



SASB Standards Council

Standards Council Meeting Report

June 24, 2014

October 28, 2014

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 June 24, 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 Services sector, but also included an update on activities in sectors covered in previous meetings. For this meeting, we relied primarily on two reports: **SASB Working Groups Due Process Report – Services Sector** and **Standards Outcome Review – Services**, which were both prepared by SASB staff. 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 Services Sector

- A) In evaluating the feedback received from the IWGs, the Council would find it helpful if the Due Process Report were to include the raw numbers for commitments and completions by industry and participant type, including a breakout of sustainability vs. finance folks.
- The Council recommends including the above information in future Due Process Reports.
 - SASB Response: SASB will include this information in Due Process Reports going forward.
- B) The Council noted that IWG participation continues at times to be lower than targeted. While true at the level of commitments, the issue is exacerbated when looking at completions. In that sense, information on commitments is useful in evaluating SASB efforts, but detailed information on completions is perhaps more important as it speaks to the success of those efforts (e.g., Exhibit G in the current report).



- The Council recommends including detailed information on completions in future Due Process Reports.
 - SASB Response: SASB will include a detailed breakdown of completions in future Due Process Reports.

- To address the issue of low commitment and completion rates, the Council recommends contacting experts (e.g., Edelman) to advise on how to improve IWG participation. In addition, the Council recommends that SASB consider following up with committed participants who did not complete the survey (e.g., those who committed but never started, and those who started but did not finish) with the intent being to improve overall levels of active participation.
 - SASB Response: SASB will seek outside advice on ways to improve participation, as well as try to get qualitative feedback from IWG participants on ways to improve engagement. SASB will report back on the advice and feedback received at the next Standards Council meeting.

- In addition to providing a list of the top ten companies in each sector, the Council recommends flagging which of these companies committed to participate and which completed the survey.
 - SASB Response: SASB will note which of the top ten companies committed to participating—and which participated—in the survey.

II. Outcome Review for Services Sector

- A) When providing evidence of materiality, the industry briefs, at times, identifies specific entities that have been accused of wrongdoing. These accusations can be inflammatory and unduly raise opposition to SASB efforts.
- The Council recommends avoiding handling issues of accused wrongdoing carefully. For example, it may be just as effective (in terms of providing evidence) to identify the size of the company or companies, rather than their names. If companies have been exonerated, it is perhaps helpful to lead off with that fact, while still using the instance as evidence of potential materiality and investor interest.
 - SASB Response: We will make an effort not to reveal the identity of parties in pending lawsuits. However, this may be necessary in some cases to showcase the evidence of financial impact of sustainability issues. In such cases, we will make a renewed effort to ensure that information about pending cases is most up-to-date and highly objective in both the Industry Working Group and the public version of the research briefs.
- B) With respect to water management for the restaurant industry, the recommendation seems inconsistent with the rationale in the report. The concern related to materiality, but the recommendation was to combine the issue into one energy and water management issue.



- The Council recommends clarifying whether the issue of water management should be retained because it is believed to be material for restaurant industry and why the reasoning for why this issue should be combined with energy.
 - SASB Response: Water Management is material to the Restaurants industry due to the necessity to secure potable water and the expansion of the industry in emerging economies that often lack robust water infrastructure. The same is true for energy use. One metric for each topic was proposed for the Public Comment Period under a combined category for the two issues. The two issues are complementary and the discussing them as one disclosure topic works well. Based on feedback and further research SASB will decide in the next phase whether to treat these two issues together or separately.

- C) With respect to the cruise line industry, the Outcome Report noted weak evidence for the financial impact of community relations, but the strong support from the major cruise lines seems like a reason for retaining the issue of community relations.
 - The Council recommends reconsidering the disconnect between corporations and market participants (e.g., the disconnect may not be that pronounced since there were only two market participants in the IWG, and they both indicated that community relations might be material for the cruise line industry).
 - SASB Response: While community relations is an important aspect of Cruise Lines' operations, it was not retained as separate issue for lack of direct evidence, i.e. that mismanagement of community relations affecting financial performance.

- D) Individual members of the Council flagged a number of additional items as warranting a second consideration for potential inclusion:
 - Diversity in the advertising industry (e.g., consider the lawsuits against Interpublic and Omnicom)
 - Data privacy and security in the hotel industry.
 - Data privacy and security and resource efficiency in the professional services industry.
 - SASB Response:
 - Diversity & Inclusion topic was added as an issue for the Advertising & Marketing standard
 - Data Privacy & Security was added as an issue for Professional Services companies but not for the Hotels industry, for lack of sufficient evidence of materiality.

III. Other items

- A) Additional discussion took place with respect to the appropriate way to communicate the role of ANSI accreditation in SASB's standards development process.
 - The Council recommends further follow up with ANSI to clarify whether SASB's current usage of its affiliation with ANSI is appropriate.



- SASB Response: SASB will confirm with ANSI that our current use of the ANSI affiliation is appropriate and report to the Council at the next meeting. SASB is also formulating a process for the finalization of provisional standards, which will clarify the role of ANSI in the SASB standards development process.

B) The Council supports SASB efforts to receive expert feedback on proposed metrics by organizing the Metrics Quality Committee.

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 _____, October 28, 2014

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