



SASB Standards Council

Standards Council Meeting Review

June 18, 2015

July 17, 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 June 18, 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 Renewable Resources & Alternative Energy 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 – Renewable Resources & Alternative Energy Sector*** and ***Standards Outcome Report – Renewable Resources & Alternative Energy***, which were both prepared by SASB staff. In addition, the SASB staff also prepared a third report: ***Supplement to Standards Outcome Report – Renewable Resources & Alternative Energy***. 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 Renewal Resources & Alternative Energy

- A) In reviewing stakeholder outreach, the question was raised as to whether SASB had contact with the American Council on Renewable Energy (ACORE). It was also noted that, in general, it would be helpful for SASB to build relationships with the industry associations because of the importance of their voice and the benefit of continuity that comes when dealing with organizations as opposed to individuals, who, because of turnover, may move out of their current organizational roles.
- SASB Response: While there is no record of previous outreach to ACORE, industry associations are a strategic focus for the new Director of Advisory Groups. Given the breadth of SASB's work, industry associations offer an efficient convening mechanism for



gathering stakeholder input. Key associations in the renewables space, such as ACORE and SEIA, will be contacted about submitting Public Comments on the draft standards.

Beyond the Renewables sector, SASB has done some initial research to identify key associations at the sub-sector and industry level. SASB will continue to build on this research and incorporate industry associations in future outreach plans.

- B) The suggestion was made for the SET to follow up with IWG enrollees who either do not respond or do not complete the survey to ascertain what the main reasons are for dropping out, in hopes of continuing to boost response rates.
- SASB Response: Based on recent experience, SASB has identified a few reasons for IWG participants not completing the survey:
 - 1) Enrolled participant has moved to a new role or a new company since signing up for the IWG. Especially in these final sectors, some people enrolled months, if not years, prior to the IWG launch for a given industry.
 - 2) Time constraint- SASB often hears that the survey competes for time on the schedules of busy professionals.
 - 3) Some people find the survey format cumbersome. One specific point of feedback was on the section asking participants to force rank issues, which was a required component of the survey. Several participants didn't want or felt they couldn't complete that section, and thus couldn't complete the survey.
 - 4) A minority of IWG participants have cited legal concerns about determining the potential materiality of issues as a reason for not-completing the survey.

SASB is evaluating the merits and potential mechanisms for gathering feedback on our stakeholder engagement process to date more broadly, which would include the effectiveness of the survey.

II. Outcome Review for Renewable Resources & Alternative Energy

- A) Under Forestry & Logging, the question was raised whether SASB considered differentiating between plantations and native forests. Given the growth in irrigated plantations as a way to cope with climate change, there was some surprise not to see water management listed as an issue.
- SASB Response: While SASB recognizes that water management is a critical factor in the forestry and logging industry, the most relevant elements of the issue are captured in current disclosure topics. The area of irrigated forests as a share of total commercial forestland is not significant at this time, while a review of corporate disclosure and industry reports do not indicate that this particular topic is relevant to most U.S.-listed forestry and logging companies.
 - Plantations appear to be most common in Brazil and South Africa. According to the Forest Stewardship Council, fast-growing plantations currently represent approximately 1.3% of global forest areas, and this share is expected to rise to 2-4% by 2050. Plantation land area will grow by an estimated 2.3% per year from 2012 to 2022, from 54m hectares (ha) in 2012 to 67m ha. It is difficult to determine what



share of these plantations are irrigated, but it appears that the majority of plantations are fed by natural rainfall.¹

- Concerns about water quality arising from, for example, erosion from logging roads, as well as possible ecological impacts from water-intensive tree species are discussed in the Ecological Services & Impacts disclosure topic. The potential effects on forestry from water scarcity are addressed in the Climate Change Adaptation of Forestlands topic. A specific disclosure topic on water consumption may be required in the future if commercial forestland irrigation becomes more widespread. At this time, therefore, SASB does not have evidence to include Water Management as a separate disclosure topic, but welcomes additional comments and evidence on this during the public comment period.

B) Also under Forestry & Logging, some were surprised to see the decision to drop fair labor practices as an issue, given that all market participants listed it as being material, albeit some with reservation.

- SASB Response: SASB considers IWG feedback, other evidence of interest, and evidence of financial impact when determining whether to include or exclude an issue for standards development. As documented in the Standards Outcome report, for the issue of fair labor practices, only 44.7% of the 38 IWG respondents completing the survey agreed that the topic was likely to constitute material information for companies in the Forestry & Paper industry. IWG participants had reservations or disagreement about the likely materiality of this issue based on their opinion that most U.S.-listed companies would have minimal to no exposure to fair labor issues within their operations and that this may be more relevant for emerging markets (please refer to the Standards Outcome report supplement for detailed comments). SASB's Heat Map score for the issue, which is based on the frequency with which an issue appears across different source documents, was also low.
- As the Outcome report notes, further research conducted by SASB for the Forestry & Logging industry shows "fair labor issues arising at small private firms or government contractors. Further research did not reveal that fair labor issues have affected U.S.-listed forestry or logging companies." Furthermore, while operations outside of North America could present higher risk (as indicated in the IWG comments), the relatively small share of forestry and logging companies that have holdings outside the region suggests that this is unlikely to be an industry-wide risk affecting most companies.
- Lastly, SASB also considered whether the issue should be included for the Pulp & Paper Products industry. SASB's research found that although unionization rates are high at some pulp and paper companies, there are no indications that the industry

¹ "Strategic Review of the Future of Forest Plantations," Forest Stewardship Council, October 4, 2012, p. 2-4, accessed on July 14, 2015, <http://ic.fsc.org/download.strategic-review-on-the-future-of-forest-plantations-full-report.672.htm>.



faces frequent labor disruption due to wage, fair labor, or other sustainability-related issues. Significant strikes have not occurred for nearly two decades.

- Considering all the evidence, as well as the overall low agreement among IWG participants about the likely materiality of the issue, SASB did not include the issue of Fair Labor Practices for the Forestry & Logging industry's draft standards for public comment.
- However, as always, SASB welcomes additional input during the public comment period, including additional evidence to show that an issue not included by SASB is likely to constitute material information for most companies in the industry.

C) Under Solar Energy, there were concerns raised about the issue of "Innovation to Scale Cost-Effective GHG Mitigation." One concern is that some of the issues seem similar to those covered in the Biofuels issue "Management of the Legal & Regulatory Environment." Covering similar concepts under differently labeled issues could harm decision usefulness and comparability for users looking at companies in multiple industries. Another concern was that the issue seems quite complicated and nuanced. Breaking it into separate issues might help users more clearly identify the purposes of each.

- SASB Response: Based on feedback from the Standards Council, SASB streamlined and renamed the issue to better reflect the key aspects of performance. The new issue name, "Management of Energy Infrastructure Integration & Related Regulations" highlights the sustainability concern around the ability of solar energy companies to ensure that their products and services are minimally disruptive to a country or region's energy infrastructure (to the extent that such disruption can create negative social externalities). Concerns around integration with the energy infrastructure are centered on both technical and organizational disruptions to the grid as well as the high cost of solar energy. The issue also covers all aspects of performance that are relevant to addressing these concerns, including managing the legal and regulatory environment, but also technological and business model innovations that can lower both costs and disruptions. A solar energy company may engage in some or all of these activities to address the issue of cost-effective and minimally disruptive integration. The issue is wider in scope than the issue of Management of the Legal & Regulatory Environment for the Biofuels industry.
- SASB welcomes feedback during the public comment period on this re-defined issue and associated metrics and technical protocols.

III. Other items

A) The question was raised as to whether SASB could develop a targeted summary of how each of the metrics in each standard meets the criteria of being relevant/decision useful, cost effective, comparable, and auditable? As part of that, it would be helpful for SASB to identify, for each criterion, the primary and alternative means by which it assesses whether those criteria are being met.

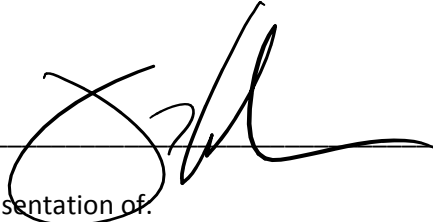
- SASB Response: SASB is working on creating a concise overview of its metric development methodology. While this would not provide the detailed rationale for



each metric, it will provide some additional insight into the process for designing metrics and evaluating stakeholder feedback on metrics.

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.

Prepared by Jeffrey Hales
SASB Chair of the Standards Council

Signed  , July 17, 2015

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