in finished products is the most useful way to capture performance related to the Raw Materials Sourcing topic, which is focused on the early production and sourcing stage of raw materials. The proposed revision is to change the metric from certified materials found in finished products to the amount of certified priority raw materials purchased. The amount purchased is believed to be more representationally faithful to the company’s sourcing needs and decisions than the weight of certified materials found in finished products.

Finally, the scope of the SASB Apparel, Accessories & Footwear industry includes companies involved in manufacturing, branding, design, and retail. Therefore, calculation guidance should meet the needs of a diverse set of companies that operate within and across the value chain and result in comparable disclosures. In particular, for companies that purchase finished goods and are largely removed from the process of purchasing initial materials, the proposed revision to measure the “amount of certified priority raw materials purchased” is accompanied by guidance for deriving the initial amount of certified raw materials purchased to produce finished products. Companies cited the Textile Exchange’s Fiber Uptake Calculations & Reporting Best Practices Guide15 and Fiber Conversion Methodology16 as useful and widely used tools for facilitating such calculations. These resources identify a standardized methodology for measuring certified materials in finished products and accounting for wastage throughout the production cycle.

Referenced third-party certifications and standards

Companies provided specific feedback on the third-party certifications/standards referenced in the quantitative metric. Some indicated that the current standard references third-party certifications/standards that pertain to certification of finished products and manufacturing

processes rather than to certification of processes to produce raw materials. Others commented on the current standard’s reference of third-party certifications/standards that utilize a mass balance system,\(^{17}\) such as the Better Cotton Initiative, and expressed concerns that mass balance system certification/standards are not directly measuring a company’s purchased raw materials.

The Board took a broader look at the metric construction in assessing the market feedback. The current metric provides a list of third-party certifications and standards that companies may use to certify priority raw materials. The list of third-party certifications and standards consists of those that (1) are actively in use by companies within the industry and (2) address environmental and social impacts that result from the primary sourcing of raw materials. SASB solicited market input to construct the list of certifications. It was not intended to be a comprehensive list, nor was it intended to be prescriptive.

The exposure draft includes an updated list of actively used third-party certifications/standards that focus on raw materials. The updated list retains references to certifications/standards that use a mass balance approach, recognizing it as an exception to the metric that is otherwise oriented around certifications/standards that directly certify a company’s physical purchased materials. Several consulted companies and investors endorsed the use of mass balance systems, emphasizing how the systems-based approach can still help companies cost-effectively increase the amount of sustainable materials they consume and manage key environmental and social factors that may threaten sourcing.

In addition to the updated list, the proposed changes clarify the usage of the term “third-party” in the metric. The intended reference is to certifications/standards that are developed and reviewed by an organization independent from the entity ("certified to a third-party certifications/standard"). It is not intended to indicate a requirement of independent audit or assurance on certifications/standards (not “third-party certified certifications/standards”) as the Board acknowledges that independent audit and assurance requirements vary substantially based on the specifics of each third-party certification. The Board recognizes from consultations that purchases of materials that are certified to a third-party certification/standard is not the only strategy used by companies to manage environmental and social factors that impact raw materials sourcing. As a result, the proposed revision also further clarifies optional disclosure on purchased priority raw materials that are not certified to a third-party environmental and/or social standard but contribute to the entity’s strategy to secure reliable sourcing.

\(^{17}\) A mass balance system accounts for materials entering and leaving a system and is often used when exact amounts are difficult to measure. For example, the Better Cotton Initiative (BCI) uses a mass balance system to facilitate the production and uptake of Better Cotton. According to the BCI website, a mass balance system “encourages supply chain actors to buy and use more Better Cotton in a cost efficient manner, as it does not require complexities that result in costly physical segregation along the supply chain.” Renewable energy credits are a common example of the mass balance function; when renewable energy credits are purchased, the renewable energy is added and pulled from the power grid, contributing to greener energy. However, the renewable energy sent to the grid may not directly power the purchaser’s operations.
Alternative principles-based approach

The Board also deliberated on using a different approach to construct the metric. In lieu of providing a list of third-party certifications/standards, the metric can provide a set of principles that companies can use to identify credible certifications/standards. Companies can then discuss how these principles are reflected in the certifications/standards they use. For example, an illustrative set of principles may include:

- Managed by a third party, is active, and in use;
- Explicitly intended to be used for one or more raw materials that the entity has determined are among its priority raw materials;
- Explicitly relates to environmental or social factors that may threaten the entity’s sourcing of raw materials and/or supply chain, including, but not limited to, the availability or pricing of such materials; and/or
- Used by the entity for the purposes of managing its business risks associated with sourcing raw materials, including, but not limited to, access to and availability of priority raw materials, price volatility, regulatory compliance, brand value, and reputation.

There are advantages and disadvantages for both approaches. The current approach guides companies to a clear list of third-party certifications/standards. However, the market may interpret SASB’s providing a specific set of certifications/standards as expressing a preference for particular certifications/standards, which is not the Board’s intent. The current approach also requires ongoing maintenance of the list to ensure that the certifications/standards referenced in the standard are up to date.

The alternative principles-based approach would likely require less maintenance and present more objective guidance. However, during consultations, technical staff heard that neither investors nor companies have coalesced around a common set of principles to determine the credibility and performance of certifications. In consultations, investors provided feedback on how, given apparel companies’ specific needs and strategies for different raw materials, it is important to understand a company’s rationale for why it chooses certain certifications or standards. Therefore, the proposed changes include an added disclosure on discussion of the entity’s views on how sourcing certified priority raw materials helps manage impacts on its business; its rationale for selecting specific third-party certifications/standards over others; and its strategy to secure access to priority raw materials certified to specific standards and any associated quantitative targets.

SASB is interested in market perspectives on the alternative principles-based approach described above and market input regarding which principles companies and investors use to guide and assess third-party certifications/standards. See question 4 in the Questions for Respondents section on pp. 6–7.
Additional deliberations

The Board and technical staff considered the following issues that arose through research and consultation that are outside the original project scope. There are no proposed revisions to the standard at this time based on the rationale shared below. The Board welcomes additional input and viewpoints on these issues via public comments.

Adding packaging to the scope of the Raw Materials Sourcing disclosure topic

The scope of the current Raw Materials Sourcing topic is focused on priority raw materials used in finished products of the industry (e.g., shirts, necklaces, or shoes). During consultations, a company recommended expanding the scope of the disclosure topic to also include raw materials used for packaging (e.g., paperboard or corrugated fiberboard). Technical staff investigated the decision-usefulness of expanding the scope of the disclosure topic to include packaging and found that investors are primarily interested in environmental impacts associated with packaging disposal rather than the environmental and social factors that may threaten a company’s ability to source raw materials necessary for packaging production. For example, As You Sow’s Plastic Solutions Investor Alliance is made up of 25 institutional investors representing $1 trillion in assets under management (AUM) and is aimed at engaging publicly traded companies on the threats posed by plastic pollution, but it does not mention raw material production.

Furthermore, research from the Principles for Responsible Investment (PRI) identifies numerous policies aimed at plastic recycling and waste globally, however there are no policies or regulations that are directly targeted at the primary production of plastics.

Despite the lack of policies and regulations focused on raw materials for plastics production, PRI suggests that companies that produce raw materials for plastics (such as oil and gas companies) may be impacted indirectly by policies aimed at boosting plastic recycling and reducing fossil fuel dependence and greenhouse gas emissions. Such policies, and subsequent indirect impacts, could present threats to a company’s sourcing strategy for raw materials used in packaging. Additionally, some companies within the industry, such as shoe manufacturers, are heavily reliant on corrugated cardboard, which is in great demand as consumers increasingly order goods online that often arrive in cardboard packaging. Cardboard production is also impacted by record high wood prices and has been increasingly threatened in recent years due to climate change which can prompt bug infestations and destructive wildfires as temperatures warm. For example, in

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18 SASB General Issue Category (G.I.C.) includes a Product Design & Lifecycle Management category that addresses an industry’s incorporation of environmental, social, and governance considerations in characteristics of products, including the management of lifecycle impacts related to packaging. The Raw Materials Sourcing disclosure topic is mapped to the Materials Sourcing & Efficiency G.I.C., which addresses issues related to the resilience of materials supply chains to impacts of external environmental and social factors.


2019–2020 Australia saw 130,000 hectares of plantation burned;\textsuperscript{22} shortly after the Australia wildfires, California lost 60,000 hectares of commercial forests to wildfires.\textsuperscript{23}

The Board deliberated and ultimately determined that evidence suggests investors are primarily interested in environmental impacts associated with packaging disposal, which is not the focus of the Raw Materials Sourcing disclosure topic. The Board concluded to maintain the current scope of the Raw Materials Sourcing disclosure topic but welcomes market input on this issue (see Question 5 in the Questions for Respondents section on p. 7).

Industry scope considerations

The scope of SASB’s Apparel, Accessories & Footwear industry includes companies across the value chain involved in design, manufacturing, wholesaling, and/or retailing, representing a variety of business operations. The Board and technical staff recognize that the diversity in business models (e.g., retail versus manufacturing) can pose complexities in constructing a complete set of useful metrics. While a company’s position along the value chain may impact how it identifies, assesses, and manages risks and opportunities associated with sustainability issues, most companies in this industry recognize reliable access to raw materials as a critical issue, regardless of where they fall along the value chain. This is supported by corporate disclosures on materials sourcing produced by diverse companies such as retailers and vertically integrated apparel manufacturers.

Below are excerpts from financial filings or annual reports of companies reflecting different operations within the industry scope. The excerpts demonstrate that while these companies are diverse in their operations, they identify environmental and/or social factors that impact sourcing raw materials and present critical business risks:

- **Hanesbrands** (U.S.-headquartered, vertically integrated apparel company performing R&D and design functions while also operating 39 manufacturing facilities across Asia, Central America, and the Caribbean Basin): “Our business is susceptible to risks associated with climate change, including through disruption to our supply chain, potentially impacting the production and distribution of our products and availability and pricing of raw materials. . . .

  Cotton is the primary raw material used in manufacturing many of our products. While we do not own yarn operations, we are still exposed to fluctuations in the cost of cotton. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers and may result in the need to implement future price increases in order to maintain our margins. Decreases in cotton prices can lead to lower margins for inventory and products produced from cotton we have already purchased, particularly if there is downward price pressure as a result of consumer demand, competition or other factors. . . .


highlights of our 2030 global sustainability goals include . . . moving to 100% recycled polyester and sustainably sourced cotton.  

- **Fast Retailing** (Japan-headquartered apparel company with global operations in R&D, design, merchandising, development and procurement of materials, omnichannel retail, and oversees an outsourced production network of approximately 415 partner factories): "Disasters, climate change, and other factors may cause escalating prices or difficulty in procuring the raw materials (such as cotton, cashmere, down, etc.) used in the products sold by the Group’s businesses. If these risks materialize, the Group’s product supply systems and performance may be adversely affected. . . . We have entered into procurement agreements with multiple suppliers so that we are able to source reasonably priced raw materials, without having to rely on a specific supplier for a specific raw material."

- **GUESS Inc.** (U.S.-headquartered apparel and footwear designer that sources finished products from approximately 200 suppliers): "The raw materials used to manufacture our merchandise are subject to availability constraints and price volatility caused by high demand for fabrics, currency fluctuations, crop yields, weather patterns, climate change, supply conditions, government regulations (including tariffs), labor conditions, energy costs, transportation or freight costs, economic climate, public health crises, market speculation and other unpredictable factors. Negative trends in any of these conditions or our inability to appropriately project fabric requirements could increase costs and negatively impact profitability."

The Board believes that the issues captured under the Raw Materials Sourcing disclosure topic are actionable for most companies along the value chain and that the proposed revisions will facilitate representationally faithful and comparable disclosures across the industry. This includes, for example, companies that are largely removed from the process of directly purchasing priority raw materials. As noted in paragraph 30, the proposed revision to measure the “amount of certified priority raw materials purchased” is accompanied by guidance so that these companies can estimate the amount of certified raw materials purchased from their suppliers that is utilized to produce their finished products. The Board welcomes feedback on this conclusion (see Question 1 in the Questions for Respondents section on p. 6).

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Appendix

Textile Exchange’s Definition of a Priority Material (excerpt)\textsuperscript{28}

For the purposes of benchmarking, Textile Exchange defines a priority material by the scale, risk, and opportunity it represents to the company.

- **Scale:** The “fiber” represents a percentage of volumetric use beyond a threshold of 10 percent of overall fiber use e.g., cotton, polyester, manmade cellulosic fibers, nylon, and wool. Or, in the case of “non-fiber” materials (e.g., leather, down), it represents 10 percent of the final product range (i.e., by “count of products” with “major components” of non-fiber materials e.g., down or leather).

- **Risk:** The raw material represents a “material” risk to the company. Risks associated with a minority (low volume) raw material include sourcing from environmentally and/or socioeconomically high-risk sourcing regions, animal welfare risk, reputation risk, etc.

- **Opportunity:** The module should also be selected if the company has seized the opportunity to advance the sustainability of the raw material even if the material is below the volumetric use threshold or is not considered a risk.

I. **Requirements:** The three parameters (above) determine whether a material (fiber or nonfiber) is a priority and must be completed for a Material Change Index score and placement in the Material Change Index (MCI).

II. **Material risk:** Materiality assessments help a company identify its most “material” issues. The process of identifying/assessing these issues (including risks and opportunities associated with fiber/materials use) involves reaching out to internal and external stakeholders to get their input.

III. **Exceptions:** The company may decide not to complete a module, even if the material used is above the volume threshold and is recognized as a key risk. For example, if the company is in the process of decommissioning the use of the said material (e.g., based on the company’s risk and opportunity assessment) and the transition is not yet complete.

IV. **Evidence:** The company is to disclose its priority/non-priority materials with supporting evidence such as uptake documentation, and/or corporate risk assessment. A company’s completed Material Balance Sheet and accompanying Metadata Form is sufficient proof of volumetric uptake.

Exposure Draft of Proposed Changes to the Apparel, Accessories & Footwear Standard

About This Exposure Draft

This exposure draft is presented for public review and comment. This version is not intended for implementation.

This exposure draft does not include the entirety of the standard. The following Sustainability Disclosure Table & Accounting Metrics reflect the complete set of disclosure topics and associated metrics for this industry, after incorporating the proposed changes. The exposure draft includes only the Raw Materials Sourcing disclosure topic and associated metrics that are relevant to the proposed changes.

The public comment period lasts for 90 days, beginning on June 3, 2021, and ending on September 2, 2021. The standard is subject to change thereafter.

Please use the public comments form on the Apparel, Accessories & Footwear project page on the SASB website or email comments to comments@sasb.org with the subject line “Raw Materials Sourcing in Apparel Exposure Draft.”

Prepared by the Sustainability Accounting Standards Board

June 2021
## Sustainability Disclosure Table and Accounting Metrics

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of Chemicals in Products</td>
<td>Discussion of processes to maintain compliance with restricted substances regulations</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CG-AA-250a.1</td>
</tr>
<tr>
<td></td>
<td>Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CG-AA-250a.2</td>
</tr>
<tr>
<td>Environmental Impacts in the Supply Chain</td>
<td>Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreements</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>CG-AA-430a.1</td>
</tr>
<tr>
<td></td>
<td>Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition’s Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>CG-AA-430a.2</td>
</tr>
<tr>
<td>Labor Conditions in the Supply Chain</td>
<td>Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>CG-AA-430b.1</td>
</tr>
<tr>
<td></td>
<td>Priority non-conformance rate and associated corrective action rate for suppliers’ labor code of conduct audits</td>
<td>Quantitative</td>
<td>Rate</td>
<td>CG-AA-430b.2</td>
</tr>
<tr>
<td></td>
<td>Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CG-AA-430b.3</td>
</tr>
<tr>
<td>Raw Materials Sourcing</td>
<td>(1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CG-AA-440a.1</td>
</tr>
<tr>
<td></td>
<td>(1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard</td>
<td>Quantitative</td>
<td>Metric tons (t)</td>
<td>CG-AA-440a.2</td>
</tr>
</tbody>
</table>
Raw Materials Sourcing

Topic Summary
Companies in this industry rely on numerous raw materials as key inputs for finished products. Traditionally, these have consisted of materials such as cotton, leather, wool, rubber, and precious minerals and metals. Environmental and social factors such as climate change, land use, resource scarcity, and conflict in regions where the industry’s supply chain operates are increasingly shaping the industry’s ability to reliably source materials. In turn, these factors can impact business risks such as materials shortages, supply disruptions, price volatility, and reputational risks. Companies can manage these risks through engaging with suppliers, enhancing visibility into the supply chain, using certification standards, and/or sourcing innovative alternative materials such as reclaimed secondary feedstocks. Companies that proactively manage this topic are likely to reduce their exposure to price volatility and potential supply disruptions while improving their brand reputation and developing new market opportunities. Failure to do so can lead to reduced margins, constrained revenue growth, and/or a higher cost of capital.

Accounting Metrics

CG-AA-440a.1. (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities

1 The entity shall disclose its priority raw materials purchased for finished products.

1.1 The entity shall identify priority raw materials using the definition of “priority materials” outlined in the “Priority Material” section of the Textile Exchange’s Fiber & Materials Portfolio Guide:

1.1.1 The entity shall provide a rationale for any priority raw materials that it chooses to omit from disclosure.

1.2 Priority raw materials may include synthetic fibers, natural fibers, man-made cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to, cotton, rayon, viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

1.3 The entity shall identify priority raw materials using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.4 The scope of disclosure shall include priority raw materials present in finished products and exclude raw materials used in packaging and manufacturing.
1.5 Priority raw materials include materials purchased by the entity or its suppliers for the purposes of producing the entity’s finished goods.

2 For each priority raw material, the entity shall identify the key environmental and/or social factors that are most likely to threaten its ability to source or purchase each material.

2.1 Environmental factors include, but are not limited to:

2.1.1 Climate change impacts (e.g., extreme weather events and/or water stress);
2.1.2 Regulation on greenhouse gases (GHG);
2.1.3 Environmental regulations for suppliers;
2.1.4 Land use practices; and
2.1.5 Production methods that result in water pollution, soil degradation, deforestation, and/or loss of biodiversity.

2.2 Social factors include, but are not limited to:

2.2.1 Suppliers’ animal welfare, labor, and human rights practices;
2.2.2 Materials sourcing from regions of conflict; and
2.2.3 Regulations on labor practices and/or human rights.

3 For each priority raw material, the entity shall discuss the business risks and opportunities associated with environmental and/or social factors.

3.1 Business risks and opportunities include, but are not limited to:

3.1.1 Access to, and availability of, the priority raw material;
3.1.2 Ability to trace the priority raw material;
3.1.3 Price volatility of the priority raw material;
3.1.5 Regulatory compliance issues associated with the priority raw material;
3.1.5 Customer demand for products containing the priority raw material; and
3.1.6 The entity’s brand value and reputation.

4 For each priority raw material, the entity shall discuss its management strategy for addressing business risks and opportunities associated with environmental and/or social factors most likely to threaten its ability to source priority raw materials.

4.1 Relevant strategies may include, but are not limited to:

4.1.1 Enhancing supply chain visibility and traceability through due diligence practices, research into traceability or use of traceability systems, supplier screening, and/or supplier audits or certifications;
4.1.2 Supporting raw material suppliers through supplier training or engagement programs, introducing resilient agricultural practices, and/or supporting organic certification;
4.1.3 Partnering with industry groups or nongovernmental organizations to address environmental and/or social factors in supplier regions; and

4.1.4 Investing in the design phase and/or in research and development to identify substitutable and/or alternative materials that are less impacted by environmental and social factors.

4.2 If the entity identifies cotton as one of its priority raw materials, it shall discuss its vulnerability to cotton-growing regions with water stress and how it manages the risk of price variability due to sourcing cotton from these regions.

4.2.1 The entity may identify its known sources of cotton for High (40%–80%) or Extremely High (>80%) Baseline Water Stress using the World Resources Institute’s (WRI) Water Risk Atlas tool, Aqueduct.

4.3 The entity shall disclose any relevant performance measures or targets it uses to assess the effectiveness of its management approach, as well as its progress against such targets.

4.4 Disclosure corresponds to the Sustainable Apparel Coalition’s Higg Brand & Retail Module.

5 The entity may use the following table format to organize disclosure for metric CG-AA-440a.1.

<table>
<thead>
<tr>
<th>Priority Raw Material (name)</th>
<th>Environmental and/or Social Factors</th>
<th>Discussion on Business Risks and Opportunities</th>
<th>Management Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

CG-AA-440a.2. (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard.

1 For each priority raw material, the entity shall disclose the amount of materials purchased, in metric tons, during the reporting period.

1.1 The entity shall identify priority raw materials using the definition of “priority materials” outlined in the “Priority Material” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.1.1 The entity shall provide a rationale for any priority raw materials that it chooses to omit from disclosure.

1.2 Priority raw materials may include synthetic fibers, natural fibers, man-made cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to, cotton, rayon,
viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

1.3 The entity shall identify priority raw materials using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.4 If the entity purchases finished goods rather than unprocessed raw materials, it shall calculate the initial amount, in metric tons, of priority raw materials required for production.

1.4.1 The entity shall account for material loss and wastage throughout production and should reference the Textile Exchange’s Fiber Uptake Calculations & Reporting Best Practices Guide and Fiber Conversion Methodology.

1.5 If the entity does not measure the weight of a material, it shall provide an alternative measurement, such as surface area.

1.6 The purchased amount of each priority raw material shall reflect the material in its original state and not to be presented with further data manipulation, such as reporting it as “dry weight,” consistent with guidance for GRI’s Disclosure 301-1 Materials used by weight or volume.

1.7 If estimation is required, the entity shall report the methods used.

1.8 The scope of disclosure shall include priority raw materials present in finished products and exclude raw materials used in packaging and manufacturing.

1.9 Priority raw materials include materials purchased by the entity or its suppliers for the purposes of producing the entity’s finished goods.

2 For each priority raw material, the entity shall disclose the amount, in metric tons, purchased that is certified to a third-party environmental and/or social standard, by standard.

2.1 Third-party environmental and/or social standards are defined as standards that are developed by a third party and address environmental and/or social factors that are likely to threaten a company’s ability to reliably source its priority raw materials.

2.2 Third-party environmental and social standards include, but are not limited to:

2.2.1 Textile Exchange’s Recycled Claim Standard (RCS), Global Recycled Standard (GRS), Organic Content Standard (OCS), Responsible Down Standard (RDS), Responsible Wool Standard (RWS), and Responsible Mohair Standard (RMS);

2.2.2 Global Organic Textile Standard (GOTS);

2.2.3 Cotton Made in Africa (CmiA);

2.2.4 Fair Trade Certified;

2.2.5 Organic Fair Trade;

2.2.6 Leather Working Group (LWG);

2.2.7 Forest Stewardship Council (FSC) Certification;
2.2.8 Programme for the Endorsement of Forest Certification (PEFC); and
2.2.9 Better Cotton Initiative.

2.3 The scope of certified priority raw materials includes materials derived from a process that is certified to a third-party environmental and/or social standard.

2.4 The entity may disclose priority raw materials that are not certified to a third-party environmental and/or social standard, but contribute to the entity’s strategy to secure reliable sourcing.

2.4.1 Materials may include, but are not limited to, reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

2.4.2 Materials may include those certified to a standard/certification developed by the entity.

3 For each priority raw material, the entity shall discuss:

3.1 Why it has chosen the specified third-party certification(s)/standard(s);

3.2 How the certified materials contribute to managing the entity’s business risks and opportunities; and

3.3 Any quantitative targets it has set for certified priority raw materials.

4 The entity may use the following table format to organize disclosure for metric CG-AA-440a.2:

<table>
<thead>
<tr>
<th>Priority raw material (name)</th>
<th>Amount purchased</th>
<th>Amount certified, by standard</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Certification/Standard &amp; Associated Discussion (technical protocol #3—3.3)</td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
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</tbody>
</table>

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INVITATION TO COMMENT AND BASIS FOR CONCLUSIONS | 28
Redline Version of Proposed Changes

The following is a redline version of the exposure draft.

Like the exposure draft, it does not include the entirety of the Apparel, Accessories & Footwear Standard. The Sustainability Disclosure Topics & Accounting Metrics Table reflect the complete set of disclosure topics and metrics, including a redline of the proposed changes. The Raw Materials Sourcing disclosure topic and associated metrics are presented with redline of the proposed changes.
## Sustainability Disclosure Table and Accounting Metrics

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<td>Percentage (%)</td>
<td>CG-AA-430a.1</td>
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<tr>
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<td>Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition’s Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment</td>
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<td>Percentage (%)</td>
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<td>Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor</td>
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<td>Percentage (%)</td>
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<td></td>
<td>Priority non-conformance rate and associated corrective action rate for suppliers’ labor code of conduct audits</td>
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<td>Rate</td>
<td>CG-AA-430b.2</td>
</tr>
<tr>
<td></td>
<td>Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CG-AA-430b.3</td>
</tr>
<tr>
<td>Raw Materials Sourcing</td>
<td>(1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities, (5) descriptions of environmental and social risks associated with sourcing priority raw materials</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>CG-AA-440a.1</td>
</tr>
<tr>
<td></td>
<td>(1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard. Percentage of raw materials third party certified to an environmental and/or social sustainability standard</td>
<td>Quantitative</td>
<td>Metric tons (t) Percentage by weight (%)</td>
<td>CG-AA-440a.2</td>
</tr>
</tbody>
</table>
Raw Materials Sourcing

Topic Summary

Companies in this industry rely heavily on numerous raw materials as key inputs for finished products. Traditionally, these have consisted of materials such as cotton, leather, wool, rubber, and precious minerals and metals. Sustainability impacts related to environmental and social factors such as climate change, land use, resource scarcity, and conflict in regions where the industry’s supply chain operates are increasingly shaping the industry’s ability to reliably source materials. The ability of companies to manage potential risks can impact business risks such as materials shortages, supply disruptions, price volatility, and reputational risks is made more difficult by the fact that they source materials from geographically diverse regions. Companies can manage these risks through supply chains that often lack transparency. Failure to effectively manage this issue can lead to reduced margins, constrained revenue growth, and/or higher costs or capital. The types of risk associated with sourcing different materials can require different solutions, including engaging with suppliers, enhancing transparency/visibility into the supply chain, using certification standards, and/or using innovative alternative materials, such as reclaimed secondary feedstocks. Companies that are most proactively managing this topic are likely to reduce their exposure to price volatility and potential supply disruptions, while improving their brand reputation and developing new market opportunities. Failure to do so can lead to reduced margins, constrained revenue growth, and/or a higher cost of capital.

Accounting Metrics

CG-AA-440a.1 Description. (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with sourcing priority raw materials, environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities.

1 The entity shall disclose its strategic approach to managing environmental and social risks that arise from sourcing priority raw materials purchased for finished products. (Disclosure corresponds to the Sustainable Apparel Coalition’s Higg Brand & Retail Module (BRM).

1.1 Priority raw materials are defined as those that are essential to the entity’s principal products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, consistent with 17 CFR 229.101.

2 Disclosure shall include the methodology of how the entity identified priority raw materials using the definition of “priority materials” outlined in the “Priority Material” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.1.1 The entity shall provide a rationale for any priority raw materials that it chooses to omit from disclosure.
3.1.2 Priority raw materials may include synthetic fibers and fabrics, natural fibers and fabrics, man-made cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to: cotton, rayon, viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

4.1.3 The entity shall disclose the identify priority raw materials that comprise its using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.4 The scope of disclosure shall include priority raw materials present in finished products regardless of whether and exclude raw materials used in packaging and manufacturing.

1.5 Priority raw materials include materials purchased by the entity purchased the materials directly or its suppliers purchased the materials for the purposes of producing the entity’s finished goods.

52. For each priority raw material, the entity shall identify the key environmental and/or social factors that are most likely to threaten its ability to source or purchase each material.

2.1 Environmental supply chain risk factors include, but are not limited to:

   52.1.1 Climate change impacts (e.g., changing temperatures, extreme weather events and/or water stress) on natural fiber crop production that may affect their price and availability;

   52.1.2 Legislation and/or water stress) on natural fiber crop production that may affect their price and availability;

   52.1.2 Regulation on greenhouse gases (GHG) affecting the price of petroleum which may affect the price of petroleum derived raw materials;

   52.1.3 Tightening environmental regulations for suppliers that could affect the cost or availability of raw materials they supply;

   62.1.4 Land use practices; and

   2.1.5 Production methods that result in water pollution, soil degradation, deforestation, and/or loss of biodiversity.

5.4 Lack of full traceability to the source of the raw materials, which may hinder the ability to identify compliance incidents that could lead to negative effects on brand reputation.

5.5 Improper land use practices within the supply chain that may affect the yield of natural fiber raw materials.

5.6 Other environmental factors that may have an impact on the entity’s ability to source raw materials for its products.

2.2 Social supply chain risks factors include, but are not limited to:

   62.2.1 Suppliers’ animal welfare, labor, and human rights practices that may affect the entity’s reputation;
6.2.2.2 Sourcing materials from regions of conflict which may affect, and
2.2.3 Regulations on labor practices and/or human rights.

3 For each priority raw material, the entity shall discuss the business risks and opportunities associated with environmental and/or social factors.

3.1 Business risks and opportunities include, but are not limited to:

3.1.1 Access to, and availability of, the priority raw material;
3.1.2 Ability to trace the priority raw material;
3.1.3 Price volatility of the priority raw material;
3.1.4 Regulatory compliance issues associated with the priority raw material;
3.1.5 Customer demand for products containing the priority raw material; and
3.1.6 The entity’s brand value and reputation.

4 For each priority raw material, the entity shall discuss its management strategy for addressing business risks and opportunities associated with environmental and/or social factors most likely to threaten its ability to source priority raw materials.

4.1 Relevant strategies may include, but are not limited to:

4.1.1 Enhancing supply chain visibility and traceability through due diligence practices, research into traceability or use of traceability systems, supplier screening, and/or supplier audits or certifications;
4.1.2 Supporting raw material suppliers through supplier training or engagement programs, introducing resilient agricultural practices, and/or supporting organic certification;
4.1.3 Partnering with industry groups or nongovernmental organizations to address environmental and/or social factors in supplier regions; and
4.1.4 Investing in the design phase and/or in research and development to identify substitutable and/or alternative materials that are less impacted by environmental and social factors.

74.2 If the entity identifies cotton as one of its priority raw materials, it shall discuss its vulnerability to cotton-growing regions with water stress and how it manages the risk of price variability due to sourcing cotton from these regions.

74.2.1 The entity may identify its known sources of cotton for High (40—80%) or Extremely High (>80%) Baseline Water Stress using the World Resources Institute’s (WRI) Water Risk Atlas tool, Aqueduct.

84.3 The entity shall disclose any relevant performance measures or targets it uses to assess the effectiveness of its management approach to managing risks associated with the, as well as its progress against such targets.
4.4 Disclosure corresponds to the Sustainable Apparel Coalition’s Higg Brand & Retail Module. Relevant strategies to discuss include: due diligence practices, supply chain auditing, partnerships with industry groups or nongovernmental development organizations, using substitute materials, research and development into materials with less environmental or social risks, supplier diversification, implementing supply chain codes of conduct, training or engagement programs, supplier audits and/or certifications, and research into the full traceability of material sources, among other strategies.

5 The entity may use the following table format to organize disclosure for metric CG-AA-440a.1.

<table>
<thead>
<tr>
<th>Priority Raw Material (name)</th>
<th>Environmental and/or Social Factors</th>
<th>Discussion on Business Risks and Opportunities</th>
<th>Management Strategy</th>
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CG-AA-440a.2. (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard Percentage of raw materials third-party certified to an environmental and/or social sustainability standard

1 For each priority raw material, the entity shall disclose the amount of materials purchased, in its metric tons, during the reporting period.

1.1 The entity shall identify priority raw materials using the definition of “priority materials” outlined in the “Priority Material” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.1.1 The entity shall provide a rationale for any priority raw materials that it chooses to omit from disclosure.

1.2 Priority raw materials may include synthetic fibers, natural fibers, man-made cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including but not limited to, cotton, rayon, viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

1.3 The entity shall identify priority raw materials using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s Fiber & Materials Portfolio Guide.

1.4 If the entity purchases finished goods rather than unprocessed raw materials, it shall calculate the initial amount, in metric tons, of priority raw materials required for production.
1.4.1 The entity shall account for material loss and wastage throughout production and should reference the Textile Exchange’s Fiber Uptake Calculations & Reporting Best Practices Guide and Fiber Conversion Methodology.

1.5 If the entity does not measure the weight of a material, it shall provide an alternative measurement, such as surface area.

1.6 The purchased amount of each priority raw material shall reflect the material in its original state and not be presented with further data manipulation, such as reporting it as “dry weight,” consistent with guidance for GRI’s Disclosure 301-1 Materials used by weight or volume.

1.7 If estimation is required, the entity shall report the methods used.

1.8 The scope of disclosure shall include priority raw materials present in finished products and exclude raw materials used in packaging and manufacturing.

1.9 Priority raw materials include materials purchased by the entity or its suppliers for the purposes of producing the entity’s finished goods.

1 The entity shall disclose the percentage of raw materials that are third party certified to an environmental or social sustainability standard.

2 For each priority raw material, the entity shall disclose the amount, in metric tons, purchased that is certified to a third-party environmental and/or social standard, by standard.

  1.1 Environmental and social sustainability standards are defined as standards that are developed by a third party and address environmental and social factors that are likely to threaten a company’s ability to reliably source its priority raw materials.

  2.2 Third-party environmental and social impacts that result from the primary sourcing of raw materials, such as standards for organic or recycled content, animal welfare, and/or fair labor include, but are not limited to:

  1.2 Environmental and social sustainability standards include, but are not limited to:

  1.2.1 Outdoor Industry Association’s Content Claim Standard (CCS)

  1.2.2 Textile Exchange’s Recycled Claim Standard (RCS), Global Recycled Standard (GRS), Organic Cotton Content Standard, and (OCS), Responsible Down Standard (RDS), Responsible Wool Standard (RWS), and Responsible Mohair Standard (RMS);

  1.2.2 Global Organic Textile Standard (GOTS);

  1.2.3 Cotton Made in Africa (CmiA);

  1.2.4 Fair Trade Certified Organic;

  1.2.5 Organic Textile Standard (Fair Trade); 1.2.4 Control Union Global

  1.2.6 Leather Working Group (LWG);

  1.2.7 Forestry Stewardship Council certification; (for lyocell and rubber)
2.2.8 Programme for the Endorsement of Forest Certification (PEFC); and
2.2.9 Better Cotton Initiative,
1.2.7 Rainforest Alliance leather products
1.2.8 Global Organic Textile Standard
1.2.9 STeP by OEKO-TEX®
1.2.10 OEKO-TEX® Standard 100
1.2.11 ECO-PASSPORT
1.2.12 Cradle-to-Cradle
1.2.13 Bluesign

1.3 The entity shall calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.

1.3.1 The scope of raw materials third-party certified to an environmental and/or social standard includes raw materials derived using a process third-party certified to an environmental and/or social standard.

1.3.2 The scope of disclosure includes third-party certifications that are based on environmental best practices, social best practices, or both.

2 The entity shall disclose the percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard:

2.1 The entity shall calculate the percentage as the weight of raw materials that are certified to each respective third-party environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.

2.3 The scope of certified priority raw materials includes materials derived from a process that is certified to a third-party environmental and/or social standard.

2.4 The entity may disclose priority raw materials that are not certified to a third-party environmental and/or social standard, but contribute to the entity’s strategy to secure reliable sourcing.

2.4.1 Materials may include, but are not limited to, reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

2.4.2 Materials may include those certified to a standard/certification developed by the entity.

3 For each priority raw material, the entity shall discuss:

3.1 Why it has chosen the specified third-party certification(s)/standard(s):

3.2 How the certified materials contribute to managing the entity’s business risks and opportunities; and
3.3 Any quantitative targets it has set for certified priority raw materials.

4 The entity may use the following table format to organize disclosure for metric CG-AA-440a.2:

<table>
<thead>
<tr>
<th>Priority raw material (name)</th>
<th>Amount purchased</th>
<th>Amount certified, by standard Certification/Standard &amp; Associated Discussion (technical protocol #3—3.3)</th>
<th>Amount certified</th>
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