



SASB Standards Council

Standards Council Meeting Report

December 18, 2014

January 29, 2015

To the Director of Standards Development of SASB,

This Review Report summarizes the opinion of the members of the Standards Council, an independent advisory body formed by qualified professionals who participate in a voluntary manner and do not receive financial compensation from SASB.

On December 18, 2014, we conducted an independent review of the standards development activities of the SASB during the preceding quarter. This review primarily focused on activities used to develop industry Sustainability Accounting Standards for the Consumption 1 sector, but also included an update on activities in sectors covered in previous meetings. For this meeting, we relied primarily on two reports: **SASB Industry Working Groups Due Process Report – Consumption 1 Sector** and **Standards Outcome Report – Consumption 1**, which were both prepared by SASB staff. In addition, the SASB staff also prepared a third report: **Supplement to Standards Outcome Report – Consumption 1**. No report was prepared for the update of prior sectors.

Based on our review, we believe the process and procedures followed by the SASB in identifying sustainability issues and corresponding metrics for industries in this sector was satisfactory with respect to SASB-defined protocols for developing industry standards. In addition, we support the SASB's continuing activities to improve the standards being developed in sectors the Council has reviewed in previous meetings.

Notwithstanding the above conclusion, several points were raised during the Standards Council's review, which we include below.

I. Process Review for Consumption 1

- A) The Council noted that outreach and engagement activities have quantitative and qualitative components and had several recommendations, listed below, relating to improving both the IWG process and also the analysis of that process.
- Completion rates are unlikely to ever be 100%. Given that historical completion rates, it seems like targeted signups should be 200% of hoped for completions.
 - The Stakeholder Engagement Team makes every effort to sufficiently populate the working groups to meet the target of 36 participants (12 per interest group). While efforts will be made to increase enrollment, it is unlikely that doubling the IWG will be achievable given current resources and timing. The SET will continue to report on other metrics such as the number of “top companies” registered per industry



and the outreach efforts to industry associations. Thus, the report will focus on both quantitative and qualitative data to reflect the industry working group participation.

- We recommend compiling two separate lists, one for those who completed the survey, and one for those who didn't complete the survey.
 - Future reports will include a list of participants with completed surveys vs. uncompleted surveys.
- For public comment webinars, the question was raised as to whether SASB tracks how well they are attended and whom is being reached? Are the attendees IWG participants or are others attending as well?
 - Public comment webinars have been primarily targeted to IWG members. Enrollment numbers will be tracked and cross-check with IWG members for future reports.
- Allow investor respondents to self-categorize into SRI/impact investing.
 - SASB Response: SASB will investigate the level of resources needed to add this feature to the web enrollment process and to salesforce and, if feasible, will implement the categorization.

B) Related to the above points, there was also discussion about survey wording. One question raised was whether the wording of the survey could be altered to encourage greater participation. For example, can greater assurance of confidentiality be provided, if firms or individuals do not feel it yet? In addition, can the wording of questions be altered to get impressions about what might be material for a company with similar operations or in the similar industry, rather than directly assessing what is material for the respondents' firm? For example, the questions could be phrased as "Would this be considered a material distinction between companies? Would investors in our industry want to know about this?" Lastly, there was discussion about whether to add "it depends" or "perhaps" as an option when asking about materiality of an issue.

- SASB Response:
- SASB questionnaire on the materiality of issues already includes an option for "maybe"
- SASB will include the following statements in the opening section of the survey:
 - "IWG participants serve as individuals imparting personal and professional expertise. The organizations listed alongside participants names on SASB's list of IWG participants are shown for affiliation purposes only – no past or current organizational endorsement of SASB is hereby implied. All survey responses are consolidated and are thus not attributable to an individual respondent."
 - "SASB standards provide guidance to companies on environmental, social and governance (ESG) topics that are likely to constitute material information for companies in a given industry, based on further company-specific analysis. Survey questions on the materiality of specific issues relate to the whole industry rather than specifically for the company that IWG participants represent".



II. Outcome Review for Consumption 1

- A) During the discussion of Consumption 1 outcomes, it was noted that products requiring battery use may belong in a different category if the issues they face would be very different.
- SASB Response: SASB plans to revisit SICS-related classification issues during the finalization process (after provisional release) to make sure we are not missing out on key industries and that the current SICS classification makes sense. During the meeting it was also discussed that products and appliances that USE batteries are classified separately under the “Appliance Manufacturing” industry. The appliance manufacturing industry does have a “Product environmental lifecycle impacts” issue, however, the current metrics were not an appropriate fit for this sub-segment. As noted above, SASB will consider moving the SICS classification at a later date, and potentially expand the “Fuel Cells & Industrial Batteries” industry to include consumer batteries.
- B) When discussing Tobacco and Climate Change Adaptation, the Council discussed the basis for removing this issue. One issue is that the basis for removal was explained in relative terms (i.e., tobacco is at less risk than other crops), but it still falls within the agricultural world, so is more susceptible than say an investment bank. Arguments for removal are likely to be stronger when made on an absolute basis.
- SASB Response: The recommendation to remove this issue for Tobacco is supported both by a relative analysis of how this issue affect the industry. SASB will make an effort to include arguments for removal on an absolute basis in future reports.
- C) When discussing energy and greenhouse gases, the Council noted that different conclusions were made about retaining this issue for non-alcoholic and alcoholic beverages. Although the Council did not disagree with the conclusions, concerns were raised about the perception of inconsistency and or lack of comparability across the two industries.
- SASB Response: SASB has carefully considered the feedback from the Standards Council on these issues and undertaken additional analysis from multiple data sets to evaluate them for consistency across the sector. As a result, the issue of Energy Management is now incorporated across more industries -- 6 out of 7 -- to ensure consistency and comparability and GHG Emissions is included in 4 out of these 6 industries. The specific inconsistency that was discussed for non-alcoholic and alcoholic beverages is now resolved by adding energy management to BOTH issues and keeping GHG only for alcoholic beverages. The process used in brewing and distilling alcohol is much more Scope 1/GHG intensive than non-alcoholic and a number of alcoholic companies are already exposed to regulatory risks in ways that do not apply to non-alcoholic companies.



III. Other items

- A) In discussing the activities of the metrics sub-committee, the question was raised as to how SASB ensures it is thinking about metrics in terms of what makes sense from a company perspective (e.g., the data available to management). Providing assurance around this step may be particularly important when taking the provisional standards through the finalization stage.
- SASB Response: The purpose the committee is to ensure the decision-usefulness of the metrics and in that context it would be helpful to incorporate the viewpoint of internal strategic use of the data for companies (rather than the cost benefit). SASB will explore adding corporate members to the Committee.
- B) During the industry updates, the question arose as to who within firms is downloading the provisional standards. Since the download form ask for company and title, some additional analysis here may be possible.
- SASB Response: Yes, SASB does have access to the names and organizations for all download requests. SASB will include summary statistics on download activities for provisional standards in future sector updates to Council.
- C) When discussing the Services industries, it was noted that there are only 4 topics for disclosure, but it was not clear how much disclosure this would actually require. How does SASB assess the total of disclosure being required? Does it work with companies?
- SASB Response: SASB prepares a Mock 10-K for at least one industry in every sector. SASB does not work directly with companies to prepare its Mock 10-Ks, but rather works with existing company filings with assistance from securities attorneys. SASB also produces a systematic analysis of the current state of disclosure of its topics in the Form 10-k. Lastly, SASB will be working with a third party economist to conduct a cost benefit analysis to better understand the additional burden imposed by our standards.

We acknowledge that, as an advisory body, our recommendations are not binding and that the responsibility to implement the suggested changes is at the discretion of SASB.

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Signed _____, January 29, 2015

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