CLARITY AI

Clarity AI Response to SASB XBRL Taxonomy Public Comment

April 2021

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Clarity AI Presentation

Clarity AI is a research and technology organisation founded and built around the purpose of bringing impact to markets. Through its innovative tech platform Clarity AI helps investors manage the impact of their portfolios, leveraging big data and machine learning.

Clarity AI's value proposition is based on 3 main pillars:

- **Data**: Clarity AI has built the largest and most reliable database of environmental and social impact data (more than 29k publicly traded companies, 198 countries, 187 local governments, 220k+ funds, 1,000+ metrics, millions of data points), by aggregating and cleaning structured and unstructured data, and complementing it with estimated data to fill in the gaps.
- **Research and methodologies:** driven by in-house research and data science capabilities, Clarity AI provides various societal and environmental impact / sustainability modules seamlessly integrated into our tech platform (ESG Risk, ESG Impact, UN SDGs, Climate, Eu Regulation, Impact of products and services). Additionally, our software tool also allows score/rating customization and reporting based on investors´ methodologies and social impact preferences.
- **Technology**: our unique tech capacity enables seamless sustainability analysis and reporting of investment portfolios and allows us to respond to market needs and new regulatory developments with agility and rigour, developing tailored-made tools (e.g. TCFD alignment, EU Taxonomy alignment).

Clarity AI has been distinguished by the **World Economic Forum** as a 2020 tech pioneer, an award previously given to companies such as Google or Palantir Technologies. Furthermore, as a longstanding **European Commission partner**, in **June 2020**, Clarity AI was awarded the **European Commission Seal of Excellence** for research and innovation.

Introduction

In Clarity AI we are fully aware of the at-most importance of giving corporates and investors mechanisms and tools to **facilitate reporting** and **access** to corporate information. We believe submitting SASB's XBRL Taxonomy to public comment is very positive for increasing disclosures of

sustainability information comparably and consistently. In consequence, we want to thank SASB for allowing us to participate in this consultation.

As a starting point, we would like to stress that we fully encourage sustainability data integration into **XBRL format**. As a company working closely with data providers, corporates and investors, we see how the XBRL integration can be of immense value for all types of stakeholders. This formatting homogenization will help **reduce inconsistencies** among sources while **reducing filers' workload** to report these sustainability indicators.

Along with these reflections, we believe this XBRL integration initiative will contribute very positively to **sustainability reporting standardization,** a goal SASB seeks in various initiatives it participates in. Clarity AI upholds this convergence in global sustainability reporting standards and encourages SASB to benefit from synergies resulting from combining these two types of projects/ initiatives.

In the sections below, we provide the answers to the questions proposed by SASB, not without thanking SASB again for opening this crucial subject to public comment.

Question 1: Do you foresee any issues with the taxonomy being used globally across jurisdictions?

At Clarity AI we think the adoption of SASB's taxonomy across different jurisdictions is going to be challenging, but we believe SASB has the tools, the network, and the approach to address the difficulties. Below are the elements that Clarity AI would underline as key to succeeding when facing this challenge:

- In our opinion, the most important element to facilitate adoption in multiple jurisdictions is the **alignment of SASB's framework with the different jurisdiction's sustainability-related regulations**. Clarity AI considers it essential for SASB to **work very closely with local governments and supranational institutions**. In this sense, SASB should recommend reporters to follow the regulatory body's rules when applicable and indicate in its taxonomy the local requirements.
- The harmonization of **sustainability reporting** is essential in reducing reporters' workload, which will ultimately result in greater sustainability disclosure and framework adoption. Consequently, we see it as a very important opportunity that SASB participates both in different standardization working groups (e.g., joint initiative of the Group of Five, etc.) and this XBRL integration initiative. There will be multiple learnings and updates that can be leveraged to benefit both projects, so we encourage SASB to keep both initiatives intertwined and in general adopt XBRL to serve to build a single standard.
- Lastly, we encourage SASB to keep **supporting filers** to better understand and to be trained in its taxonomy. Although the current XBRL integration approach is aimed at companies already familiar with SASB's standards, we believe it is important for SASB to progressively offer access to the framework and methodology to SASB non-members to increase adoption.

Question 2: Do you have any recommendations to enable wider adoption of XBRL based SASB reporting?

Clarity AI partners with SASB since 2017, and we have witnessed how SASB's framework adoption has exponentially grown in the last years. This growth will certainly continue, and XBRL integration will come along. To intensify this, we recommend SASB to carry out the following actions:

- Engage in tight **coordination with local governments and supranational institutions**. As we have further developed in the first question of this document, this is crucial for building a **single sustainability reporting framework** and for **clarifying reporting guidelines**.
- Ensure **XBRL data quality**. In the early stages of XBRL adoption, discrepancies among XBRL and other formats were common, so developing technologies to effectively detect errors is of at-most importance.
- Make actual **samples of XBRL files available** to investors and other consumers of the data. This would enable data users to understand how the XBRL files could be automatically processed to extract the information. We believe the adoption of XBRL reporting will allow investors to automate data extraction from reports, which will lead to the development of a

broad range of tools to exploit the data and consequently increase XBRL format adoption. Clarity AI recommends two possible approaches (that can be combined) to allow access to these samples:

- ○ Creating an **API through which** to access XBRL file samples.
- ○ Allow access to SASB's XBRL taxonomy data through **data platform providers**.

- Ensure a **transparent and up-to-date communication** of changes both in SASB's framework and its XBRL Taxonomy integration.
- Lastly, we encourage SASB to create and maintain close relationships with data providers **and data platform and technology providers** to contribute to the above listed elements. Clarity AI, as a data platform and technology provider, offers its experience and knowledge to support this action. The main learnings we would be eager to leverage if providing our support are the following:
  - ○ We have a deep **understanding** of different sustainability and impact **methodologies, regulations, and frameworks** thanks to having developed products directly addressing regulations and standards (SFDR, EU Taxonomy, TCFD) and specific methodologies and approaches (UN SDGs, ESG Risk and Impact methodologies,).
  - ○ Secondly, Clarity AI has **advanced** and **scalable tools** to perform the essential **quality checks**. We combine data from more than 20 different data providers to get the largest coverage. To succeed in this effort, we have developed our reliability mechanisms that allow us to run data quality checks and select only the best available data.
  - ○ Thirdly, all outputs of our work focus on maximizing **exploitability** by **"data consumers".** Our clients are institutional investors, so we understand the perspective of being a data user and strive to ensure the development of tools and services that make data accessible and package it in a way oriented decision making

Question 3. Do you agree with the recommendation of anchoring that we have proposed for taxonomy extension?

At Clarity AI we do agree with SASB's anchoring proposal. We believe it is crucial to use the same guidelines as other institutions, and we therefore strongly agree with SASB's decision to follow ESEF's approach to this question.

However, conscious of the fact that these anchored data would be less exploitable by investors due to not being standardized, we recommend setting **a specific workstream in the TRC** to review this extended entity-specific data. This will contribute in the purpose of adding new standardized categories or indicators in each update of the taxonomy.

Question 4. Should SASB taxonomy use elements from GAAP/IFRS taxonomies where applicable?

Yes, and SASB should also encourage companies to follow GAAP/IFRS guidelines if available. As highlighted in other questions, Clarity AI generally believes regulations should persist and SASB should support companies in clarifying the differences.

Question 5. Should SASB taxonomy use typed dimensions?

Clarity AI sees the typed dimensions as a clear example of taking advantage of XBRL assets, so we do believe SASB should use them. This approach to instances requiring dimensionality will increase homogeneity in dimension names and will help reporters understand which dimensions apply to each of their indicators to report. Nonetheless, a careful review of additional dimensions should be made to ensure that these are also exploitable by investors and other consumers of the reported data.

Question 6. Has the taxonomy adequately addressed tagging of TCFD disclosures?

From Clarity AI, we would recommend including specific tags to each of the **eleven disclosures recommended by the TCFD in each area.**
To our knowledge, the specificity given by the areas (Governance, Strategy, Risk Management, and Metrics and Targets) is not enough to consolidate homogeneous and comparable data, so going to the recommended disclosures level would be necessary.

As achieving this level of detail in company reporting could mean a challenge, we underline the importance of partnering with companies that enable **a more scalable solution**. Clarity AI has a dedicated module to TCFD, and we would be willing to provide more detail on our methodology and to support addressing TCFD disclosures.

Question 7. In the preparer guide, we have outlined a process for governing the taxonomy going forward. Please let us know if you have recommendations and/or the structure of the proposed taxonomy review committee.

At Clarity AI, we believe this proposed governing process is key in the success of this XBRL integration initiative. We completely support both seeking representation from all the stakeholders in the sustainability environment as well as working in a constantly evolving taxonomy.

For answering this question, we have grouped Clarity AI's recommendations by the goal each of them seeks:

1. **Work towards coordination across local and supranational jurisdictions**

   In order to ensure cross-country and cross-standard coordination, we recommend the following organization:

   - We advise SASB to choose a structure that includes **geographical region representation**. As the development of sustainability reporting and disclosure in each region varies significantly, having local experts would pave the way of working towards the very needed coordination across regional jurisdictions.
   - Additionally, for the stakeholder groups of **filers, assurance providers, investors, and academics**, we think it would be beneficial to ensure representation of **industry experts**. Since SASB's framework is highly industry specific, counting with the knowledge of these specialists would help to keep up with required changes in the frameworks as seen by the different stakeholders.

2. **Ensure a transparent and uptodate communication to SASB's partners**

   The **Taxonomy Review Committee (TRC)** should be responsible for ensuring all SASB users are aware of the most recent updates. Clarity AI agrees with the **change management process** proposed by SASB, and we would recommend insisting on the following:
   - Make the **calendar** that includes the dates on which the framework will be subject to changes **available in advance**.
   - Continue publishing **documentation, tools,** and **resources describing all changes included** in each version update.
   - Continue celebrating **webinars** to explain changes made and announce other relevant updates.

3. **Automate validation**

   Clarity AI encourages SASB to invest in the progressive **adoption of technologies that enable automatic validation of XBRL reports**. In this regard, partnering with Artificial Intelligence specialists and other technology providers will play a key role in **scaling** the review of the quality of the reports to a broader universe of filers. As mentioned above, Clarity AI is a specialist in these automatic validation mechanisms and would be willing to provide it to serve this initiative.

   Furthermore, we recommend creating a feedback page for stakeholders to suggest improvements and highlight errors on XBRL reporting for a specific company. This could help underline the most frequent errors and detect companies not providing accuracy in their data.

4. **Enable customization**

   It is well known the sustainability reporting landscape will not reach a single standard in the short-term. While this standardization is achieved, the TRC should work with Analytics and

Technology Providers to provide investors with **tools that allow them to customize the use they make of the data**. As requirements vary by jurisdictions and often include company-specificities, the ability to tailor the indicators evaluated by investors should be prioritized. Clarity AI software tool allows this customization of the reporting based on investors' methodologies and social impact preferences.

CLARITY AI

THANK YOU

We hope that our comments are helpful to the ongoing work of SASB. We would like to emphasize Clarity AI's readiness to provide further input and contribute to Prepared by the Sustainability Accounting Standards Board work.

Please do not hesitate to reach out to info@clarity.ai