

PREFACE

Long considered to be the language of business, accounting is evolving to meet a growing market demand for material sustainability information. As a result, a new set of standards is needed to ensure that this information is useful. The Sustainability Accounting Standards Board (SASB) has sharpened the focus of sustainability reporting on the factors most important to companies and their investors—those reasonably likely to have a material impact on a firm’s financial condition or operating performance. SASB’s industry-specific disclosure topics and metrics standardize disclosure on those factors and explicitly link them to a company’s financial performance. The outcome is a complete set of sustainability accounting standards that are decision-useful for companies, their investors, their advisors, and others.

Against the backdrop of a changing business landscape, practitioners at the intersection of investment analysis, corporate management, and securities law must understand how to recognize and interpret the sustainability factors that are material to a business.

You have already read the FSA Credential Level I study guide, which:

- Set the context for sustainability accounting, describing the current market landscape and explaining the relevant legal considerations;
- Outlined how SASB standards are designed to fit within that context; and
- Covered the implications of sustainability accounting for both companies and investors.

The Level I study guide clarified that the nature of SASB standards makes them both cost-effective for companies to use for disclosure, and useful for all investors types to understand how their specific holdings or overall portfolio weighting are exposed to sustainability-related risks and opportunities.

It is valuable for all practitioners—investors and corporate professionals alike—to understand how material sustainability information is applicable to various investment activities, though the predominant focus of both investors and corporate professionals is the application to specific company analysis. Investors need to know how material sustainability information can provide an enhanced understanding of a company’s ability to create long-term value, and professionals working with or within a company need to know how that information can provide insights into the company’s performance and position relative to peers.

The FSA Credential Level II study guide moves beyond the principles-based curriculum of Level I to teach a practices-based curriculum. It will help readers learn how to apply sustainability accounting to their own work for the benefit of their organization, the capital markets, and the economy at large.

CONTENTS

Preface	
Learning Objectives	1
Introduction	2
Part I. Identifying the Material Financial Impacts of Sustainability Factors	4
Evaluating How a Company’s Circumstances Influence Material Sustainability Factors	8
The Influences of Operations (Internal Factors) on Material Sustainability Factors	8
The Influences of the Operating Environment (External Factors) on Material Sustainability Factors	11
Assessing Sustainability Topics	17
Applying the Five Factors	21
Making Use of the Findings	24
Summary	25
Part II. Evaluating The Comparability Of Sustainability Information	27
Normalizing Data for More Effective Comparisons	28
Selecting Appropriate Measures for Use in Normalization	32
Normalizing to Gain Insight into Performance Over Time	44
Normalizing to Improve Peer Comparisons	48
Analyzing the Spread of Industry Performance	56
Recognizing Data Types	57
Looking at the Distribution of Data	58
Summarizing the Data	59
Analyzing Data Dispersion	61
Dealing with Outliers and Non-normal Distributions	65
Considering Company-specific Context in the Analysis	72
Considering a Company’s Operating Context	74
Considering a Company’s Performance Context	81
Summary	87
Part III. The Connection Between Sustainability Performance and Valuation	89
Assessing the Timing, Duration, and Intensity of Impacts	91
Key Characteristics of Impacts	91
Acute and Progressive Impacts	95
Risks and Opportunities	100
Accounting for the Interrelatedness of Impacts	102
Using Material Sustainability Data in Financial Valuation	103
Interrelated Impacts and Contextual Considerations	104
Channels of Impact	107
Integrating Sustainability into Valuation Models	117
Summary	124
Conclusion	125

LEARNING OBJECTIVES

- 1** Evaluate the influence of external factors on whether a company is exposed to sustainability topics likely to have material financial impacts in its SICST[™] industry (e.g., mining companies with mines in countries with weak rule of law vs. mining companies in countries with robust rule of law)
- 2** Evaluate the influence of operational factors on whether a company is exposed to sustainability topics likely to have material financial impacts in its SICST[™] industry (e.g., chemicals companies that produce genetically modified organisms vs. those that don't)
- 3** Evaluate a sustainability topic using the five factors
- 4** Assess whether information from a SASB metric provides insight into a risk or an opportunity
- 5** Associate SASB metrics with the type of impact they are designed to provide insight on (near-term or medium- to long-term impacts, low probability and acute impacts, or progressive impacts)
- 6** Evaluate if information about the dispersion of an industry's sustainability performance influences interpretations of a company's performance
- 7** Differentiate options for normalizing sustainability information to improve insight into a company's performance relative to its industry peers
- 8** Differentiate options for normalizing sustainability information to improve insight into a company's year-on-year performance over time
- 9** Compare industry peers' sustainability performance information in light of external contextual factors (e.g., business climate, economic climate, societal trends, and geographical segmentation)
- 10** Compare industry peers' sustainability performance information in light of operational contextual factors (e.g., the company's historical performance, strategic decisions/actions)
- 11** Evaluate the connection between a company's performance on a SASB metric and the associated financial impact linked to the SASB topic (e.g., increased revenue or market share, cost savings, and fines)
- 12** Translate a company's performance on a SASB metric(s) to adjustments to a valuation model