Sustainability Accounting Standards Board

Standards Board Meeting

Wednesday, May 5, 2021
Standards Board Members

Jeffrey Hales, PhD
Chair
Charles T. Zlatkovich Centennial Professor of Accounting
The University of Texas at Austin

Verity Chegar
Co-Vice Chair
Member of the Sustainable Investment and Stewardship Strategies team at the California State Teachers’ Retirement System

Robert Hirth, Jr.
Co-Vice Chair
Senior Managing Director, Protiviti
Chairman Emeritus, Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Kurt Kuehn
Former CFO, UPS

Lloyd Kurtz, CFA
Senior Portfolio Manager, Head of Social Impact Investing, Wells Fargo Private Bank

Daniel L. Goelzer, JD
Retired Partner, Baker & McKenzie LLP

Elizabeth Seeger
Managing Director, Sustainable Investing, KKR

Marc Siegel
Partner, EY
Former FASB Board Member

Susanne Stormer
Partner, Head of Sustainability, PwC Denmark

Stephanie Tang, JD
Director and Senior Corporate Counsel, Securities and Corporate Governance, Autodesk

Mark Vaessen
Partner, Head of Department of Professional Practice, KPMG
Topics for Today’s Meeting

1. Standard-setting agenda overview and other updates
2. Tailings Management in Extractives
3. Human Capital
4. Supply Chain Management in the Tobacco Industry
5. Alternative Meat & Dairy
## Meeting Overview

<table>
<thead>
<tr>
<th>Time (PT)</th>
<th>Agenda Item</th>
<th>Session Leader</th>
<th>Session Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:00am</td>
<td>Welcome, Overview &amp; Project Updates</td>
<td>Jeff Hales, David Parham</td>
<td>Meeting overview and review of standard-setting agenda.</td>
</tr>
<tr>
<td>9:00am</td>
<td>Tailings Management in Extractives</td>
<td>Ekaterina Hardin</td>
<td>Staff to provide a summary of the public comments letters received as part of the Tailings Management in Extractives exposure draft.</td>
</tr>
<tr>
<td></td>
<td>Human Capital</td>
<td>Kelli Okuji Wilson</td>
<td>Staff to present results of consultation and preliminary recommendations for the Human Capital research project pipeline. Staff to solicit Board input on its recommended approach as well as alternatives.</td>
</tr>
<tr>
<td>10:45am</td>
<td>Supply Chain Management in the Tobacco Industry</td>
<td>Lynn Xia</td>
<td>Staff to provide a summary of consultation and research findings on the Tobacco Supply Chain Management research project. Staff to share recommendations for path forward and to solicit Board input on next steps.</td>
</tr>
<tr>
<td></td>
<td>Alternative Meat &amp; Dairy</td>
<td>Devon Bonney</td>
<td>Staff to seek a Board decision on its recommendation to add a new project the standard-setting agenda that addresses Alternative Meat &amp; Dairy within the Meat, Poultry &amp; Dairy industry and the Food Retailers &amp; Distributors industry.</td>
</tr>
<tr>
<td>12:15pm</td>
<td>Concluding Remarks</td>
<td>Jeff Hales, Bryan Esterly</td>
<td>Concluding remarks and review upcoming meetings of the Standards Board.</td>
</tr>
<tr>
<td>12:30pm</td>
<td>Adjourn Meeting</td>
<td></td>
<td></td>
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</tbody>
</table>
Standard-Setting Agenda Overview

David Parham
Director of Research - Projects
**Project Pipeline Overview**

Multiple standard-setting projects progressing towards exposure draft/public comment periods; several active research projects in the pre-agenda research & consultation phase.

Monitoring Industries & Issues

- INITIATE Standard-Setting Project
- Preliminary Deliberations
- PROPOSE Standards Update
- Public Comment Period
- Exposure Draft Deliberations
- ISSUE Standards Update

Re-deliberation, as needed

- Human Capital
- Internationalization
- Content Moderation
- Alternative Meat & Dairy
- Tobacco Supply Chain

- Content Governance in Internet
- Systemic Risk in Asset Mgmt
- Tailings Management
- Plastics Risks & Opportunities
- Raw Material Sourcing
- Conceptual Framework
- Rules of Procedure
Standard-Setting Agenda Overview – Project Timelines

Standards Board Meetings

- **Raw Materials Sourcing in Apparel**
  - June 2020
  - Sept 2020
  - Dec 2020
  - Feb 2021
  - May 2021
  - July 2021
  - Sept 2021

- **Systemic Risk**
  - June 2020
  - Sept 2020
  - Dec 2020
  - Feb 2021
  - May 2021
  - July 2021
  - Sept 2021

- **Plastics Risks and Opportunities**
  - June 2020
  - Sept 2020
  - Dec 2020
  - Feb 2021
  - May 2021
  - July 2021
  - Sept 2021

- **Content Governance in Internet**
  - June 2020
  - Sept 2020
  - Dec 2020
  - Feb 2021
  - May 2021
  - July 2021
  - Sept 2021

- **Rules of Procedure**
  - June 2020
  - Sept 2020
  - Dec 2020
  - Feb 2021
  - May 2021
  - July 2021
  - Sept 2021

- **Conceptual Framework**
  - June 2020
  - Sept 2020
  - Dec 2020
  - Feb 2021
  - May 2021
  - July 2021
  - Sept 2021

Note: Depiction above does not include research projects
Building a More Comprehensive and Coherent Corporate Reporting System

SASB and IIRC to merge under the Value Reporting Foundation

- IIRC and SASB announced intention to merge in November 2020, working together under the Value Reporting Foundation
- Response to global market demands for convergence among corporate reporting standard-setters
- <IR> Framework and SASB Standards provide complementary tools for investor-focused communications
- Provides “building block” of the comprehensive system described in the Joint Statement of Intent with CDP, CDSB, and GRI

- Recently held several webinars providing updates on the VRF
  - Working to officially launch the Value Reporting Foundation in Q2-3 2021
  - Noted ongoing work to create guidance on how the <IR> Framework and SASB Standards can be used together, as well as ongoing support of global efforts to create a comprehensive corporate reporting system
GRI and SASB Publish Practical Guide to Sustainability Reporting
Illustrates how the GRI and SASB Standards can be used in a complementary fashion

- Features perspectives from the market, building on a survey and detailed interviews with four companies
- Contains three primary elements:
  - Each set of standards complement rather than substitute the other, with GRI supporting broad and comprehensive disclosures on organizational impacts and SASB focusing on a subset of financially material issues
  - Using the GRI and SASB Standards together can offer a holistic picture of corporate performance, bringing sustainability and financial information more closely together
  - Reporting with GRI and SASB can meet the needs of a broad range of stakeholders with expanded disclosure to increase user engagement
  - Taken together, GRI and SASB Standards offer a company a practical approach to reflect on and disclose their material issues and impacts
SASB Publishes updated Climate Risk Technical Bulletin
Illustrates how the GRI and SASB Standards can be used in a complementary fashion

- Update to 2016 publication, showing how climate risks and opportunities manifest in industry-specific ways across the SASB standards

- Key findings include:
  - Climate risk is nearly ubiquitous across industries
  - Climate risk is differentiated and requires industry-specific disclosure
  - Climate risk is inadequately disclosed
  - SASB Standards and the TCFD Recommendations are complementary and mutually reinforcing
Update on the work of the IFRS Foundation Trustees
IFRS Foundation Trustees announce working group on March 22

- Working group to accelerate **convergence in global sustainability reporting standards focused on enterprise value creation** and undertake technical preparation for a potential international sustainability reporting standards board under the governance of the IFRS Foundation.

- Working group chaired by the IFRS foundation. IOSCO to participate in the group as an observer.

- Working group provides a forum for structured engagement with initiatives focused on enterprise value creation, including TCFD, Value Reporting Foundation, Climate Disclosure Standards Board, and the World Economic Forum.
Structured Reporting Using XBRL
SASB Advances Structured ESG Disclosure Via Issuing SASB XBRL Taxonomy for Public Comment

- SASB plans to fully support XBRL to make digital reporting easy for issuers and data aggregation & analytics easy for investors. SASB has been proactive in developing an XBRL version of our taxonomy.

- In 2020, SASB announced our engagement with PwC to support in the development of a SASB XBRL taxonomy. As a result of this engagement, the initial draft version of the SASB XBRL taxonomy is now complete.

- SASB has submitted the draft taxonomy to the XBRL US Domain Steering Committee for formal review and approval. The review is now complete.

- A public comment period on the draft taxonomy was opened on March 3rd, 2020, and concluded on May 3rd, 2021.

https://www.sasb.org/structured-reporting-xbrl/
Tailings Management in Extractives - Public Comment Period Summary and Discussion

Ekaterina Hardin
Analyst, Sector Lead – Extractives & Minerals Processing
Session Agenda

1. Public Comment Summary
2. Discussion Topic #1: Alignment with the GISTM
3. Discussion Topic #2: Definitions of Material Findings and Significant Incident
4. Next Steps
Tailings Management In Extractives: Project Overview

Objective

- Reframe topic associated with tailings to more fully address emerging investor interest
- Revise metrics to address 1) management of tailings storage facilities and 2) social impacts of mismanagement
- Improve global applicability of metrics

Project Background

Catastrophic tailings storage facility failures in 2014 (Canada), 2015 (Brazil), and 2019 (Brazil) confirmed the materiality of the topic but revealed incompleteness of its metrics. The Investor Mining & Tailings Safety Initiative, formed in 2019, Global Tailings Review and UNEO developed Global Industry Standard on Tailings Managed.

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

Project Outcomes

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

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

Revise metrics to improve global applicability

Project Lead: ekaterina.hardin@sasb.org

Project Timeline
Target project completion: TBD

- **Research & Consultation**
- **Targeted Consultation Period** 2020 Q2
- **Exposure Draft Development** 2020 Q4
- **90-day Exposure Draft Public Comment Period** 2021 Q2
- **Standards Revision & Board Deliberations** 2021 Q2
- **Project Launch** 2019 Q4
- **Board Decision** 2020 Q1
- **Board Update** 2020 Q3

May 5 2021 Standards Board Meeting
Strong Market Participation in the Public Comment Period
PCP dates were December 17, 2020 - March 17, 2021

15 Comment Letters

- **Companies**: 60%
- **Industry association**: 13%
- **Investors**: 20%
- **SMEs**: 7%

**Highlights**

- Strong support for the **new disclosure topic**
- Mostly strong support for alignment with the Global Industry Standard on Tailings Management (GISTM), with some diverging views
- Strong support for the **tailings inventory table format**, with diverse views on what should go into it

[https://www.sasb.org/](https://www.sasb.org/)
## Strong Support for the Proposed Tailings Storage Facilities Management Topic

<table>
<thead>
<tr>
<th>RISKS</th>
<th>Current Standard</th>
<th>New Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waste Generation &amp; Disposal</td>
<td></td>
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<tr>
<td>Environmental contamination</td>
<td>Waste &amp;Hazardous Materials Management</td>
<td>Focus on long term environmental chemical impacts</td>
</tr>
<tr>
<td>Tailings storage facilities</td>
<td></td>
<td></td>
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<tr>
<td>Tailings storage facilities Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Failure of tailings storage facilities</td>
<td>Tailings Storage Facilities Management</td>
<td>Focus on management of TSFs, safety of operations and prevention of physical catastrophes</td>
</tr>
<tr>
<td>Lack of appropriate failure preparedness and response plans</td>
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</tbody>
</table>
Respondents supported a table format of disclosure, but had divergent views on what should be included.

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<table>
<thead>
<tr>
<th>Facility name</th>
<th>Location</th>
<th>Ownership Status</th>
<th>Construction Year</th>
<th>Operational Status</th>
<th>DFCC level</th>
<th>Year of Most recent TFCPR</th>
<th>Material Findings</th>
<th>Mitigation Measures</th>
<th>EPRP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility A</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>yes/no</td>
<td>yes/no or N/A</td>
<td>yes/no</td>
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<tr>
<td>Facility B</td>
<td></td>
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<td>Facility C</td>
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<td>Facility N</td>
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<td>Facility N+1</td>
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</tbody>
</table>

DFCC – Dam Failure Consequence Classification
TFCPR – Tailings Facility Construction and Performance Review
Usefulness of Discussion & Analysis metrics was questioned

<table>
<thead>
<tr>
<th>Description</th>
<th>Measure</th>
<th>Nature</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSFs inventory table</td>
<td>Quantitative</td>
<td>N/A</td>
</tr>
<tr>
<td>Description of management systems and governance structure used to monitor and maintain safety of tailings facilities</td>
<td>Discussion and Analysis</td>
<td>N/A</td>
</tr>
<tr>
<td>Summary of the Emergency Preparedness and Response Plan (EPRP) for tailings facilities</td>
<td>Discussion and Analysis</td>
<td>N/A</td>
</tr>
</tbody>
</table>

“interpretation could range from reasonable, summary level detail to too much detail that is not appropriate for disclosure”
Divergent views on usefulness of non-mineral waste metrics

Do you agree that a disclosure capturing all hazardous waste incidents is more useful than one focusing only on hazardous raw materials or one that requires separate disclosure of incidents involving hazardous raw materials versus other hazardous wastes?

<table>
<thead>
<tr>
<th>Metric</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total weight of non-mineral waste generated</td>
<td>Quantitative</td>
</tr>
<tr>
<td>Total weight of tailings produced</td>
<td></td>
</tr>
<tr>
<td>Total weight of waste rock generated</td>
<td></td>
</tr>
<tr>
<td>Total weight of hazardous waste generated</td>
<td></td>
</tr>
<tr>
<td>Total weight of hazardous waste that is recycled</td>
<td></td>
</tr>
<tr>
<td>Number of significant incidents associated with hazardous materials and waste management *</td>
<td>Quantitative</td>
</tr>
<tr>
<td>Description of waste and hazardous material management policies and practices for active and inactive operations *</td>
<td>Discussion and Analysis</td>
</tr>
</tbody>
</table>

“Non-mineral waste is not material in this sector in comparison with mineral waste. The disclosure should therefore focus on mineral waste only” – a company

“Biodiversity and ecosystems-related risks have emerged as very important to manage for the metals and mining sector.” - a lender
No comments from coal companies, limited comments on coal from investors

Do you support the proposed changes to the Metals & Mining and Coal Operations Standards?

Do you agree with the Board’s decision to retain the Waste Management disclosure topic in the Coal Operations Standard? Should any of the corresponding metrics be excluded?
**Discussion Topic: appropriate level of alignment with the GISTM**

*Should SASB consider changing its level of alignment with the GISTM based on the comments received?*

**Pros of the current approach**

- Investor-oriented approach that omits several areas in order to produce more concise disclosures than under GISTM, which is principles-based and likely to be quite voluminous

- Alignment with key definitions ensures cost-effectiveness for companies where appropriate

**Cons of the current approach**

- May create the impression of duplicative efforts

- Not everyone is supportive of GISTM

“EM-MM-540a.2(1)’s requirement for “description of tailings management systems.” As written, this requirement is only partially aligned with the GISTM: it expressly references only two of the GISTM’s definitions (“tailings management system” and “tailings facilities”) and five of the GISTM principles 3 of 3 (Principles 7-11) in discussing alignment for purposes of disclosure. Further, it makes no reference to the GISTM’s own disclosure requirement, Requirement 15.1 (although such reference is made elsewhere in the document)” – Freeport
Discussion Topic: Definitions of “material findings” and “significant incidents”

Should SASB reconsider defining “material finding” and/or “significant incident” based on the comments received?

Pros

• Alignment with GISTM and providing companies an opportunity to own their data and story

Cons

• Current approach leaves a lot of room for interpretation and could potentially create non-comparable disclosure, verifiability challenges

“One option would be for SASB to align the definition of “material findings” in the inventory table, and “significant incidents” to the language used in the Alberta Water Act and Regulation, Part 6, Dam and Canal Safety: (a) “critical safety deficiency” means a hazardous condition that has the potential to lead to an imminent failure; (l) “safety deficiency” (except where preceded by “critical”) means a hazardous condition that has the potential to develop into a critical safety deficiency over time; The key words are “has the potential to lead to an imminent failure.” Incidents (including movement) that do not have the potential to lead to an imminent failure should not be grouped in the same disclosure or assessment category as those which do have that potential.” – Canadian Natural Resources

“The GISTM definition of “material” for “material finding” is incorporated by reference. This definition allows the operator to define materiality, but there is significant ambiguity in how materiality would be interpreted by external stakeholders” – Freemont
Next Steps

1. Continued internal deliberations of conflicting points of feedback
   - Alignment with GISTM
   - Inventory Table
   - Other

2. External collaboration with the Investor Initiative on Mining and Tailings Safety
   - Project lead has been invited to participate in its Technical Advisory Group
Tailings Management in Extractives

Subscribe to project alerts for future updates


Ekaterina Hardin
Analyst, Extractives & Minerals Processing
ekaterina.hardin@sasb.org
Human Capital

Kelli Okuji Wilson
Analyst, Sector Lead - Health Care
Session Objectives and Desired Outcomes

**Session Objectives**

- Review and discuss *staff views on the project tranches and prioritization of project tranches* to advance SASB’s Human Capital research and standard-setting work

**Session Desired Outcomes**

- Alignment with Board on prioritization of project tranches
A Sequence of Structured Phases Has Led to Prioritized Project Tranches

The Human Capital research project was initiated in September 2019 and is moving towards proposed standard setting.

- Development of Framework (Sept 2019 → Dec 2020)
- Market consultation (March 2021)
- Industry-specific review & consultation (Today)
- Project tranche development & prioritization (July 2021)

Ongoing Research & Consultation
Multiple Research & Consultation Approaches Have Informed Tranche Prioritization

**Top-Down**
- Market-wide evidence of financial impacts
- Broad market consultations

**Bottom-Up**
- Industry-specific review, analysis, and consultations

Combination of top-down and bottom-up research and market input has informed project tranches and prioritization of tranches.
Tranche 1a—One of Two Top Priorities—Centered on Diversity, Inclusion & Engagement

<table>
<thead>
<tr>
<th>Priority</th>
<th>Tranche</th>
<th>Tranche Description</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a</td>
<td>Workplace Culture</td>
<td>Addresses diversity, inclusion, and engagement</td>
<td>• Strong investor interest that indicates the <strong>broad financial relevance</strong> of the issue</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>• Clear <strong>channels of financial impacts</strong> dependent on industry/business model</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>• Clear, mission-aligned <strong>opportunities to improve the Standards</strong> to better account for the issue, including the consistency in which it is evaluated across the Standards</td>
</tr>
</tbody>
</table>
**Example: Workplace Culture**

Diversity & inclusion linked to channels of financial impact through business model characteristics

<table>
<thead>
<tr>
<th>Common Business Rationales for D&amp;I Strategy Incorporation</th>
<th>Common Associated Channels of Financial Impact</th>
<th>Example Industries</th>
</tr>
</thead>
</table>
| Cognitive diversity                                       | **Intangible assets** – Companies that are driven by intellectual capital will benefit from diverse workforces through enhanced innovation, which translates into benefits to intangible assets (i.e. patents, trademarks, etc.) | • Semiconductors  
• Telecommunications  
• Biotechnology & Pharmaceuticals  
• Investment Banking & Brokerage |
|                                                           | **Revenues/market share** – Improved cognitive diversity in the workforce creates more competitive products, which translates into increased revenues and market share | |
| Diverse customer base                                     | **Revenues/market share** – Companies that have high customer interaction/interface and are seeking to gain market share by pursuing a more diverse customer base may require a more diverse workforce to reflect its customer base needs | • Multiline and Specialty Retailers & Distributors  
• Healthcare Delivery |
| Regulation & compliance                                   | **Liabilities and associated one-time expenses**: Companies that have a historical precedence with discrimination and harassment may be impacted by litigation and/or regulatory compliance | • Investment Banking & Brokerage |
## Tranche 1b Centers on Broadly Applicable, Fundamental Principles of Human Capital

<table>
<thead>
<tr>
<th>Priority</th>
<th>Tranche</th>
<th>Tranche Description</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| 1b       | Industry Agnostic Human Capital Information | Evaluate range of possible solutions to broadly-applicable, fundamental human capital informational needs. Outcomes may include: guidance, a technical bulletin, activity metric project, or a standard. | • **Strong investor demand for broadly applicable, fundamental human capital information** that is comparable across the market.  
• Workstream centers on **broadly applicable concepts, principles, or measurements** where industry-specificity may not be necessary to maximize our decision-useful information objective.  
• Fundamental **workforce composition** information may serve as a starting point but is likely insufficient on its own.  
• This workstream does not alter the overall importance of industry-specificity in generating decision-useful information for investors—including how the Board and staff regularly evaluate tradeoffs between industry-specificity versus broad comparability throughout standard setting—rather, the workstream acknowledges the staff view that **certain human capital concepts broadly apply across the market** and may be best approached in an industry-agnostic manner. |
## Tranche 2 Centers on Labor Conditions in the Supply Chain

<table>
<thead>
<tr>
<th>Priority</th>
<th>Tranche</th>
<th>Tranche Description</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| 2        | Labor Conditions in the Supply Chain | Addresses human rights in the supply chain (e.g., force/compulsory labor, child labor) | • **Targeted opportunities to improve the standards in some industries**, as well as clear research opportunities to further develop the Staff’s viewpoint on the financial materiality of the issue in others given:  
  o Evidence of financial impact in specific industries  
  o Strong investor interest to expand this theme to applicable industries |
## Tranche 3 Centers on Workforce Investment

<table>
<thead>
<tr>
<th>Priority</th>
<th>Tranche</th>
<th>Tranche Description</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| 3        | Workforce      | Addresses on-the-job training/worker skills development and financial investment in workers (e.g. retirement savings, living wage, etc.) | • Evidence suggests that this **theme is broadly financially relevant across industries, but additional industry-specific research required** to account for different types of training and financial benefits for different types of workforces  
• Strong investor interest to account for this theme’s business impacts to workforces |
**Tranche 4 Centers on Worker Wellbeing**

<table>
<thead>
<tr>
<th>Priority</th>
<th>Tranche</th>
<th>Tranche Description</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| 4        | Worker Wellbeing| Addresses mental health, physical wellbeing, and associated health-related benefits | • Evidence suggests that this theme is **broadly financially relevant across industries, but additional industry-specific research required** to account for different types manifestations of mental/physical wellbeing issues  
• Strong investor interest to account for this theme’s business impacts to workforces |
Learnings From Alternative Workforce Apply to Other Tranches

<table>
<thead>
<tr>
<th>Priority</th>
<th>Tranche</th>
<th>Tranche Description</th>
<th>Rationale</th>
</tr>
</thead>
</table>
| --       | Alternative Workforce| Addresses contracted labor, temporary work, contingent work | • Evidence suggests that this theme is **broadly financially relevant across industries, but market consultations and current analysis review indicates a few limited opportunities** for future standard-setting activities  
• Therefore, more optimal to account for this theme by:  
  o Incorporating some elements of alternative workforce theme through the Industry-Agnostic Human Capital Information workstream  
  o Review specific business and sustainability impacts through other proposed work tranches |
## Staff View on Prioritization for Forward Workstreams

<table>
<thead>
<tr>
<th>Priority</th>
<th>Theme Prioritization in Future Standard-Setting Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Workplace Culture</td>
</tr>
<tr>
<td></td>
<td>Industry-Agnostic Human Capital Information</td>
</tr>
<tr>
<td>2</td>
<td>Labor Conditions in the Supply Chain</td>
</tr>
<tr>
<td>3</td>
<td>Workforce Investment</td>
</tr>
<tr>
<td>4</td>
<td>Worker Wellbeing</td>
</tr>
<tr>
<td>--</td>
<td>Alternative Workforce</td>
</tr>
</tbody>
</table>
## Discussion Topics

<table>
<thead>
<tr>
<th>Topic</th>
<th>Key Questions</th>
</tr>
</thead>
</table>
| Tranches & Prioritization | • Does the Board agree with the grouping of the issues in each proposed tranche of work?  
                              • Does the Board agree with the overall proposed prioritization of these tranches of work?  
                              • Do you have any questions or concerns with the underlying rationale for the prioritization of these proposed work tranches? |
| Tranche 1                  | • Does the Board agree with prioritizing diversity & inclusion (tranche 1a)?  
                              • As staff continues to develop a standard-setting project proposal on diversity & inclusion, does the Board have requests that it would like to see reflected in the project proposal?  
                              • What pros and/or cons does the Board see regarding staff advancing the workstream on Industry Agnostic Human Capital Information (tranche 1b)—noting that the outcome of this workstream, including direct implications for the Standards, is unknown at present? |
| Other                      | • Do you have any other questions, comments, or concerns?                                                                                      |
Next Steps: July 2021 Board Meeting
Presentation of Final Recommendations

Final project update and proposal of finalized set of recommendations on standard-setting resulting from Human Capital Research Project

https://www.sasb.org/standards/process/active-projects/human-capital/

Kelli Okuji Wilson
Project Manager, Human Capital
Sector Lead, Health Care
Kelli.Okuji-Wilson@sasb.org / Kelli@sasb.org
We will return after a short break
Supply Chain Management in the Tobacco Industry

Lynn Xia
Associate Director
Session Objective

1. Review findings from the research project

2. Discuss path forward for standard setting
Research Project Objective

Evaluate whether supply chain management related ESG issues are likely to have *material impacts on the financial condition or operating performance* of companies in the tobacco industry.
Project Timeline

- **Objective**: Project Launch Board discussion on how to proceed with standard setting

- **Research & Consultation**
  - 2020 Q1
  - Q2
  - Q3
  - Q4

- **Consultation Period**
  - May 5, 2021 Standards Board Meeting

- **Staff analysis**
  - 2021 Q1
  - Q2
Consultation Objectives

**Corporate Consultation Objectives**

Gain understanding of **financial materiality** and **management approach**

- How is supply chain managed and tracked?
- What are priority ESG issues related to supply chain?
- What are the related financial impacts?
- What are investor engagements on supply chain?
- Viewpoints on industry trends, consumer perception

**Investor Consultation Objectives**

Gain understanding of **financial materiality** and **investor interest**

- What are considered priority ESG issues for the tobacco industry?
- What types of information is used to assess supply chain related ESG issues?
- What types of engagement is done with companies?
- Viewpoints on industry trends, consumer perception
Profile of Consultation Participants

**Corporate**
- International Tobacco Manufacturers (5)
  - Sustainability
  - Agriculture/Leaf Supply Chain
  - Procurement
  - Investor Relations

**Investors**
- Equity analysts (3) – US & UK-based
- ESG analysts (2) – US & Japan-based

**SMEs**
- Human rights and public health focused NGOs
Industry Research

- Company disclosures (financial, ESG/sustainability)
- Academic studies
- White papers / reports
- Regulations
- Litigations
Evidence indicates **supply chain management is a likely material topic for the tobacco industry.**

However, investors:

- Expressed relatively less interest in this topic compared to companies
- Prioritized the topic significantly less than public health related issues for the industry
Tobacco Manufacturers Focus on Production

Main Social Issue is on Consumption of Tobacco

- Tobacco cultivation
- Tobacco curing
- Manufactur-ing
- Transportation & Distribution
- Consumption
- Post-consumer waste

Public Health related topics in current SASB standard
Tobacco Supply Chain is Broad

- Tobacco cultivation
- Tobacco curing
- Manufacturing
- Transportation & Distribution
- Consumption
- Post-consumer waste

Suppliers

Farmers

Other
Historical Feedback Focused on Agricultural Activities

1. **Land, ecological, and biodiversity impacts (E)** – monoculture cropland; agrochemical and pesticide usage
2. **Deforestation (E)** – land clearing for new farmland and timber to cure tobacco
3. **Forced and child labor (S)**
4. **Occupational hazards (S)** – pesticide exposure and nicotine handling
5. **Farmer livelihoods and transition to alternative crops (S)**
## Manufacturer and Investor Views of Financial Impact Differ

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May 5 2021 Standards Board Meeting

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<td>Regional import/export activities may be impacted by litigation (short-term) and lead to regulations (long-term) = access to supply; cost</td>
<td>Short-term = supply chain is diverse, and industry is likely resilient to disruptions Long-term = focus on public health related regulations</td>
</tr>
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<td><strong>Ingredient Sourcing</strong></td>
<td>Important to manage sourcing mix to plan for weather events, price volatility = access to supply; cost</td>
<td>Supply chain is diverse, and industry is likely resilient to short-term disruptions; anticipates minimal margin impact</td>
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Emerging ESG Issues in Tobacco Supply Chain

- Tobacco cultivation
- Tobacco curing
- Manufacturing
- Transportation & Distribution
- Consumption
- Post-consumer waste

Suppliers

Other

More electronics manufacturing with next generation products introduces new set of ESG issues for the industry.
Staff Recommendation

• Evidence indicates supply chain management is a **likely material topic** for the tobacco industry and there is **potential for standard setting**.

• **Do not recommend to proceed to standard setting now.** Consider broad, multi-industry supply chain management standard-setting project in the future.
Rationale for Staff Recommendation

1. **Conflicting signals on investor interest and ability to serve market needs** through standard setting on this topic for the tobacco industry.
   - Investor interest in topic varied.
   - Companies are managing and disclosing on this material issue.

2. Looking at the supply chain management topic through a **tobacco industry-only lens may be too narrow and suboptimal**.
   - ESG issues also apply to other industries with agricultural (and potential electronic) supply chains
   - Broader regulatory developments on supply chain disclosure are ongoing.

3. Relative **prioritization** within SASB project portfolio
Board Discussion Question

Do you agree with the staff recommendation to apply the learnings from this research project to a broader supply chain management project across multiple industries in the future?

Areas of Consideration

1. Will standard setting serve current investor/market needs?
2. Is a tobacco industry only project scope too narrow?
3. How do you view this issue relative to prioritization within the SASB project portfolio?
Supply Chain Management in the Tobacco Industry


Lynn Xia
Associate Director of Research
Lynn.xia@sasb.org
Alternative Meat & Dairy

Devon Bonney
Analyst, Sector Lead - Food & Beverage
Session Objectives

1. Research Project Overview
2. Research Project Update
3. Standard-Setting Project Proposal
**Objective**

- Determine level of investor interest in the growing consumer demand for more alternative meat and dairy products
- Evaluate how companies are responding to and managing the consumer demand for alternative meat and dairy products

**Project Background**

- Initiated at the Q1 2020 Board meeting due to the growth of alternative meat and dairy products globally and evidence suggesting products could be used to reduce environmental impacts
- Project focused on 5 industries:
  - Food Retailers & Distributors
  - Meat, Poultry & Dairy
  - Non-Alcoholic Beverages
  - Processed Foods
  - Restaurants

**Project Outcomes**

Use the standard-setting criteria to determine if standard-setting activities could improve the decision-usefulness of the standards for each industry

**Project Lead:** Devon Bonney (devon.bonney@sasb.org)

**Project website:** https://www.sasb.org/standard-setting-process/active-projects/alternative-meat-and-dairy/
Financial Impact

Markets are shifting and companies will have to diversify product portfolios to capture market share.

Meat Market

Percentage of Meat Market by Product Type

<table>
<thead>
<tr>
<th>Year</th>
<th>Traditional Meat</th>
<th>Plant-Based</th>
<th>Cultured</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>99.7%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>2025</td>
<td>90%</td>
<td>10%</td>
<td>0%</td>
</tr>
<tr>
<td>2030</td>
<td>72%</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>2035</td>
<td>55%</td>
<td>22%</td>
<td>23%</td>
</tr>
<tr>
<td>2040</td>
<td>40%</td>
<td>25%</td>
<td>35%</td>
</tr>
</tbody>
</table>


Dairy

Sales of Dairy Products 2018-2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Traditional</th>
<th>Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>-3%</td>
<td>13%</td>
</tr>
<tr>
<td>2019</td>
<td>-3%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Alternative Products in Food & Beverage Standard-Setting Proposal
**Problem Statement**

Alternative product innovation/strategies can help companies respond to consumer demand and manage the ESG impacts of product portfolios over the long term.

Alternative product innovation and strategies is not accounted for in the SASB standards.

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**Summary of Staff Recommendation**

A standard-setting project to evaluate the inclusion of alternative product strategy within the Meat, Poultry, & Dairy Standard (MP) and the Food Retailers & Distributors (FR) Standard

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**Highlights of Recommendation**

**Scope of Project** – Determine appropriate disclosure topics/metrics associated with alternative product strategy within Meat, Poultry & Dairy and Food Retailers & Distributors

**Potential Outcomes** – Addition of a new disclosure topic and/or revision of existing topics; addition of metrics

**Preliminary Timeline** – Target exposure draft in Q4 2021
Alternative Products & ESG Impacts
Investors & companies see alternative products as critical way to manage ESG Impacts

**Inputs**

1. **Strong level of investor interest**

   Investors are concerned about ESG impacts and lack of diversification in portfolio's away from meat could be a significant risk moving forward.

2. **Corporate feedback**

   Companies are using alternative products to manage ESG impacts and meet consumer demand.

3. **Research**

   Research suggests the consumer demand for alternative products is here to stay and business models will have to adapt.

**Meat, Poultry & Dairy**

**Food Retailers & Distributors**

Impacts managed by offering alternative products

Proposed Project Supports Our Standard-Setting Agenda Priorities
Aligns with the climate priority, while furthering project portfolio diversification and forward-looking research

1. **Advances SASB’s priority on climate-related research and standard-setting.**
The proposed project addresses priority areas including direct emissions (MP), indirect or supply chain emissions (MP and FR), and emissions related to land use (MP and FR).

2. **Advances SASB’s priority to promulgate internationally applicable standards.**

3. **Furthers SASB’s strategic and targeted forward-looking research**

4. **Diversifies the standard-setting project portfolio**
## Alternative Meat & Dairy & Standard-Setting Criteria

Staff proposes standard setting for Meat, Poultry & Dairy and Food Retailers

<table>
<thead>
<tr>
<th>Criteria for Standard-Setting</th>
<th>Meat, Poultry &amp; Dairy</th>
<th>Food Retailers &amp; Distributors</th>
<th>Processed Foods</th>
<th>Restaurants</th>
<th>Non-Alcoholic Beverages</th>
</tr>
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<tbody>
<tr>
<td><strong>Mission Alignment</strong></td>
<td>Opportunity to increase decision-usefulness</td>
<td>Opportunity to increase decision-usefulness</td>
<td>Opportunity to increase decision-usefulness is unclear</td>
<td>Not of interest to investors or most companies</td>
<td>Not of interest to investors or most companies</td>
</tr>
<tr>
<td><strong>Scope/Prevalence</strong></td>
<td>Globally pervasive</td>
<td>Globally pervasive</td>
<td>Applies in some instances</td>
<td>Not prevalent</td>
<td>Not prevalent</td>
</tr>
<tr>
<td><strong>Feasibility</strong></td>
<td>Ideas for solution already identified</td>
<td>Alignment</td>
<td>Complexity of product scope</td>
<td>NA</td>
<td>NA</td>
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Project Timeline

Staff proposes that the Research Project Remain ongoing while pursuing Standard Setting.

2020
Q1 Q2 Q3 Q4

2021
Q1 Q2 Q3 Q4

Project Launch

Board Decision

Board Update

Research Project

Research Project Focused on Processed Foods

Post Consultation Analysis

Standard-Setting Project Targeted Consultation & Exposure Draft Development

Research & Consultation

May 5 2021 Standards Board Meeting
Discussion Topics

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

- Is the scope of the project sufficiently clear?

- Do you agree with the project scope, focusing on Meat, Poultry & Dairy and Food Retailers & Distributors?

- Do you agree with the recommended approach of maintain the Alternative Meat & Dairy research project to focus on the Processed Foods Industry?

- Does you have any concerns, suggestions, or input you would like to ensure staff is aware of in executing this standard-setting project, if approved by the Board?
Proposed Next Steps

1. Targeted consultations to determine appropriate disclosure topics
   - Companies in Meat, Poultry & Dairy and Food Retailers & Distributors
   - Subject matter experts
   - Investors that focus on Meat, Poultry & Dairy and Food Retailers & Distributors

2. Development of Exposure Draft

3. Continue research and consultation for Processed Foods industry as part of the research project
Alternative Products in Food & Beverage

The standard-setting project, Alternative Products in Food & Beverage, will focus on the Meat, Poultry & Dairy and Food Retailers & Distributors industries.

Staff recommends keeping the Alternative Meat & Dairy research open and focusing on the PF industry.


Devon Bonney
Analyst, Sector Lead Food & Beverage
devon.boney@sasb.org
Concluding Remarks

Jeff Hales
Chair of the SASB Standards Board
2021 Standards Board Meetings*

July 7th & 8th

September 30th & October 1st

December TBD

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