



SASB Standards Council

Standards Council Meeting Review

Sept 3, 2015

September 30, 2015

To the Director of Standards Development of SASB,

This Review 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 September 3, 2015, we conducted an independent review of the standards development activities of SASB during the preceding quarter. This review primarily focused on activities used to develop industry Sustainability Accounting Standards for the Infrastructure 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 – Infrastructure Sector*** and ***Standards Outcome Report – Infrastructure***, which were both prepared by SASB staff. In addition, the SASB staff also prepared a third report: ***Supplement to Standards Outcome Report – Infrastructure***. 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 were 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 Infrastructure

- A) An observer to the Council Meeting expressed the view that the IWG survey was leading in what it did ask and in what it omitted. The observer noted that this was particularly troubling because the IWG brief failed to capture the view of sustainability more broadly held in the real estate industry. The view was expressed that this is quite different than is the case with other surveys' alignment (e.g., GRESB). This feedback suggests, at a minimum, a need to communicate where SASB's objectives are likely to result in a different perspective than the prevailing industry view. It may also be indicative of where outreach could benefit from preliminary feedback from key industry members to minimize any disenfranchisement during formal outreach.

SASB Response: There is a confluence of factors that contributed to the strong reactions from the real estate industry. Based on its *initial* research, SASB's characterization of the



industry and the relevant sustainability issues in the draft brief and the Industry Working group survey did not adequately align to industry views. The articulation of the issues in the brief and survey did not sufficiently capture the nuance of issues and the complexities of the industry, particularly the broad treatment given to “Managing Socioeconomic and Environmental Impacts of Buildings” as a topic. Similarly, the general description of the topic as “Energy Efficiency of Buildings” did not reflect the complex history of the industry’s engagement with various energy efficiency standards, such as LEED, Energy STAR, and Green Globes.

This said, the real estate owners, developers and investment trusts industry includes a variety of different types of companies with a wide range of types of assets, and an equally wide range of views on sustainability issues. The SASB team did conduct some expert interviews with corporate representatives prior to the release of the survey (including with the National Association of Real Estate Investment Trusts), but it is challenging to capture the scope of opinions that exist in the industry in a few interactions. Even now, with our active, collaborative relationships with various industry associations and the additional expert interviews we have conducted, we are uncovering disparate and passionate opinions on these issues. Reconciling these different viewpoints is one of SASB’s challenges as a standards setter.

The IWG survey provides ample opportunity, and is indeed designed to give stakeholders the opportunity to indicate where SASB may have mischaracterized an industry or its issues, may have missed including an issue or may have included an issue inappropriately, as well as to provide additional evidence in support of their suggestions that SASB can use to further improve on the issues and metrics. For the real estate industry in particular, of which the observer was a part, SASB has done extensive engagement since the IWG to improve on its topics and metrics to develop the PCP version of the standards, which provides yet another opportunity to stakeholders to provide feedback where they might agree or disagree with SASB.

- B) Top company representation in the IWGs was particularly low for the home builders and engineering and construction industries. Has there been or will there be specific plans to redress that gap in feedback?
- SASB Response: While we don’t always get the level of engagement in working groups as targeted, we view the standards development as an ongoing process throughout which we can broaden and deepen our relationships with stakeholders. SASB has been continuing to cultivate a relationship with the Leading Builders of America, an industry association that represents that larger, public-traded home building companies. LBA is conducting outreach to its membership to raise awareness about SASB’s work in preparation for the public comment period that will open October 7th. Additionally, SASB has met with the Institute for Sustainable Infrastructure, whose members include publicly traded engineering and construction firms. ISI is communicating to its members about SASB’s efforts and process.



Lastly, SASB will continue to identify and contact strategic individuals in the market cap leaders in each industry as we move to recruiting public comments.

II. Outcome Review for Infrastructure

- A) One of two major items brought to the Standards Council was the issue of Community Relations, which came up in several industries within the sector. The view was expressed that Community Relations, while perhaps a distinct ESG issue in certain cases, seems to more often serve as a “catch all” in the absence of identifying a specific underlying ESG issue. The license to operate is likely to be more important for some industries than others. But analysis of what might cause a company to lose that license (e.g., poor relations, environmental track record, political bribes or ethical issues, etc.), can be suggestive of a key underlying ESG issue in that particular industry. The view was raised that “stakeholder relations” issues, in general, should be closely scrutinized to make sure that the underlying issues cannot be more directly articulated. If they can, this is likely to improve comparability across sectors and industries, where stakeholder relations might be equally important, but driven by very different underlying ESG issues.
- SASB Response: SASB disclosure topics have typically relied on this framework. Community Relations, as a standalone issue, can only be found in three published standards within the Non-Renewable Resources sector, where other issues have not captured all angles of community relations. In all other cases, the topic has been disaggregated and addressed either through environmental issues that impact community health and other specific social or governance issues.
- B) The view was raised that the label for the Gas Utilities industry issue of “Management of Legal and Regulatory Environment” may be less informative than alternative names. The view was further raised that the issue itself might be a derivative issue. Is SASB confident that this is an appropriate fundamental ESG issue for this industry?
- SASB Response: SASB is considering alternative titles for this topic which better reflect the issue. The updated titles will be included in the draft standards to be released for public comment. SASB is also further analyzing the evidence to determine inclusion of the issue for this industry.

III. Other items

- A) Many ESG issues and metrics are different, but clearly related. Does SASB have a plan for ensuring that there are not unneeded differences (or inappropriate similarities) in the way in which issues are labeled and the metrics designed/described (including the technical protocols)?
- SASB Response: During the codification phase SASB will conduct several cross-cutting analyses across topics, metrics, and technical protocols to ensure that there is internal harmonization and that any unique approach is justified by evidence-based research.
- B) It appears that the IWG feedback has shown a positive trend over time in terms of agreement that the metrics meet the criteria laid out in the Conceptual Framework. While the Council views this as a



positive development, the question was raised as to whether there is a sense that the changes made post-IWG have led to general improvement in agreement about the metrics meeting SASB standards, and particularly in redressing issues that may have been present in the earlier sectors? Also, is there a plan to seek similar quantitative feedback about the metrics in the proposed standards during the finalization stage?

- SASB Response: SASB does not currently conduct any quantitative survey post-IWG (industry working group) or public comment period (PCP) to see if there is greater agreement on the suitability of metrics. SASB's focus has been to make updates, adjustments, and withdrawals to the proposed standards in response to feedback received in PCP and IWG. There are plans to continuously monitor and improve the suitability of the metrics in the ongoing process of implementation review and updates to the standards.

C) Some ESG metrics need appropriate context to be interpreted. How will SASB standards address the need for context?

- SASB Response: The introduction to SASB's standards continue to provide the following guidance:
- *As appropriate—and consistent with Rule 12b-20—when disclosing a sustainability topic identified by this Standard, companies should consider including a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported. Where not addressed by the specific accounting metrics, but relevant, the registrant should discuss the following, related to the topic:*
 - *The registrant's strategic approach to managing performance on material sustainability issues;*
 - *The registrant's relative performance with respect to its peers;*
 - *The degree of control the registrant has;*
 - *Any measures the registrant has undertaken or plans to undertake to improve performance; and*
 - *Data for the registrant's last three completed fiscal years (when available).*

D) Is SASB in a position to be able to communicate the extent to which metrics proposed are newly developed metrics versus being previously tracked or reported under alternative models? To what extent has a mapping been done to existing industry frameworks?



- SASB Response: During the codification phase SASB will document the degree to which metrics are likely previously tracked, align with other reporting schemes, and will identify succinctly the underlying definitions and references that form the basis for its standards. To date SASB includes direct reference to the CDP questionnaire in the Greenhouse Gas Management metrics, reference to IPIECA guidelines in its Oil and Gas standards, reference to the Sustainable Apparel Coalition Higg Index in its Apparel, Accessories & Footwear standard, and the GRESB Survey in its Real Estate Owners, Developers, and Investment Trust standards.

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

Prepared by Jeffrey Hales
SASB Chair of the Standards Council

Signed  _____, September 30, 2015

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