SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

FOOD RETAILERS & DISTRIBUTORS
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0401
Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

DRAFT

www.sasb.org

FOOD RETAILERS & DISTRIBUTORS

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Food Retailers & Distributors industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context— for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Food Retailers & Distributors industry consists of companies engaged in wholesale and retail sales of an array of food, beverage, and agricultural products. Store formats include retail supermarkets, warehouse supermarkets, liquor stores, bakeries, natural food stores, specialty food stores, seafood stores, and distribution centers. Companies may specialize in one type of store format or have facilities that contain multiple formats. These companies operate mainly in North America but source products from all over the world. Products retailed or distributed include fresh meat and produce, prepared foods, processed foods, baked goods, frozen and canned foods, non-alcoholic and alcoholic beverages, and a wide selection of household goods and personal care products.

Note: The standards discussed below are for "pure-play" food retail and distribution companies. Many major food retailers also have pharmacy operations and manufacture private-label processed foods. SASB has separate standards

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

for the Drug Retailers & Convenience Stores (CN0402) and Processed Foods (CN0103) industries. Companies involved in drug retail and food manufacturing should also consider the disclosure topics and metrics outlined in these other standards.

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Food Retailers & Distributors industry, SASB has identified the following sustainability disclosure topics:

- Air Emissions from Refrigeration
- Energy Management in Retail & Distribution
- Food Waste Management
- Data Security
- Food Quality & Safety
- Product Health & Nutrition
- Product Labeling & Marketing
- Labor Relations & Fair Wages
- Product Selection & Supplier Management to Mitigate Environmental & Social Impacts

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

---

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be

---

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Food Retailers & Distributors industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange

reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]

- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and

- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

[8] See US GAAP consolidation rules (Section 810).

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of retail locations, number of distribution centers	Quantitative	Number	CN0401-A
Total area of (1) retail space and (2) distribution centers	Quantitative	Square meters (m^2)	CN0401-B
Number of employees, percentage (a) full-time and (b) part-time	Quantitative	Number, Percentage (%)	CN0401-C
Percentage of transactions paid with a debit or credit card	Quantitative	Percentage (%)	CN0401-D

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Air Emissions from Refrigeration	Gross global Scope 1 emissions, percentage from refrigerants	Quantitative	Metric tons CO_2-e, Percentage (%)	CN0401-01
	Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	Discussion and Analysis	n/a	CN0401-02
Energy Management in Retail & Distribution	Operational energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0401-03
	Fleet fuel consumed, percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	CN0401-04
Food Waste Management	Amount of food waste generated, percentage diverted	Quantitative	Metric tons (t), Percentage (%)	CN0401-05
Data Security	Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected[10]	Quantitative	Number, Percentage (%)	CN0401-06
	Discussion of management approach to identifying and addressing data security risks	Discussion and Analysis	n/a	CN0401-07
Food Safety & Quality	High-risk food safety violation rate at retail locations	Quantitative	Rate	CN0401-08
	Notice of food safety violations received at manufacturing and distribution facilities, percentage corrected	Quantitative	Number, Percentage (%)	CN0401-09
	Number of food-safety-related recalls, number of units recalled, percentage from private-label products[11]	Quantitative	Number, Percentage (%)	CN0401-10
Product Health & Nutrition	Revenue from products labeled and marketed to promote health and nutrition attributes	Quantitative	U.S. Dollars ($)	CN0401-11
Product Labeling & Marketing	Notices of violations received for non-conformance with regulatory labeling and/or marketing codes	Quantitative	Number	CN0401-12

[10] Note to **CN0401-06**—Disclosure shall include a description of corrective actions implemented in response to data security incidents or threats.

[11] Note to **CN0401-10**—The registrant shall discuss notable recalls such as those that affected a significant number of customers or those related to serious illness, injury, or fatality.

Table 1. Sustainability Disclosure Topics & Accounting Metrics (cont.)

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
	Amount of legal and regulatory fines and settlements associated with food marketing and/or labeling[12]	Quantitative	U.S. Dollars ($)	CN0401-13
	Percentage of product portfolio labeled as (1) GMO and (2) non-GMO	Quantitative	Percentage (%) by revenue	CN0401-14
Labor Relations & Fair Wages	Average hourly wage and percentage of in-store and distribution center employees earning minimum wage	Quantitative	U.S. Dollars ($), Percentage (%)	CN0401-15
	(1) Voluntary and (2) involuntary employee turnover rate for in-store and distribution center employees	Quantitative	Rate	CN0401-16
	Percentage of active workforce covered under collective bargaining agreements	Quantitative	Percentage (%)	CN0401-17
	Number and total duration of work stoppages[13]	Quantitative	Number, Days	CN0401-18
	Amount of legal and regulatory fines and settlements associated with labor law violations and employment discrimination[14]	Quantitative	U.S. Dollars ($)	CN0401-19
Product Selection & Supplier Management to Mitigate Environmental & Social Impacts	Revenue from products third-party certified to an environmental and/or social sustainability sourcing standard	Quantitative	U.S. Dollars ($)	CN0401-20
	Discussion of strategy to manage environmental and social risks within the supply chain	Discussion and Analysis	n/a	CN0401-21
	(1) Percentage of eggs sold from cage-free sources and (2) percentage of pork sold from gestation-crate-free sources[15]	Quantitative	Percentage (%) by revenue	CN0401-22
	Total weight of tertiary packaging, percentage recycled	Quantitative	Metric tons (t), Percentage (%)	CN0401-23
	Description of strategies to reduce the environmental impact of packaging throughout its lifecycle	Discussion and Analysis	n/a	CN0401-24

[12] Note to **CN0401-13**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[13] Note to **CN0401-18**—Disclosure shall include a description of the root cause of the stoppage, the impact on operations, and corrective actions taken.
[14] Note to **CN0401-19**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[15] Note to **CN0401-22**—Disclosure shall include a description of any additional animal welfare standards used by the registrant.

Air Emissions from Refrigeration

Description

The use of refrigeration equipment to store and display perishable foods creates unique regulatory risks for the industry. Refrigerant chemicals used in this equipment can have environmental impacts through two primary channels: First, internationally regulated hydrochlorofluorocarbons (HCFCs) damage the Earth's ozone layer; and second, hydrofluorocarbons and HCFCs are highly potent greenhouse gases (GHGs), which heightens the industry's exposure to GHG regulation. Emissions of high global warming potential and ozone-depleting substances introduce industry-specific regulatory risks. Companies may be required to upgrade or replace equipment in order to reduce emissions or replace currently used refrigerants with costlier alternatives.

Accounting Metrics

CN0401-01. Gross global Scope 1 emissions, percentage from refrigerants

.01 The registrant shall disclose gross global Scope 1 greenhouse gas (GHG) emissions to the atmosphere of the six GHGs covered under the Kyoto Protocol (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride).

- Emissions of all gases shall be disclosed in metric tons of carbon dioxide equivalents (CO_2-e), calculated in accordance with published global warming potential (GWP) factors. To date, the preferred source for GWP factors is the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (2013).

- Gross emissions are GHGs emitted to the atmosphere before accounting for any GHG reduction activities, offsets, or other adjustments for activities in the reporting period that have reduced or compensated for emissions.

- Disclosure corresponds to section CC8.2 of the Carbon Disclosure Project (CDP) Questionnaire (2015) and REQ-11 of the Climate Disclosure Standards Board (CDSB) *Climate Change Reporting Framework* (CCRF) (2015).

.02 Scope 1 emissions are defined by the World Resources Institute and the World Business Council on Sustainable Development (WRI/WBCSD) in *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard,* Revised Edition, March 2004 (hereafter, the "GHG Protocol").

- These emissions include direct emissions of GHGs from stationary or mobile sources that include, but are not limited to, equipment, production facilities, office buildings, and transportation (i.e., marine, road, or rail).

.03 GHG emission data shall be consolidated according to the approach with which the registrant consolidates its financial reporting data, which is generally aligned with:

- The Financial Control approach defined by the GHG Protocol and referenced by the *CDP Guidance for companies reporting on climate change on behalf of investors & supply chain members 2013* (hereafter, the "CDP Guidance").[16]

- The approach detailed in REQ-1, "Organizational boundary setting for GHG emissions reporting," of the CDSB CCRF (2015).[17]

.04 The underlying technical approach to data collection, analysis, and disclosure shall be consistent with the CDP Guidance.

- The registrant shall consider the CDP Guidance as a normative reference, thus any updates made year-on-year shall be considered updates to this guidance.

.05 The registrant shall disclose the percentage of Scope 1 emissions that are from refrigerants, where:

- Refrigerants are substances or mixtures used in a heat pump or refrigeration cycle. Common type of refrigerants include Chlorofluorocarbons (CFCs), Hydrochlorofluorocarbons (HCFCs), Hydrofluorocarbons (HFCs), Class I and Class II Ozone Depleting substances (as defined by the U.S. Environmental Protection Agency (EPA)), and refrigerants with zero ozone-depleting potential.

- The scope includes refrigerants used in retail food refrigeration equipment, transport refrigeration, air conditioners, warehouses and distribution centers, and other industrial processes.

.06 The registrant should discuss any change in its emissions from the previous fiscal year, such as if the change was due to emissions reductions, divestment, acquisition, mergers, changes in output, and/or changes in calculation methodology.

.07 In the case that current reporting of GHG emissions to the CDP or other entity (e.g., a national regulatory disclosure program) differs in terms of the scope and consolidation approach used, the registrant may disclose those emissions. However, primary disclosure shall be according to the guidelines described above.

.08 The registrant should discuss the calculation methodology for its emissions disclosure, such as if data are from continuous emissions monitoring systems (CEMS), engineering calculations, mass balance calculations, etc.

.09 The registrant should consult the most recent version of each document referenced in this standard at the time disclosure occurs.

---

[16] "An organization has financial control over an operation if it has the ability to direct the financial and operating policies of the operation with a view to gaining economic benefits from its activities. Generally an organization has financial control over an operation for GHG accounting purposes if the operation is treated as a group company or subsidiary for the purposes of financial consolidation." *Guidance for companies reporting on climate change on behalf of investors & supply chain members 2013,* p. 95.
[17] This is based on the requirements of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) on consolidation and equity accounting and is consistent with how information relating to entities within a group or interest in joint ventures/associates would be included on consolidated financial statements, as further detailed in CDSB *Proposals for Boundary Setting in Mainstream Reports*.

CN0401-02. Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets

.10 The registrant shall discuss the following, where relevant:

- The scope, such as whether strategies, plans, and/or reduction targets pertain differently to different business units, geographies, or emissions sources;
- Whether strategies, plans, and/or reduction targets are related to or associated with an emissions disclosure (reporting) or reduction program (e.g., E.U. ETS, RGGI, WCI, etc.), including regional, national, international, or sectoral programs; and
- The activities and investments required to achieve the plans and any risks or limiting factors that might affect achievement of the plans and/or targets.

.11 For emission-reduction targets, the registrant shall disclose:

- The percentage of emissions within the scope of the reduction plan;
- The percentage reduction from the base year;

The base year is the first year against which emissions are evaluated toward the achievement of the target

- Whether the target is absolute or intensity based, and the metric denominator if it is an intensity-based target;
- The timelines for the reduction activity, including the start year, the target year, and the base year. Disclosure shall be limited to activities that were ongoing (active) or reached completion during the fiscal year; and
- The mechanism(s) for achieving the target, such as energy efficiency efforts, energy source diversification, carbon capture and storage, etc.

.12 Where necessary, the registrant shall discuss any circumstances in which the target base year emissions have been, or may be, recalculated retrospectively or where the target base year has been reset.

.13 Disclosure corresponds with:

- CDSB Section 4, "Management actions."
- CDP questionnaire CC3, "Targets and Initiatives."

.14 Relevant initiatives to discuss may include, but are not limited to, fuel optimization efforts such as route and load optimization. Truck-related efforts include adoption of technology such as engine and powertrain efficiency and aerodynamic improvements, weight reduction, improved tire rolling resistance, hybridization, and automatic engine shutdown.

Energy Management in Retail & Distribution

Description

Food retailers and distributors operate multiple retail and distribution locations and use large fleets. Food retail and distribution spaces are more energy-intensive than other types of commercial spaces. Energy is used in these locations primarily for refrigeration, heating, ventilation, and air conditioning (HVAC), and lighting. Additionally, many operators in this industry own and manage vehicle fleets that contribute to direct GHG emissions and overall energy use. Fossil fuel-based energy production and consumption contribute to significant environmental impacts, including climate change and pollution. Efficiency in this area can have financial implications through direct cost savings, which are particularly beneficial in this low-margin industry.

Accounting Metrics

CN0401-03. Operational energy consumed, percentage grid electricity, percentage renewable energy

.15 The registrant shall disclose total energy consumption from all sources, except fleet vehicles, as an aggregate figure in gigajoules or their multiples.

- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
- The scope includes only energy consumed by entities owned or controlled by the organization.
- The scope includes energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.
- The scope of disclosure excludes fuel consumption by fleet vehicles.

.16 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.17 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.

.18 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

.19 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.

- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.[18]

- Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

.20 For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:

- Energy from hydro sources that are certified by the Low Impact Hydropower Institute or that are eligible for a state Renewable Portfolio Standard.

- Energy from biomass sources is limited to that from materials certified to a third-party standard (e.g., Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification, or American Tree Farm System), materials considered "eligible renewables" according to the Green-e Energy National Standard Version 2.5 (2014), and materials that are eligible for a state Renewable Portfolio Standard.

.21 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

CN0401-04. Fleet fuel consumed, percentage renewable

.22 The registrant shall disclose total fuel consumption by fleet vehicles as an aggregate figure in gigajoules or their multiples.

- The scope includes fuel consumed by vehicles owned or operated by the registrant.

.23 Fuel consumption shall be based on actual fuel consumed (i.e., not based on design parameters).

.24 Acceptable methods for calculating fuel consumption include adding fuel purchases made during the year to beginning inventory at the start of the year, less any fuel inventory at the end of the year, or tracking fuel consumption by vehicle or through expense reports.

.25 The registrant shall disclose renewable fuel consumption as a percentage of its total fuel consumption.

---

[18] SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

- Renewable fuel is defined, consistent with U.S. EPA's Renewable Fuel Standard (40 CFR Section 80.1401), as a fuel which meets the following requirements:
- Fuel that is produced from renewable biomass.
- Fuel that is used to replace or reduce the quantity of fossil fuel present in a transportation fuel, heating oil, or jet fuel.
- Fuel that has lifecycle GHG emissions that are at least 20 percent less than baseline lifecycle GHG emissions, unless the fuel is exempt from this requirement pursuant to § 80.1403.

.26 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.27 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels).

Food Waste Management

Description

The Food Retailers & Distributors industry generates food waste at various stages of operation. Food waste includes edible or otherwise useful food that does not reach consumers, as well as foods that spoil or are damaged during transportation or stocking or while on store shelves. Food loss and waste represent a loss of resources used in food production, which include land, water, labor, energy, and agricultural chemicals. Additionally, food waste generates GHG emissions when it decomposes. Effective food waste management can help improve food security in the U.S. and worldwide and can present financial opportunities to reduce costs associated with food shrinkage.

Accounting Metrics

CN0401-05. Amount of food waste generated, percentage diverted

.28 The total amount of food waste generated shall be calculated in metric tons, where:

- Food waste is defined as any substance, whether processed, semi-processed, or raw, that is intended for human consumption, including drinks, chewing gum, and any substance that has been used in the manufacture, preparation, or treatment of food, for which the registrant has no further use and which would otherwise be discarded or released into the environment.
- The scope excludes cosmetics, tobacco, or substances used only as drugs.
- The scope includes any food-grade wastes associated with food or the manufacture, preparation, treatment, processing, and cooking of food, including cooking oil.
- The scope excludes inedible parts, which are the components associated with a food in a particular food supply chain that are not intended to be consumed by humans.
- The scope shall be limited to waste handled within the registrant's facilities and excludes food waste that is discarded off-site by customers.

.29 The percentage diverted shall be calculated as the weight of waste material that was reused plus the weight recycled or remanufactured (through treatment or processing) by the registrant, plus the amount sent externally for further reuse, recycling, or remanufacturing, divided by the total weight of waste material, where:

- Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.
- For the purposes of this disclosure, donation of surplus food to social service agencies and/or charitable organizations, including for human or animal consumption, shall be considered reused, consistent with the EPA Waste Hierarchy.

- Recycled and remanufactured materials are defined as waste materials that have been reprocessed or treated by means of production or manufacturing processes and made into a final product or a component for incorporation into a product.

- For the purposes of this disclosure, the composting of materials shall be considered recycling, consistent with the EPA Waste Hierarchy.

- Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.

- The scope of recycled and remanufactured products includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).

- Portions of products and materials that are disposed of in landfills are not considered recycled; only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the percentage recycled.

- Materials incinerated, including for energy recovery, are not considered reused or recycled. Energy recovery is defined as the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.

- For the purposes of this disclosure, cooking oil that is recycled for energy use is considered recycled waste.

.30 The registrant shall describe the estimation methods used to calculate the amount of waste, percentage food waste, and percentage diverted, including the frequency of waste audits and the percentage of restaurants audited.

Data Security

Description

Consumers trust retail firms with their financial and personal data, and credit cards and debit cards have steadily eclipsed cash and checks as consumers' preferred payment methods. Customer information should be adequately protected by retailers in order to maintain customer trust and brand reputation. Data breaches can occur through breaches of the physical payment technology, which are called point-of-sales breaches, as well as through attacks on cybersecurity. Retailers that prevent major data breaches can avoid harming brand value, reduce contingent liabilities, and maintain market share.

Accounting Metrics

CN0401-06. Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected

.31 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.

.32 The scope of disclosure shall be limited to data security breaches, cybersecurity risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

- The scope of disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from deficiencies or failures of people, processes, or technology.
- The scope of disclosure shall exclude disruptions of service due to equipment failures.

.33 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.[19]
- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- Disclosure shall include incidents in which encrypted data were acquired with an encryption key that was also acquired.

[19] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise such investigation.

.34 The registrant shall disclose the total number of customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

.35 Disclosure shall be additional but complementary to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

- At a minimum, this includes instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

Note to **CN0401-06**

.36 The registrant shall describe the corrective actions taken in response to specific incidents, such as changes in operations, management, processes, products, business partners, training, or technology.

.37 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

CN0401-07. Discussion of management approach to identifying and addressing data security risks

.38 The registrant shall identify vulnerabilities in its information systems that pose a data security threat, where:

- A data security threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the nation through an information system via unauthorized access, destruction, disclosure, modification of information, and/or denial of service.

- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

.39 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to, operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.

.40 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.41 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

- At a minimum, this includes disclosing when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition or would cause reported financial information to not necessarily be indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.42 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.43 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements
- "Framework for Improving Critical Infrastructure Cybersecurity, Version 1.0," February 12, 2014, National Institute of Standards and Technology (NIST)

Food Quality & Safety

Description

Food retailers sell a wide variety of fresh and processed foods. Maintaining product quality and safety is crucial as contamination by pathogens, hazardous substances, or spoilage can present human health risks. Contamination can occur at any stage in the food value chain, including food production, processing, transportation, distribution, and retailing. Measures to prevent spoilage and contamination include temperature control and frequent food inspection. Although food retailers and distributors may not be directly responsible for a food safety issue, they may nonetheless experience financial ramifications, including reputational harm, reduced revenues, and increased costs.

Accounting Metrics

CN0401-08. High-risk food safety violation rate at retail locations

.44 The registrant shall disclose the high-risk food safety violation rate, calculated as the total number of inspected locations that received any high-risk violations during the fiscal year divided by the total number of locations that were inspected during the fiscal year, where:

- High-risk violations are defined as violations that, if left uncorrected, directly relate to the transmission of foodborne illnesses, the adulteration of food products, and/or the contamination of food-contact surfaces. High-risk violations are also known as "critical" violations.

CN0401-09. Notice of food safety violations received at manufacturing and distribution facilities, percentage corrected

.45 The registrant shall disclose the number of notices received that substantiate a violation of advisory and administrative code(s), statute(s), or other requirement(s).

- Food and Drug Administration's (FDA) notices of violation (NOV) include, but are not limited to, Untitled Letters, Warning Letters, Section 305 Notices (Citations), or Administrative Detention.

- U.S. Department of Agriculture (USDA) notices of violation include, but are not limited to, product withholdings and suspensions, Notice of Warning, and regulatory control actions.

- A listing of USDA NOVs is available here, a database for FDA Warning Letters is available here, Untitled Letters are available here, and a listing of Section 305 Notices and Administrative Detentions can be requested through the Freedom of Information Act here.

- The scope includes distribution centers and manufacturing facilities that are rented or owned by the registrant.

.46 The scope of disclosure includes advisory and administrative violations for any food-safety-related issue including, but not limited to, those related to facilities' hygienic practices, product allergen labeling, product contamination, food and color additive violations, and other food safety issues covered by the Food, Drug, and Cosmetic Act, the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act.

.47 The registrant shall calculate the percent of NOVs corrected as the number of NOVs received and corrected divided by the total number of NOVs received.

- An NOV is considered corrected when a company takes corrective action(s) before the regulatory agency initiates an enforcement action.

CN0401-10. Number of food-safety-related recalls, number of units recalled, percentage from private-label products

.48 The registrant shall disclose the total number of food-safety-related recalls, including those that are voluntary and involuntary, where:

- Food-safety-related recalls are defined as those that occur when there is reason to believe that a food may cause consumers to become ill.

- Involuntary recalls are those required by government agencies (e.g., the FDA or USDA in the U.S.).

- Voluntary recalls are those initiated by a food manufacturer or distributor in order to take foods off the market.

.49 The registrant shall disclose the total number of units of food product that were recalled during the fiscal year.

- The scope of disclosure shall include recalls affecting product sold at both registrant-owned and franchise locations.

.50 The registrant may choose to disclose, in addition to the total number of food-safety-related recalls, the percentage of recalls that were (1) voluntarily and (2) involuntarily issued.

.51 The registrant shall disclose the percentage of the total number of units recalled that were from private-label products.

- Private-label products include store-brand products packaged for sale with the retailer's name, whether manufactured by the retailer or by another manufacturer.

Note to **CN0401-10**

.52 The registrant shall discuss notable recalls such as those that affected a significant number of customers or those related to serious illness, injury, or fatality.

.53 For such recalls, the registrant should provide:

- Description and cause of the recall issue

- The total amount of the item recalled
- The cost to remedy the issue (in U.S. dollars)
- Whether the recall was voluntary or involuntary
- Corrective actions
- Any other significant outcomes (e.g., legal proceedings or customer fatalities)

Additional References

In the U.S., food safety is regulated by the CDC, the FDA, and local public health departments. Local laws regulate the frequency and content of inspections, and therefore the specific definitions of a high-risk violation may vary. General information on foodborne illness and disease is available on the Centers for Disease Control and Prevention website.

Product Health & Nutrition

Description

Increasing consumer awareness of food content and nutritional value, and the impact these have on health, is shaping the industry's competitive landscape. Demand for food products that are made with natural (non-synthetic) ingredients or that are certified to be organic, low-fat, low-sugar, fresh, or made with non-Genetically Modified Organisms (GMOs) has driven industry growth in recent years. Although the links between certain foods, such as those containing GMOs, and consumer health are not well established, consumers have nonetheless shown preferences for food categories that are perceived to be healthier. Food retailers recognize the risks and opportunities presented by consumers' shifting preferences, and more diverse products are now offered at most retail stores.

Accounting Metrics

CN0401-11. Revenue from products labeled and marketed to promote health and nutrition attributes

.54 The registrant shall disclose its revenue, in U.S. dollars, from products that are labeled and/or marketed to promote health and nutrition attributes, where a product is considered to meet these criteria if:

- The product contains labels and other written, printed, or graphic matter on the article itself, on any containers and wrappers, or otherwise accompanying the article that promote health and nutrition attributes, consistent with 21 U.S.C. § 321(m).
- The registrant communicates, delivers, and exchanges a product that promotes health and nutrition attributes, consistent with the American Marketing Association's definition of marketing.

.55 A product shall also be considered to be within the scope of disclosure if its labeling or marketing contains claims that:

- Additives (e.g., artificial sweeteners, colors, preservatives, and industrially produced trans fats) have been eliminated.
- Fat, saturated fat, sodium, and cholesterol are equal to or less than the requirements for the use of the term "healthy" and related terms as prescribed by the FDA's Food Labeling Guide, available here.
- Beneficial nutrients (e.g., vitamins A and C, calcium, iron, protein, and fiber) meet or exceed the requirements for the use of the term "healthy" and related terms as prescribed by the FDA's Food Labeling Guide, available here.
- Relative claims, such as "light," "reduced," or "less" can be made regarding the product's added sugar content, consistent with the FDA's Food Labeling Guide, available here.

.56 The scope excludes products that are organic, GMO-free, and gluten-free.

Product Labeling & Marketing

Description

Communication with consumers via product labeling is an important facet of food retail. The accuracy and depth of information presented in food labeling is of growing importance to shoppers and regulators alike. The sale of private-label products makes this issue especially relevant for companies in the industry, as companies must ensure that the labeling on their products is accurate and not misleading. Consumers today expect more detailed information about product ingredients and production methods. Additionally, companies must also adhere to regulations regarding accurate labeling and labeling of specific ingredients.

Accounting Metrics

CN0401-12. Notices of violations received for non-conformance with regulatory labeling and/or marketing codes

.57 The registrant shall disclose the number of notices received for its private-label products that substantiate a violation of labeling- and/or marketing-related regulatory code(s), statute(s), or other requirement(s).

- A labeling- and/or marketing-related non-conformance, consistent with the United States Fair Packaging and Labeling Act (Title 15, Chapter 39) and the Federal Trade Commission (FTC) Act (Title 15 Chapter 2), includes products with labels that are misbranded or use deceptive acts of advertising.
- Incidences include, but are not limited to, the FDA's Untitled Letters, Warning Letters, or foreign equivalents as well as the FTC's cease-and-desist orders, civil penalties, corrective advertising remedies, or foreign equivalents.
- A database of Warning Letters is available here, and Untitled Letters are available here.
- Private-label products include store-brand products packaged for sale with the retailer's name, whether manufactured by the retailer or by another manufacturer.

.58 The scope of disclosure includes non-conformances that are subject to regulations including, but not limited to, the following:

- The Federal Food and Drugs Act of 1906 (Title 21, Chapter 1)
- The Federal Food, Drug, and Cosmetic Act (Title 21, Chapter 9)
- The Fair Packaging and Labeling Act (Title 15, Chapter 39)
- The Federal Trade Commission Act (Title 15, Chapter 2)
- Other U.S. state or federal and foreign regulations, as enacted

.59 The registrant may disclose any other non-conformances with third-party, industry, or internal codes for labeling and/or marketing.

CN0401-13. Amount of legal and regulatory fines and settlements associated with food marketing and/or labeling

.60 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements associated with marketing and/or labeling practices, such as those related to enforcement of U.S. laws and regulations on nutrient content claims, health claims, other unfair or deceptive claims, and/or misbranded labeling, including violations of the Federal Food and Drugs Act of 1906 and the Nutrition Labeling and Education Act of 1990, among others.

.61 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0401-13**

.62 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., nutrient content claims, health claims, misbranded labeling, etc.) of fines and settlements.

.63 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in practices, management, codes, products, or training.

CN0401-14. Percentage of product portfolio labeled as (1) GMO and (2) non-GMO

.64 The registrant shall disclose the percentage (by revenue) of its private-label product portfolio that is labeled as (1) containing genetically modified organisms (GMOs) and (2) free of GMOs, where:

- GMOs are defined as organisms, with the exception of human beings, in which the genetic material has been altered in a way that does not occur naturally by mating and/or natural recombination, consistent with E.U. Directive 2001/18/EC.

- The scope of disclosure includes all products offered for sale by the registrant.

.65 The scope of disclosure includes GMOs that are defined by, or subject to, the following:

- E.U. Directive 2001/18/EC;

- Regulation EC 1829/2003;

- Maine HP 0490 LD 718;

- Vermont H. 112 Act 0120;

- Connecticut House Bill 6527; or

- Other U.S. state or federal regulation, as enacted.

.73 For the purposes of this disclosure, products that are third-party certified to standards for which non-GMO is inherent to the certification shall be considered to be labeled "non-GMO."

.66 The registrant shall calculate the percentage of its private-label product portfolio that is labeled: (1) GMO as the total revenue received from products that are labeled as containing GMOs divided by the total revenue received from products in this portfolio; and (2) non-GMO as the total revenue received from products that are labeled as free of GMOs divided by the total revenue received from products in this portfolio.

Labor Relations & Fair Wages

Description

The Food Retailers & Distributors industry is characterized by low-wage, low-skill workers. Low average wages in the industry, which help companies maintain low prices for products, may result in labor-related risks. Worker dissatisfaction with wages and benefits, combined with high unionization rates, have led to employee strikes at major food retail companies, resulting in business disruption. Additionally, the industry employs a large number of women and minority workers, and many companies in the industry have been involved in gender and racial discrimination cases, sometimes resulting in costly financial settlements. Companies may benefit from a taking long-term perspective on managing workers, including their pay and benefits, in a way that protects worker rights and enhances their productivity while strengthening the company's reputation and ensuring the financial sustainability of a its operations.

Accounting Metrics

CN0401-15. Average hourly wage and percentage of in-store and distribution center employees earning minimum wage

.67 The registrant shall disclose the average hourly wage, in U.S. dollars, for in-store and distribution center employees.

- The scope of disclosure excludes corporate employees.

.68 The average hourly wage is calculated as total in-store and distribution center employee wages, excluding overtime wages, for the fiscal year, divided by the number of hours worked, excluding overtime hours, by in-store and distribution center employees during the fiscal year.

.69 The registrant shall disclose the percentage of in-store and distribution center employees that earn minimum wage, where:

- Minimum wage is defined as the local or prevailing minimum wage applicable for each worker.
- For countries or regions with no prevailing minimum wage requirement, the 10th percentile hourly wage, in U.S. dollars, of all wage earners in that country or region shall be used for this disclosure, including for the calculation of the percentage of staff that earns minimum wage and the calculation of the average prevailing minimum wage.

.70 The registrant may choose to disclose the average prevailing minimum wage, weighted on an hours-worked basis.

.71 The registrant may choose to discuss its sensitivity to future adjustments in minimum wage.

- The discussion should include what percentage of its employees would be affected by an increase in the federal minimum wage.

CN0401-16. (1) Voluntary and (2) involuntary employee turnover rate for in-store and distribution center employees

.72 The registrant shall disclose employee turnover of in-store and distribution center employees as a percentage, where:

- Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.

- The scope of disclosure excludes corporate staff and executives. All calculations are based on the number of in-store employees (i.e., those employees who work on-site in the retail facility).

.73 The registrant shall calculate the voluntary turnover percentage as the total number of employee-initiated voluntary separations (such as resignations, retirement, etc.) during the fiscal year divided by the total number of employees during the fiscal year.

.74 The registrant shall calculate the involuntary turnover percentage as the total number of registrant-initiated separations (such as dismissal, downsizing, redundancy, non-renewal of contract, etc.) during the fiscal year divided by the number of employees during the fiscal year.

CN0401-17. Percentage of active workforce covered under collective bargaining agreements

.75 The registrant shall indicate the percentage of U.S. employees in the active workforce who were covered under collective bargaining agreements during any part of the fiscal year, where:

- Active workforce is defined as the maximum number of unique employees employed at any time during the fiscal year.

- U.S. employees are defined as employees that do not need a visa to work in the U.S.

.76 The registrant may choose to provide a breakdown of employees covered under collective bargaining agreements by employee position, such as pilots, flight attendants, or customer service representatives.

CN0401-18. Number and total duration of work stoppages

.77 The registrant shall disclose the number of work stoppages and total duration, in worker-days idle, of work stoppages involving 1,000 or more workers and lasting one full shift or longer.

- Worker-days idle is calculated as the product of days idle and number of employees involved.

.78 The scope of disclosure includes work stoppage due to disputes between labor and management, including strikes and lockouts.

Note to **CN0401-18**

.79 The registrant shall describe the reason for each work stoppage (as stated by labor), the impact on operations, and any corrective actions taken as a result.

CN0401-19. Amount of legal and regulatory fines and settlements associated with labor law violations and employment discrimination

.80 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with labor law violations and employment discrimination violations, including, but not limited to, violations of the Fair Labor Standards Act, such as those relating to wages, work hours, overtime, and meal and rest breaks.

.81 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

.82 The scope of disclosure shall include fines and settlements associated with company-owned and franchise locations.

.83 Discrimination includes discrimination on the basis of age, disability, compensation, genetic information, harassment, national origin, pregnancy, race/color, religion, retaliation, sex, and sexual harassment, and is prohibited by the laws enforced by the U.S. Equal Employment Opportunity Commission (EEOC), including the Age Discrimination in Employment Act (ADEA), the Americans with Disabilities Act, the Rehabilitation Act, the Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, the Genetic Information Nondiscrimination Act (GINA), and the Pregnancy Discrimination Act (PDA).

Note to **CN0401-19**

.84 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., improper working conditions, unfair compensation, etc.) of fines and settlements.

.85 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Product Selection & Supplier Management to Mitigate Environmental & Social Impacts

Description

Food retailers and distributors source merchandise from the agricultural sector and processed foods manufacturers. These suppliers face a myriad of sustainability-related challenges that include resource conservation, water scarcity, animal welfare, human rights, and climate change. These are issues that, when poorly managed, can affect the food supply chain. Consumers are increasingly concerned with the production methods, origins, and externalities associated with the foods they purchase, which may affect a company's reputation. Many of these products are pre-packaged, and sustainable packaging can help reduce transportation costs. Companies that can address product supply risks by assessing and engaging with suppliers, implementing sustainable sourcing guidelines, and enhancing supply chain transparency will be better positioned to protect shareholder value.

Accounting Metrics

CN0401-20. Revenue from products third-party certified to an environmental and/or social sustainability sourcing standard

.86 The registrant shall disclose its revenue, in U.S. dollars, from products third-party certified to environmental or social sustainability criteria, where a product is considered to meet these criteria if:

- It has achieved certification through a government program, such as USDA Organic or other state certifications.
- It has achieved certification to a third-party environmental or social sustainability standard, including, but not limited to, those covering the protection of natural resources, fair treatment of workers and community, food quality and safety, sustainable agriculture and production, and resource efficiency.
- The scope of disclosure excludes animal welfare certifications.

.87 Food-sourcing standards that encompass environmental and/or social criteria include, but are not limited to, those for dairy products, palm oil, beef, poultry, seafood, fruit, processed foods, and coffee, such as the following certification programs:

- Marine Stewardship Council
- Global Aquaculture Alliance's (GAA) Best Aquaculture Practice (BAP)
- International Seafood Sustainability Foundation
- Roundtable on Sustainable Palm Oil (RSPO)
- Roundtable on Responsible Soy (RTRS)
- Rainforest Alliance Certified (for bananas, cattle, cocoa, coffee, palm oil, and tea)

- UTZ Certified (for coffee, cocoa, and tea)
- Fair Trade Certified
- USDA Certified Organic
- Certified Naturally Grown
- American Grassfed Certified Beef
- SA8000

.88 The registrant may choose to indicate the standards to which its food supply is certified.

CN0401-21 Discussion of strategy to manage environmental and social risks within the supply chain

.89 The registrant shall discuss its strategy to manage environmental and social risks and potential supply constraints that are present within its food and food products supply chain, where:

- Environmental and social supply chain risks and potential supply constraints may include impacts on crop production due to climate change (e.g., changing temperatures, water stress, etc.), price impacts on beef due to grain pricing or regulatory limits on methane emissions, increased transportation costs due to climate change regulations that affect fuel availability and pricing, labor rights and immigration reforms that affect food prices and availability, international trade barriers, and/or varying levels of food safety oversight in a global market.

.90 The registrant shall discuss its approach to reducing supply chain risk and mitigating constraints, which may include screening, codes of conduct, audits, and/or certifications, among other strategies.

.91 The registrant shall discuss its contingency plan if supply of a product becomes limited, unavailable, or significantly increases in cost, including considerations such as alternate suppliers, product or ingredient substitution, and revised menu options, among others.

.92 The registrant may choose to discuss participation in initiatives aimed at improving the development of sustainable food production.

CN0401-22. (1) Percentage of eggs sold from cage-free sources and (2) percentage of pork sold from gestation-crate-free sources

.93 The registrant shall disclose the percentage (by revenue) of eggs sold from cage-free sources as the revenue from eggs sold from cage-free sources divided by the total revenue from eggs sold, where:

- Eggs from cage-free sources include those laid by hens that have sufficient space to bathe and forage freely and are not confined in battery cages or other aviary systems designed to confine birds.

.94 The registrant shall disclose the percentage (by revenue) of pork sold from gestation crate-free sources as the revenue from pork sold from gestation-crate-free sources divided by the total revenue from pork sold, where:

- Pork from gestation-crate-free sources includes pork from pigs that were not confined by individual crates that prevent them from turning around during pregnancy.

Note to **CN0401-22**

.95 Disclosure shall include a description of any additional animal welfare standards used by the registrant.

.96 The registrant shall describe its animal welfare standards, where animal welfare standards include policies for cattle, hog, and poultry conditions, including:

- Animal treatment and handling
- Housing and transportation conditions
- Slaughter facilities and procedures
- Use of antibiotics and hormones

.97 Animal welfare standards can include certifications for animal treatment conditions (such as whether animals are free of cages, gestation crates, hormones, and antibiotics), such as Animal Welfare Approved, Global Animal Partnership, Certified Humane, and Humane Farm Animal Care.

CN0401-23. Total weight of tertiary packaging, percentage recycled

.98 The registrant shall disclose the total weight of tertiary packaging, in metric tons, where:

- Tertiary packaging is designed to contain one or more articles or packages, or bulk material, for the purposes of transport, handling and/or distribution. Tertiary packaging is also known as "distribution" or "transport" packaging.
- Tertiary packaging includes any packaging material used by the registrant for shipping and distribution of products, whether purchased by the registrant or not.
- The scope excludes primary and secondary packaging materials, where:
  - Primary packaging is designed to come into direct contact with the product.
  - Secondary packaging is designed to contain one or more primary packages together with any protective materials, where required.

.99 The registrant shall disclose the percentage of tertiary packaging that was recycled as the weight of tertiary packaging that was reused plus the weight reused or remanufactured (through treatment or processing) by the registrant, plus the amount sent externally for further reuse, recycling, or remanufacturing, divided by the total weight of tertiary packaging material, where:

- Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.

- Recycled and remanufactured packaging materials are defined as packaging materials that have been reprocessed or treated by means of production or manufacturing processes and made into a final product, or made into a component for incorporation into a product.

- For the purposes of this disclosure, the composting of materials shall be considered recycling, consistent with the EPA Waste Hierarchy.

- Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.

- The scope of recycled and remanufactured packaging includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).

- Portions of products and materials that are disposed of in landfills are not considered recycled; only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the percentage recycled.

- Materials incinerated, including for energy recovery, are not considered reused or recycled. Energy recovery is defined as the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.

CN0401-24. Description of strategies to reduce the environmental impact of packaging throughout its lifecycle

.100 The registrant shall discuss its strategies to reduce the environmental impact of packaging throughout its lifecycle, such as reducing packaging weight and volume for a given application or using alternative materials, including those that are recycled, recyclable, compostable, or degradable.

.101 The registrant should discuss primary, secondary, and tertiary packaging of its private-label products as well as products from its vendors, where:

- Primary packaging is designed to come into direct contact with the product.

- Secondary packaging is designed to contain one or more primary packages together with any protective materials, where required.

- Tertiary packaging is designed to contain one or more articles or packages, or bulk material, for the purposes of transport, handling, and/or distribution. Tertiary packaging is also known as “distribution” or “transport” packaging.

- Private-label products include store-brand products packaged for sale with the retailer’s name, whether manufactured by the retailer or by another manufacturer.

.102 Relevant disclosure may include, but is not limited to, the following:

- Strategies to optimize material use, weight reduction, transportation efficiency, product-to-package ratio, cube utilization, void fill, and design innovation.
- Implementation of the "Essential Requirements" in Article 9, Annex II of the E.U. Directive on Packaging and Packaging Waste (94/62/EC), which includes minimization of packaging weight and volume to the amount needed for safety, hygiene, and consumer acceptance of the packed product; minimization of noxious or hazardous constituents; and suitability for reuse, material recycling, energy recovery, or composting.
- Performance on the Sustainable Packaging Coalition's Material Use metrics, such as Material Use to Packaged Product Yield or Materials Health metrics, such as Toxicants Concentration and/or Toxicants Migration.
- Performance on the Global Protocol on Packaging Sustainability 2.0 metrics for Packaging Weight and Optimization and/or Assessment and Minimization of Substances Hazardous to the Environment.

References

Consumer Reports Greener Choices Eco-Labels

ISO 18601:2013 Packaging and the environment definitions

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

DRUG RETAILERS & CONVENIENCE STORES
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0402
Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

DRUG RETAILERS & CONVENIENCE STORES

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Drug Retailers & Convenience Stores industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context— for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Drug Retailers & Convenience Stores industry comprises companies that operate retail pharmacies, convenience stores, and distribution centers that supply retail stores. Stores may be company-owned or franchised. Large companies operate mainly in the United States and source drugs and other merchandise through wholesalers and distributors. The majority of the industry's revenues are derived from consumer sales of prescription and over-the-counter pharmaceutical products; other goods sold include household goods, personal care products, and a limited selection of groceries. Additionally, the pharmacy retailer segment is expanding its health-focused services by offering clinics at various locations, which adds to the industry's shifting sustainability landscape.

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Drug Retailers & Convenience Stores industry, SASB has identified the following sustainability disclosure topics

- Energy Management in Retail
- Data Security & Privacy
- Management of Controlled Substances
- Pharmacy Patient Care
- Counterfeit & Compromised Drugs in the Supply Chain

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Drug Retailers & Convenience Stores industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]

- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and

- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions

[8] See US GAAP consolidation rules (Section 810).

(e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of pharmacy locations, percentage (a) owned and (b) leased, percentage with healthcare clinics	Quantitative	Number, Percentage (%)	CN0402-A
Total area of retail space	Quantitative	Square meters (m^2)	CN0402-B
Number of prescriptions filled, percentage for controlled substances	Quantitative	Number, Percentage (%)	CN0402-C
Number of pharmacists, number of non-physician health care practitioners	Quantitative	Number	CN0402-D

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Energy Management in Retail	Total energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0402-01
Data Security & Privacy	Discussion of policies and practices to secure customers' protected health information (PHI) records and other personally identifiable information (PII)	Discussion and Analysis	n/a	CN0402-02
	Number of data security breaches, percentage involving customers' PHI or PII, number of customers affected[10]	Quantitative	Number	CN0402-03
	Amount of legal and regulatory fines and settlements associated with data security and privacy[11]	Quantitative	U.S. Dollars ($)	CN0402-04
Management of Controlled Substances	Percentage of controlled substance prescriptions dispensed for which a prescription drug monitoring program (PDMP) database was queried	Quantitative	Percentage (%)	CN0402-05
	Amount of legal and regulatory fines and settlements associated with controlled substances[12]	Quantitative	U.S. Dollars ($)	CN0402-06
Pharmacy Patient Care	Percentage of gender and racial/ethnic group representation for pharmacists and other non-physician healthcare practitioners	Quantitative	Percentage (%)	CN0402-07
	First fill adherence rate[13]	Quantitative	Percentage (%)	CN0402-08
	Description of policies and practices to prevent prescription dispensing errors	Discussion and Analysis	n/a	CN0402-09
	Amount of legal and regulatory fines and settlements associated with prescription dispensing errors[14]	Quantitative	U.S. Dollars ($)	CN0402-10
Counterfeit & Compromised Drugs in the Supply Chain	Description of implementation and outcomes of Drug Supply Chain Security Act (DSCSA) provisions	Discussion & Analysis	n/a	CN0402-11
	Number of illegitimate products identified	Quantitative	Number	CN0402-12
	Number of drug recalls, total units recalled, percentage for private-label products[15]	Quantitative	Number	CN0402-13

[10] Note to **CN0402-03**—Disclosure shall include a description of corrective actions implemented in response to data security breaches.
[11] Note to **CN0402-04**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[12] Note to **CN0402-07**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[13] Note to **CN0402-08**—Disclosure shall include a description of strategies used to increase medication adherence.
[14] Note to **CN0402-10**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[15] Note to **CN0402-13**—The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.

Energy Management in Retail

Description

Chain drug retailers and convenience store companies operate multiple retail locations that consume large quantities of energy. Energy, in the form of electricity, is used primarily for lighting and refrigeration purposes. Refrigeration is necessary to cool fresh foods and beverages as well as some pharmaceutical products. Furthermore, some convenience stores are open around the clock, which increases total energy demands.

Accounting Metrics

CN0402-01. Total energy consumed, percentage grid electricity, percentage renewable energy

.01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.

- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
- The scope includes only energy consumed by entities owned or controlled by the organization.
- The scope includes energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.

.02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.

.04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

.05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.

- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.
- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.[16]

- Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

.06 For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:

- Energy from hydro sources that are certified by the Low Impact Hydropower Institute or that are eligible for a state Renewable Portfolio Standard.

- Energy from biomass sources is limited to that from materials certified to a third-party standard (e.g., Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification, or American Tree Farm System), materials considered "eligible renewables" according to the Green-e Energy National Standard Version 2.5 (2014), and materials that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

[16] SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

Data Security & Privacy

Description

Drug retailers, as distributors of prescription medication and operators of retail health clinics, have access to and manage private health information. Companies have a responsibility to safeguard their customers' information, a task that includes the proper handling of sensitive information by technicians in pharmacies and clinics as well as the safe disposal of information on physical and electronic media. Cyber-attacks may also compromise data stored electronically, which raises the risk of large-scale data losses due to the large number of records stored electronically.

Accounting Metrics

CN0402-02. Discussion of policies and practices to secure customers' protected health information (PHI) records and other personally identifiable information (PII)

.08 The registrant shall describe the nature, scope, and implementation of its policies and practices related to securing customer PHI records and other PII, with a specific focus on how they address the collection, usage, and retention of customers' information, where:

- Protected health information (PHI) is defined in 45 CFR 160.103, and is referenced in Section 13400 of Subtitle D ('Privacy') of the Health Information Technology for Economic and Clinical Health Act (HITECH Act) to mean information that is a subset of health information, including demographic information collected from an individual, that meets the following criteria: The information (1) is created or received by a health care provider, health plan, employer, or health care clearinghouse and (2) relates to the past, present, or future physical or mental health or condition of an individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual; and (i) identifies the individual or (ii) with respect to which there is a reasonable basis to believe the information can be used to identify the individual.

  - Health information means any information, whether oral or recorded in any form or medium, that (A) is created or received by a health care provider, health plan, public health authority, employer, life insurer, school or university, or health care clearinghouse; and (B) relates to the past, present, or future physical or mental health or condition of any individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual.

  - PHI includes (1) information that is: (i) transmitted by electronic media; (ii) maintained in electronic media; or (iii) transmitted or maintained in any other form or medium, except as provided in paragraph (2) of this definition.

  - (2) PHI excludes individually identifiable health information in: (i) education records covered by the Family Educational Rights and Privacy Act, as amended, 20 U.S.C. 1232g; (ii) records described at 20 U.S.C. 1232g(a)(4)(B)(iv); and (iii) employment records held by a covered entity in its role as employer.

- Personally Identifiable Information (PII) is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.[17]

.09 The registrant shall describe the information "lifecycle" (i.e., collection, use, retention, processing, disclosure, and destruction) and how information-handling practices at each stage may affect individuals' privacy.

.10 With respect to data collection, it may be relevant for the registrant to discuss which data or types of data are collected without consent of an individual, which require opt-in consent, and which require opt-out action from the individual.

.11 With respect to usage of data, it may be relevant for the registrant to discuss which data or types of data are used by the registrant internally and under what circumstance the registrant shares, sells, rents, or otherwise distributes data or information to third parties.

.12 With respect to retention, it may be relevant for the registrant to discuss which data or types of data it retains, the length of time of retention, and practices used to ensure that data is stored securely.

.13 The registrant should discuss any systems used to ensure compliance with the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) and the HITECH Act.

CN0402-03. Number of data security breaches, percentage involving customers' PHI or PII, number of customers affected

.14 The registrant shall disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.

.15 The scope of disclosure shall be limited to data security breaches, cybersecurity risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

- The scope of disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from deficiencies or failures of people, processes, or technology.
- The scope of disclosure shall exclude disruptions of service due to equipment failures.

.16 The registrant shall disclose the percentage of data security breaches in which customers' PHI or PII was breached, where:

- PHI is defined in 45 CFR 160.103, and is referenced in Section 13400 of Subtitle D ('Privacy') of the Health Information Technology for Economic and Clinical Health Act (HITECH Act) to mean information that is a subset of health information, including demographic information collected

[17] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

from an individual, that meets the following criteria: The information (1) is created or received by a health care provider, health plan, employer, or health care clearinghouse and (2) relates to the past, present, or future physical or mental health or condition of an individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual; and (i) identifies the individual or (ii) with respect to which there is a reasonable basis to believe the information can be used to identify the individual.

- Health information means any information, whether oral or recorded in any form or medium, that (A) is created or received by a health care provider, health plan, public health authority, employer, life insurer, school or university, or health care clearinghouse; and (B) relates to the past, present, or future physical or mental health or condition of any individual, the provision of health care to an individual, or the past, present, or future payment for the provision of health care to an individual.

- PHI includes (1) information that is: (i) transmitted by electronic media; (ii) maintained in electronic media; or (iii) transmitted or maintained in any other form or medium, except as provided in paragraph (2) of this definition.

- (2) PHI excludes individually identifiable health information in: (i) education records covered by the Family Educational Rights and Privacy Act, as amended, 20 U.S.C. 1232g; (ii) records described at 20 U.S.C. 1232g(a)(4)(B)(iv); and (iii) employment records held by a covered entity in its role as employer.

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.[18] The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.

- Disclosure shall include incidents when encrypted data were acquired with an encryption key that was also acquired.

- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise the investigation.

.17 The registrant shall disclose the total number of customers that were affected by data breaches, where:

- The number of customers affected includes all those whose personal data was compromised in a data breach.

.18 Disclosure shall be additional but complementary to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

[18] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- At a minimum, this includes instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

Note to **CN0402-03**

.19 The registrant shall describe the corrective actions taken in response to breaches, such as changes in operations, management, processes, products, business partners, training, or technology.

.20 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

CN0402-04. Amount of legal and regulatory fines and settlements associated with data security and privacy

.21 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements associated with data security and privacy, including, but not limited to, violations of the Health Insurance Portability and Accountability Act (HIPPA), the Health Information Technology for Economic and Clinical Health Act (HITECH Act), the Federal Trade Commission Privacy Act, Directive 2002/58/EC (ePrivacy Directive), and the US-EU Safe Harbor Program.

.22 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0402-04**

.23 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unauthorized monitoring, sharing of data, children's privacy, etc.) of fines and settlements.

.24 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

.29 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data security.

Management of Controlled Substances

Description

Drug retailers are distributors and sellers of a wide variety of controlled substances. The Controlled Substance Act (CSA) defines requirements for recordkeeping, distribution, dispensing, disposal, and security of controlled substances for registrants. Within this industry, the high volumes of drugs processed and dispensed, along with the extensive retail and distribution networks of larger companies, heighten the risk of theft, loss, or illegal drug dispensing.

Accounting Metrics

CN0402-05. Percentage of controlled substance prescriptions dispensed for which a prescription drug monitoring program (PDMP) database was queried

.25 The registrant shall disclose the percentage of controlled substance prescriptions that it dispensed for which the pharmacists queried a prescription drug monitoring program database prior to dispensing, where:

- Controlled substances are defined as drugs that have some potential for abuse or dependence and are regulated by the federal Controlled Substances Act (CSA). A controlled substance is defined in §802(6) of Title 21, United States Code (U.S.C.) as drug or other substance, or immediate precursor, included in schedule I, II, III, IV, or V of part B of this subchapter. The term does not include distilled spirits, wine, malt beverages, or tobacco as those terms are defined or used in subtitle E of the Internal Revenue Code of 1986.

- A PDMP is defined as an electronic database that collects designated data on controlled substances dispensed, typically on a statewide level. PDMPs are housed by specified statewide regulatory, administrative, or law enforcement agencies, and this housing agency distributes data from the database to individuals who are authorized under state law to receive the information for purposes of their profession.

.26 The registrant shall disclose the percentage as the number of controlled substance prescriptions dispensed for which a PDMP was queried divided by the total number of controlled substance prescriptions dispensed.

.27 The registrant may choose to include a discussion of policies and practices it uses to verify correct dispensing of controlled substances at pharmacies. Relevant aspects of this discussion may include:

- Practices to identify physicians and prescribers who exhibit extreme patterns of prescribing "high-risk drugs."

- Identification of patient "red flags," such as their age or payment methods.

- Participation in programs that contribute to safe drug disposal.

CN0402-06. Amount of legal and regulatory fines and settlements associated with controlled substances

.28 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements associated with controlled substances, including, but not limited to, violations of the federal Controlled Substances Act (CSA) and other state regulations that monitor controlled substances.

- Controlled substances are drugs that have some potential for abuse or dependence and are regulated by the CSA. A controlled substance is defined in §802(6) of Title 21, United States Code (U.S.C.) as a drug or other substance, or immediate precursor, included in schedule I, II, III, IV, or V of part B of this subchapter. The term does not include distilled spirits, wine, malt beverages, or tobacco as those terms are defined or used in subtitle E of the Internal Revenue Code of 1986.

.29 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0402-06**

.30 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unauthorized monitoring, sharing of data, children’s privacy, etc.) of fines and settlements and any significant results of violations (including loss of DEA license to sell certain products).

.31 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Pharmacy Patient Care

Description

Employee-customer interactions at pharmacies are an important facet of drug retail, particularly with the increasing number of new healthcare clinics at certain locations. Trained pharmacists and technicians administer healthcare directly to customers and instruct them on the proper use of medications. These close interactions make employee diversity an important factor in customer satisfaction and may provide companies with additional insight into consumer preferences and needs, better helping them service their customers. Additionally, pharmacies are exposed to dispensing errors, including mistakes involving drug interactions, that can significantly harm patients. These errors are infrequent but can cause serious harm to patients and result in liabilities and harm to the pharmacies.

Accounting Metrics

CN0402-07. Percentage of gender and racial/ethnic group representation for pharmacists and other non-physician healthcare practitioners

The registrant should summarize and disclose employee representation by employee category in the following table format:

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	Female	NA*	White	Black or African American	Hispanic or Latino	Asian	Other^	NA*
Pharmacists and Non-physician Healthcare Practitioners									

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications.

.32 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following two categories: Pharmacists and Non-physician Healthcare Practitioners.

- Pharmacists (29-1051) dispense drugs prescribed by physicians and other health practitioners and provide information to patients about medications and their use. Pharmacists may advise physicians and other health practitioners on the selection, dosage, interactions, and side effects of medications.

- Non-physician Healthcare Practitioners include physician's assistants and nurse practitioners within the following groups of the Healthcare Practitioners and Technical Occupations (29-0000) Major Group of the SOC system from the BLS:

  - 29-1070 Physician Assistants

- 29-1080 Podiatrists
- 29-1120 Therapists
- 29-1140 Registered Nurses
- 29-1150 Nurse Anesthetists
- 29-1160 Nurse Midwives
- 29-1170 Nurse Practitioners
- 29-1180 Audiologists

.33 The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.

.34 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications), or not disclosed/available.

.35 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.

.36 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

CN0402-08. First fill adherence rate

.37 The registrant shall calculate the first fill adherence rate as the percentage of prescriptions that required a refill and were refilled at the registrant's pharmacies after the initial fill divided by all the prescriptions that were initially filled in the registrant's pharmacies and required at least one additional refill by the prescriber, whether refilled or not.

.38 The scope includes prescriptions that were initially filled in the registrant's pharmacies.

Note to **CN0402-08**

.39 The registrant shall describe the strategies used to increase medication adherence in its pharmacies.

.40 Medication adherence is defined as the patient's conformance with the health care provider's recommendation with respect to timing, dosage, and frequency of medication-taking during the prescribed length of time.

.41 Relevant practices to discuss include programs to communicate with customers, technology and systems used to track prescriptions and place refill orders, refill reminders, research to identify customers most at-risk for non-adherence, and any other programs in place aimed at improving adherence.

.42 The registrant may choose to disclose its performance on other relevant metrics used to measure progress on medication adherence, and the methodology used to calculate each metric, including:

- Medication Possession Ratio (MPR), defined as the ratio of the total days the pharmacy customer had the drug available to the number of possible days the pharmacy customer could have the drug on hand.

- Average Proportion of days covered (PDC), defined as the total numbers of days with possession of medication in a period of time, usually also the refill interval.

CN0402-09. Description of policies and practices to prevent prescription dispensing errors

.43 The registrant shall discuss its policies and practices to prevent prescription dispensing errors in its pharmacies and for any mail order dispensing activities, where:

- A dispensing error is defined as a discrepancy between a prescription and the medicine that the pharmacy delivers to the patient or distributes to the ward on the basis of this prescription, including the dispensing of a medicine with inferior pharmaceutical or informational quality.[19]

.44 Relevant policies and practices to discuss include, but are not limited to, implementation of quality assurance protocols, use of bar coding, automation of processes, use of data verification systems, training of key employees, and improvements to the accuracy of recordkeeping.

.45 The registrant may also choose to discuss observed trends or high-risk practices that could lead to dispensing errors as well the number of dispensing errors identified.

CN0402-10. Amount of legal and regulatory fines and settlements associated with prescription dispensing errors

.46 The registrant shall disclose the amount (excluding legal fees), in U.S. dollars, of all fines or settlements associated with dispensing errors in pharmacies.

.47 A dispensing error is a discrepancy between a prescription and the medicine that the pharmacy delivers to the patient or distributes to the ward on the basis of this prescription, including the dispensing of a medicine with inferior pharmaceutical or informational quality.[20]

.48 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0402-10**

[19] ACG Egberts and PMLA van den Bemt, "Drug-related problems: definitions and classification," *EJHP Practice*, Vol. 13, 2007, pp. 62–64.

[20] ACG Egberts and PMLA van den Bemt, "Drug-related problems: definitions and classification," *EJHP Practice*, Vol. 13, 2007, pp. 62–64.

.49 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unauthorized monitoring, sharing of data, children's privacy, etc.) of fines and settlements.

.50 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Counterfeit & Compromised Drugs in the Supply Chain

Description

The industry's supply chain is long and complex, consisting of distribution networks between manufacturers and retailers. Drugs are intended for human consumption, which means that a secure and traceable drug supply chain is of great importance. Counterfeit or otherwise compromised products may threaten the integrity of the supply chain and introduce significant consumer health risks. Once detected, a counterfeit or compromised drug may necessitate product recalls, damage brand reputation, and possibly result in regulatory action. The importance of this issue is elevated by the prevalence of store-brand products which constitute a significant portion of store sales.

Accounting Metrics

CN0402-11. Description of implementation and outcomes of Drug Supply Chain Security Act (DSCSA) provisions

.01 The registrant shall describe its implementation of the DSCSA provisions across its operations, including any measures it has implemented to meet requirements for product identification, product tracing, product verification, detection and response, notification, and licensing.

.02 Disclosure shall specifically discuss implementation of measures as they align with requirements of [Title II of the Drug Quality and Security Act](), which outlines critical steps to build an electronic, interoperable system to identify and trace certain prescription drugs as they are distributed in the United States.

.03 Description shall include the registrant's plan for achieving complete implementation within the DSCSA-mandated timeframe.

.04 The registrant shall disclose the outcomes of the DSCSA, including any delays, violations, fines, or other outcomes that have affected implementation.

.05 Disclosure may also focus broadly on processes and procedures to prevent counterfeit drugs throughout the registrant's supply chain.

- The registrant may choose to describe any actions or measures it has implemented to mitigate the introduction of counterfeit or compromised drugs into its supply chain, including, but not limited to, specific changes in controls, operations, management, processes, products, business partners, training, or technology.

CN0402-12. Number of illegitimate products identified

.06 The registrant shall disclose the number of products reported to the Food and Drug Administration (FDA) as illegitimate, per requirements of the DSCSA, where:

- Under section 582 of the Federal Food, Drug, and Cosmetic Act (FD&C Act) (21 U.S.C. 360eee), as added by the DSCSA, trading partners, upon determining that a product in their possession or control is suspect or upon receiving a request for verification from the FDA, are required to quarantine suspect product and promptly conduct an investigation, in coordination with other trading partners, as applicable, to determine whether a suspect product is illegitimate. A trading partner who determines that a product in its possession or control is an illegitimate product must notify the FDA and certain immediate trading partners.

- Illegitimate product is defined in section 581(8) of the FD&C Act as a product for which credible evidence shows that it is (A) counterfeit, diverted, or stolen; (B) intentionally adulterated such that the product would result in serious adverse health consequences or death to humans; (C) is the subject of a fraudulent transaction; or (D) appears otherwise unfit for distribution such that the product would be reasonably likely to result in serious adverse health consequences or death to humans.

- The registrant may also choose to provide a breakdown by the type(s) of illegitimate product(s) identified, such as (A) counterfeit, diverted, or stolen; (B) intentionally adulterated; (C) the subject of a fraudulent transaction; or (D) appears otherwise unfit for distribution.

CN0402-13. Number of drug recalls, total units recalled, percentage for private-label products

.07 The registrant shall disclose the total number of drug recalls and the total number of units that were recalled, where:

- Drugs include pharmaceutical prescription products as well as over-the-counter medications.

- Recalls are defined as actions taken by a firm to remove a product from the market, including those conducted on the registrant's own initiative, by FDA request, or by FDA order under statutory authority.

.08 The scope of disclosure includes voluntary recalls initiated by the registrant and involuntary recalls mandated by the FDA or another relevant government agency.

.09 The registrant shall disclose the percentage of recalls that were for private-label products, where private-label is defined as a product containing the registrant’s brand name and label, whether manufactured by a third-party vendor or by the registrant’s own facilities.

.10 The registrant may choose, in addition to total units recalled, to disclose the percentage of recalls that were (1) voluntarily and (2) involuntarily issued.

.11 The registrant may choose to disclose the percentage of recalls that were Class I recalls.

Note to **CN0402-13**

.12 The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.

.13 For such recalls the registrant should provide:

- Description and cause of the recall issue

- The total number of units recalled
- The cost to remedy the issue (in U.S. dollars)
- Whether the recall was voluntary or involuntary (mandated by NHTSA)
- Corrective actions
- Any other significant outcomes (e.g., legal proceedings, customer fatalities, etc.)

Additional References

U.S. FDA Backgrounds and Definitions

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0403

Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Multiline and Specialty Retailers & Distributors industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context— for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Multiline and Specialty Retailers & Distributors industry encompasses a variety of retailing categories, including department stores, mass merchants, home product stores, warehouse clubs, and electronic retailers. These companies operate mainly within the United States and source products globally. Large suppliers are located all over the world. They sell a wide variety of consumer discretionary and staple goods including home goods, clothing, home repair and maintenance products, electronics, and sporting goods.

Note: SASB has separate standards for the Food Retailers & Distributors (CN0401), Drug Retailers & Convenience Stores (CN0402), E-Commerce (CN0404) and Apparel, Accessories, & Footwear (CN0501) industries. Companies

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

involved in food or drug retail, e-commerce, and apparel, accessories and footwear manufacturing should also consider the disclosure topics and metrics outlined in these other standards.

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Multiline and Specialty Retailers & Distributors industry, SASB has identified the following sustainability disclosure topics

- Energy Management in Retail & Distribution
- Data Security
- Workforce Diversity & Inclusion
- Labor Relations & Fair Wages
- Product Sourcing, Packaging, and Marketing

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available." [3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition." [2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be

---

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Multiline and Specialty Retailers & Distributors industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10

reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

million in assets.

[8] See US GAAP consolidation rules (Section 810).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Total area of retail space and distribution centers	Quantitative	Square meters (m^2)	CN0403-A
Number of employees, percentage that are (1) full time and (2) part time[10]	Quantitative	Number, Percentage (%)	CN0403-B
Number of vehicles in distribution fleet, ton-miles traveled	Quantitative	Number	CN0403-C

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.
[10] Note to **CN0403-B**— A full-time employee is defined under the Affordable Care Act (ACA) as an employee who works 30 hours per week, per month, on average.

use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Energy Management in Retail & Distribution	Operational energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0403-01
	Fleet fuel consumed, percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	CN0403-02
Data Security	Discussion of management approach to identifying and addressing data security risks	Discussion and Analysis	n/a	CN0403-03
	Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected[11]	Quantitative	Number, Percentage (%)	CN0403-04
Workforce Diversity & Inclusion	Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees	Quantitative	Percentage (%)	CN0403-05
	Amount of legal and regulatory fines and settlements associated with employment discrimination[12]	Quantitative	U.S. Dollars ($)	CN0403-06
Labor Relations & Fair Wages	Average hourly wage and percentage of in-store employees earning minimum wage, by region	Quantitative	U.S. Dollars ($), Percentage (%)	CN0403-07
	(1) Voluntary and (2) involuntary employee turnover rate for in-store employees	Quantitative	Rate	CN0403-08
	Percentage of active workforce covered under collective bargaining agreements, broken down by U.S. and foreign employees	Quantitative	Percentage (%)	CN0403-09
	Number and total duration of work stoppages[13]	Quantitative	Number, Days	CN0403-10
	Amount of legal and regulatory fines and settlements associated with labor law violations[14]	Quantitative	U.S. Dollars ($)	CN0403-11

[11] Note to **CN0403-04**—Disclosure shall include a description of corrective actions implemented in response to data security breaches.
[12] Note to **CN0403-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
[13] Note to **CN0403-10**—Disclosure shall include a description of the root cause of the stoppage, impact on operations, and corrective actions taken.
[14] Note to **CN0403-11**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Table 1. Sustainability Disclosure Topics & Accounting Metrics (cont.)

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Product Sourcing, Packaging, and Marketing	Revenue from products meeting environmental or social sustainability criteria	Quantitative	U.S. Dollars ($)	CN0403-12
	Percentage of household, personal care, and home products for which chemicals ingredients are publicly disclosed	Quantitative	Percentage (%)	CN0403-13
	Discussion of process to identify and manage emerging materials and chemicals of concern	Discussion and Analysis	n/a	CN0403-14
	Total weight of tertiary packaging, percentage recycled	Quantitative	Metric tons (t), Percentage (%)	CN0403-15
	Description of strategies to reduce the environmental impact of packaging throughout its lifecycle	Discussion and Analysis	n/a	CN0403-16

Energy Management in Retail & Distribution

Description

Multiline and specialty retailers and distributors operate multiple retail and distribution locations and use large fleets. Energy is used in these locations primarily for heating, ventilation, and air conditioning (HVAC) and lighting. Additionally, many operators in this industry own and manage vehicle fleets that contribute to direct greenhouse gas (GHG) emissions and overall energy use. Fossil fuel-based energy production and consumption contribute to significant environmental impacts, including climate change and pollution. Efficiency in this area can have financial implications through direct cost savings, which are particularly beneficial in this low-margin industry.

Accounting Metrics

CN0403-01. Operational energy consumed, percentage grid electricity, percentage renewable energy

.01 The registrant shall disclose total energy consumption from all sources except fleet vehicles as an aggregate figure in gigajoules or their multiples.

- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
- The scope includes only energy consumed by entities owned or controlled by the organization.
- The scope includes energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.
- The scope of disclosure excludes fuel consumption by fleet vehicles.

.02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.

.04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

.05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.

- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.[15]

- Renewable energy is defined as energy from sources that are capable of being replenished in a short time through ecological cycles, such as geothermal, wind, solar, hydro, and biomass.

.06 For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:

  - Energy from hydro sources that are certified by the Low Impact Hydropower Institute or that are eligible for a state Renewable Portfolio Standard.

  - Energy from biomass sources is limited to that from materials certified to a third-party standard (e.g., Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification, or American Tree Farm System), materials considered "eligible renewables" according to the Green-e Energy National Standard Version 2.5 (2014), and materials that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (including for electricity from solar or wind energy).

CN0403-02. Fleet fuel consumed, percentage renewable

.08 The registrant shall disclose total fuel consumption by fleet vehicles as an aggregate figure in gigajoules or their multiples.

- The scope includes fuel consumed by vehicles owned or operated by the registrant.

.09 Fuel consumption shall be based on actual fuel consumed (i.e., not based on design parameters).

.10 Acceptable methods for calculating fuel consumption include adding fuel purchases made during the year to any inventory at the start of the year and subtracting any fuel inventory at the end of the year, or tracking fuel consumption by vehicle or through expense reports.

.11 The registrant shall disclose renewable fuel consumption as a percentage of its total fuel consumption.

- Renewable fuel is defined, consistent with the U.S. Environmental Protection Agency's (EPA) Renewable Fuel Standard (40 CFR Section 80.1401), as a fuel which meets the following requirements:

[15] SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

- Fuel that is produced from renewable biomass.
- Fuel that is used to replace or reduce the quantity of fossil fuel present in a transportation fuel, heating oil, or jet fuel.
- Fuel that has lifecycle GHG emissions that are at least 20 percent less than baseline lifecycle GHG emissions, unless the fuel is exempt from this requirement pursuant to § 80.1403.

.12 In calculating energy consumption from fuels and biofuels, the registrant shall use HHV, also known as GCV, which are directly measured or taken from the IPCC, the U.S. DOE, or the U.S. EIA.

.13 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels).

Data Security

Description

Consumers trust retail firms with their financial and personal data, and credit cards and debit cards have steadily eclipsed cash and checks as consumers' preferred payment methods. Customer information should be adequately protected by retailers in order to maintain customer trust and brand reputation. Data breaches can occur through breaches of the physical payment technology, called point-of-sales (POS) breaches, as well as through attacks on cybersecurity. Retailers that prevent major data breaches can avoid harming brand value, reduce contingent liabilities, and maintain market share.

Accounting Metrics

CN0403-03. Discussion of management approach to identifying and addressing data security risks

.14 The registrant shall identify vulnerabilities in its information systems that pose a data security threat, where:

- A data security threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the nation through an information system via unauthorized access, destruction, disclosure, modification of information, and/or denial of service.
- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

.15 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to, operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.

.16 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.17 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

- At a minimum, this includes disclosing when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition or would cause reported financial information to not necessarily be indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.18 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.19 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements
- "Framework for Improving Critical Infrastructure Cybersecurity, Version 1.0," February 12, 2014, National Institute of Standards and Technology (NIST)

CN0403-04. Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected

.20 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.

.21 The scope of disclosure shall be limited to data security breaches, cybersecurity risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

- The scope of disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from deficiencies or failures of people, processes, or technology.
- The scope of disclosure shall exclude disruptions of service due to equipment failures.

.22 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.[16]
- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.
- Disclosure shall include incidents in which encrypted data were acquired with an encryption key that was also acquired.
- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise the investigation.

.23 The registrant shall disclose the total number of customers that were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

---

[16] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

.24 Disclosure shall be additional but complementary to the [SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity].

- At a minimum, this includes instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information to not be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

Note to **CN0403-04**

.25 The registrant shall describe the corrective actions taken in response to specific incidents, such as changes in operations, management, processes, products, business partners, training, or technology.

.26 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

Workforce Diversity & Inclusion

Description

The Multiline and Specialty Retailers & Distributors industry is a consumer-facing industry that relies on the ability to communicate effectively with customers and adapt to changing consumer demand. The ability to respond to changing consumer demand is becoming increasingly important in the U.S., as the population is undergoing a massive demographic shift in which minorities are becoming a larger percentage of the population. Many of the workers in this industry are women and minorities, which raises the risk of unfair labor and discriminatory practices. These issues can lead to low job satisfaction and the potential for lawsuits. Retailers that actively work to engage a diverse workforce and ensure fair treatment can add value through better customer service and reduced risk of lawsuits and reputational damage.

Accounting Metrics

CN0403-05. Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees

The registrant should summarize and disclose employee representation by employee category in the following table format:

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	Female	NA*	White	Black or African American	Hispanic or Latino	Asian	Other^	NA*
Management									
All other employees									

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications.

.27 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following two categories: Management and All Other Employees.

- Management shall include managers at the corporate level and store level.
- Executive/Senior-Level Officials and Managers include individuals who plan, direct and formulate policies, set strategy, and provide the overall direction of enterprises/organizations for the development and delivery of products or services, within the parameters approved by boards of directors or other governing bodies. Residing in the highest levels of organizations, these executives plan, direct or coordinate activities with the support of subordinate executives and staff managers. In larger organizations, Executive/Senior-Level Officials and Managers include those

individuals within two reporting levels of the CEO. Examples of these kinds of managers are chief executive officers, chief operating officers, chief financial officers, line of functional areas or operating groups, chief information officers, chief human resources officers, chief marketing officers, chief legal officers, management directors, and managing partners.

- First/Mid-Level Officials and Managers are individuals who serve as managers other than those who serve as Executive/Senior-Level Officials and Managers, including those who oversee and direct the delivery of products, services, or functions at group, regional, or divisional levels of organizations. These managers receive directions from the Executive/Senior-Level management and typically lead major business units. They implement policies, programs, and directives of executive/senior management through subordinate managers and within the parameters set by Executive/Senior-Level management. Examples of these kinds of managers are vice presidents and directors; group, regional, or divisional controllers; treasurers; and human resources, information systems, marketing, and operations managers. The First/Mid-Level Officials and Managers subcategory also includes those who report directly to middle managers. These individuals serve at functional, line of business segment, or branch levels and are responsible for directing and executing the day-to-day operational objectives of enterprises or organizations, conveying the directions of higher level officials and managers to subordinate personnel and, in some instances, directly supervising the activities of exempt and non-exempt personnel. Examples of these kinds of managers are first-line managers, team managers, unit managers, operations and production mangers, branch managers, administrative services managers, purchasing and transportation managers, storage and distribution managers, call center or customer service managers, technical support managers, and brand or product mangers.

- All other employees not at the manager level (i.e., other EEO-1 categories, including professionals, technicians, sales, admin support, and service workers) should be considered in the "All other employees" category.

.28 The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.

.29 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, and Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications), or not disclosed/available.

.30 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.

.31 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

CN0403-06. Amount of legal and regulatory fines and settlements associated with employment discrimination

.32 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with discrimination.

.33 Discrimination is defined as violation of the laws enforced by the U.S. Equal Employment Opportunity Commission (EEOC), and includes the following types:

- Age discrimination, which involves treating someone (an applicant or employee) less favorably because of his or her age and is forbidden by the Age Discrimination in Employment Act (ADEA)
- Disability discrimination, which occurs when an employer or other entity covered by the Americans with Disabilities Act, as amended, or the Rehabilitation Act, as amended, treats a qualified individual with a disability who is an employee or applicant unfavorably because he or she has a disability.
- Equal pay and compensation discrimination, which involves discrimination in compensation and is protected under federal laws including the Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and Title I of the Americans with Disabilities Act of 1990.
- Genetic information discrimination, which involves employment discrimination on the basis of genetic information and is forbidden by Title II of the Genetic Information Nondiscrimination Act (GINA).
- Harassment discrimination, which involves unwelcome conduct that is based on race, color, religion, sex (including pregnancy), national origin, age (40 or older), disability, or genetic information, and is forbidden under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, and the Americans with Disabilities Act of 1990.
- National origin discrimination, which involves treating people (applicants or employees) unfavorably because they are from a particular country or part of the world, because of ethnicity or accent, or because they appear to be of a certain ethnic background (even if they are not), and is prohibited under Title VII of the Civil Rights Act of 1964.
- Pregnancy discrimination, which involves treating a woman (an applicant or employee) unfavorably because of pregnancy, childbirth, or a medical condition related to pregnancy or childbirth, and is forbidden in the Pregnancy Discrimination Act (PDA), which is an amendment to Title VII of the Civil Rights Act of 1964.
- Race/color discrimination, which involves treating someone (an applicant or employee) unfavorably because he/she is of a certain race or because of personal characteristics associated with race (such as hair texture, skin color, or certain facial features), and is prohibited by Title VII of the Civil Rights Act of 1964.

- Religious discrimination, which involves treating a person (an applicant or employee) unfavorably because of his or her religious beliefs.

- Retaliation discrimination, which makes it illegal to fire, demote, harass, or otherwise "retaliate" against people (applicants or employees) because they filed a charge of discrimination, because they complained to their employer or other covered entity about discrimination on the job, or because they participated in an employment discrimination proceeding (such as an investigation or lawsuit), and is prohibited by all of the laws enforced by EEOC.

- Sex discrimination, which involves treating someone (an applicant or employee) unfavorably because of that person's sex.

- Sexual harassment discrimination, which is harassment (of an applicant or employee) because of that person's sex and is prohibited by Title VII of the Civil Rights Act of 1964.

.34 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0403-06**

.35 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., improper working conditions, unfair compensation, etc.) of fines and settlements.

.36 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Labor Relations & Fair Wages

Description

The broader retail industry, which includes multiline and specialty retailers, is characterized by low-skill and low-wage positions. Low average wages in the industry, which help companies maintain low prices on products, may result in labor-related risks. Worker dissatisfaction with wages and benefits, combined with high unionization rates, have led to employee strikes at major retail companies, resulting in business disruption. Companies may benefit from a taking long-term perspective on managing workers, including their pay and benefits, in a way that protects worker rights and enhances their productivity, which can help to strengthen a company's reputation and financial success.

Accounting Metrics

CN0403-07. Average hourly wage and percentage of in-store employees earning minimum wage, by region

.38 The registrant shall disclose the average hourly wage, in U.S. dollars, for in-store employees for each geographic region for which it conducts segment financial reporting (as determined by FASB Accounting Standards Codification Topic 280), where:

- The scope of disclosure excludes corporate employees.

.39 The average hourly wage is calculated as the total in-store employee wages, excluding overtime, for the fiscal year, divided by the number of regular hours worked, excluding overtime hours, by in-store employees during the fiscal year.

.40 The registrant shall disclose the percentage of in-store employees that earn minimum wage, where:

- Minimum wage is defined as the local or prevailing minimum wage applicable for each worker.
- For countries or regions with no prevailing minimum wage requirement, the 10th percentile hourly wage, in U.S. dollars, of all wage earners in that country or region shall be used for this disclosure, including for the calculation of the percentage of staff that earns minimum wage and the calculation of the average prevailing minimum wage.

.41 The registrant may choose to disclose the average prevailing minimum hourly wage for each geographic region for which it conducts segment financial reporting.

.42 The registrant may choose to discuss its sensitivity to future adjustments in minimum wage.

- The discussion should include what percentage of its employees would be affected by an increase in the federal minimum wage.

CN0403-08. (1) Voluntary and (2) involuntary employee turnover rate for in-store employees

.43 The registrant shall disclose employee turnover of in-store employees as a percentage, where:

- Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.

- The scope of disclosure excludes corporate staff and executives. All calculations are based on the number of in-store employees (i.e., those employees who work on-site in the retail facility).

.44 The registrant shall calculate the voluntary turnover percentage as the total number of employee-initiated voluntary separations (such as resignations, retirement, etc.) during the fiscal year, divided by the total number of employees during the fiscal year.

.45 The registrant shall calculate the involuntary turnover percentage as the total number of registrant-initiated separations (such as dismissal, downsizing, redundancy, non-renewal of contract, etc.) during the fiscal year, divided by the number of employees during the fiscal year.

CN0403-09. Percentage of active workforce covered under collective bargaining agreements, broken down by U.S. and foreign employees

.46 The registrant shall indicate the percentage of U.S. employees in the active workforce who were covered under collective bargaining agreements during any part of the fiscal year, where:

- Active workforce is defined as the maximum number of unique employees employed at any time during the fiscal year.

- U.S. employees are defined as employees that do not need a visa to work in the U.S.

CN0403-10. Number and total duration of work stoppages

.47 The registrant shall disclose the number of work stoppages and total duration, in worker-days idle, of work stoppages involving 1,000 or more workers and lasting one full shift or longer.

- Worker-days idle is calculated as the product of days idle and number of employees involved.

.48 The scope of disclosure includes work stoppage due to disputes between labor and management, including strikes and lockouts.

Note to **CN0403-10**

.49 The registrant shall describe the reason for each work stoppage (as stated by labor), the impact on operations, and any corrective actions taken as a result.

CN0403-11. Amount of legal and regulatory fines and settlements associated with labor law violations

.50 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with labor law violations, including, but not limited to, violations of the Fair Labor Standards Act, such as those relating to wages, work hours, overtime, and meal and rest breaks.

.51 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0403-11**

.52 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., improper working conditions, unfair compensation, etc.) of fines and settlements.

.53 The registrant shall describe any corrective actions it has implemented as a result of each incident. This may include, but is not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Product Sourcing, Packaging, and Marketing

Description

The size and subsequent buying power of many firms in this industry allow them to work effectively with their suppliers on issues like product sourcing and safety, sustainable packaging, and operational efficiency. This large purchasing power can be used to influence sustainability characteristics of suppliers' operations and products, which can translate into operational efficiencies, reducing costs and improving companies' reputations. Additionally, firms in this industry can be proactive about advertising the sustainability characteristics of products as well as their cost-saving potential to consumers, which can reduce the use-phase environmental impacts of the goods they sell.

Accounting Metrics

CN0403-12. Revenue from products meeting environmental or social sustainability criteria

.54 The registrant shall disclose its revenue, in U.S. dollars, from products that meet environmental or social sustainability criteria, where a product is considered to meet these criteria if:

- It has achieved certification through a government program, including, but not limited to, the U.S. Environmental Protection Agency Energy Star and Water Sense programs, USDA Certified Organic, or is listed in the Comprehensive Procurement Guidelines (CPG) directory.
- It has achieved certification to a third-party environmental or social sustainability standard, including, but not limited to, Fair Trade Certified, Forestry Stewardship Council, Rainforest Alliance Certified, BPI Compostable, Cradle to Cradle, Green Seal, or Marine Stewardship Council.

.55 A product shall also be considered to be within the scope of disclosure if the registrant is able to demonstrate that it has better environmental performance during usage and/or production as compared to a benchmark product, where:

- A benchmark product is defined as the product with the largest market share in the same product category that provides comparable product function and performance.
- The product must perform equal to or better than other products serving the same function in at least one category of potential environmental impact, with no environmental trade-offs.
    - Impact categories include, but are not limited to, reduced waste and resources in production and use (e.g., including products that contain recycled content or are remanufactured from previously used products), reduced energy in production and use, reduced chemicals in production and use (e.g., certified non-toxic, full ingredients transparency).

.56 A product shall also be considered to be within the scope of disclosure if the registrant is able to demonstrate that it has better social or human health performance during usage and/or production as compared to a benchmark product, where:

- Impact categories include, but are not limited to, human health impacts of chemicals or materials, fair labor criteria verified by working conditions audits, and animal treatment, among others.

CN0403-13. Percentage of household, personal care, and home products for which chemicals ingredients are publicly disclosed

.57 The registrant shall disclose the percentage of household, personal care, and home products that have public disclosure of chemical ingredients online or on the product packaging and/or label, where:

- Household products include, but are not limited to, household and industrial cleaning supplies, detergents, and dish soaps.
- Personal care products include, but are not limited to, cosmetics, soaps, oral care, and other hair and body care products.
- Home products include, but are not limited to, construction products with chemical ingredients, including paints, stains, and sealers, as well as home-maintenance chemical products for pools, gardening, and plumbing.
- Public disclosure is defined as disclosure of the full product formulations and all product ingredients, including all priority chemicals, either online or directly on the product packaging or label.

.58 Disclosure should also include a discussion of policies related to the chemical content of products, including banned substances, labeling requirements, etc.

.59 The percentage shall be calculated as the total number of household, personal care, and home products for which chemicals ingredients are publicly disclosed divided by the total number of household, personal care, and home products available for sale.

.60 For the purposes of this disclosure, a product is defined as one with an individual name, SKU number, or product code, available for sale.

CN0403-14. Discussion of process to identify and manage emerging materials and chemicals of concern

.61 The registrant shall discuss its approach to managing the use of materials, chemicals, and substances that may be of human health and/or environmental concern to consumers, customers (e.g., retailers and commercial buyers), regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).

- "Materials, chemicals, and substances" include individual compounds, classes of chemicals, and categories of chemicals.

.62 At a minimum, the registrant shall discuss how it assesses products for materials and chemicals that may have hazardous characteristics and risk traits, including the operational processes it employs for these assessments and other actions it takes to manage hazards and risks and advance safer formulation of products.

.63 Relevant actions to discuss may include the exclusion of products that contain certain substances (e.g., use of banned substances lists), product labeling, use of tools and screening methods (e.g., GreenScreen® For Safer Chemicals or CleanGredients® Data Verification), or any other methods that consider the usage of materials, chemicals, and substances of concern.

.64 Emerging materials and chemicals of concern include those that are recognized as carcinogens, developmental or reproductive toxicants, endocrine disruptors, or those that have other serious adverse health or environmental effects, including, but not limited to:

- Preservatives such as parabens (PHBA), benzophenones, and other phenols used as preservatives;
- Antimicrobials such as triclosan, triclocarban, and nanosilver;
- Colorants, dyes, and pigments such as azo dyes, coal tars, and lead acetate;
- Surfactants such as SLS/SLES, alkyl phenols, and ethoxylates;
- Emulsifiers and plasticizers such as phthalates and PBA;
- Aldehydes such as formaldehyde that are used as cross-linking agents, modifiers, and preservatives;
- Toluene;
- Brominated flame retardants;
- Polyvinyl chloride; and
- Polyethylene microbeads.

CN0403-15. Total weight of tertiary packaging, percentage recycled

.65 The registrant shall disclose the total weight of tertiary packaging, in metric tons, where:

- Tertiary packaging is designed to contain one or more articles or packages, or bulk material, for the purposes of transport, handling and/or distribution. Tertiary packaging is also known as "distribution" or "transport" packaging.
- Tertiary packaging includes any packaging material used by the registrant for shipping and distribution of products, whether purchased by the registrant or not.
- The scope excludes primary and secondary packaging materials, where:
    - Primary packaging is designed to come into direct contact with the product.
    - Secondary packaging is designed to contain one or more primary packages together with any protective materials, where required.

.66 The registrant shall disclose the percentage of packaging that was recycled as the weight (in metric tons) of tertiary packaging material that was reused, plus the weight recycled or remanufactured (through treatment or processing) by the registrant, plus the amount sent externally for further recycling, divided by the total weight of tertiary packaging material, where:

- Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.

- Recycled and remanufactured packaging materials are defined as packaging materials that have been reprocessed or treated by means of production or manufacturing processes and made into a final product, or made into a component for incorporation into a product.

- For the purposes of this disclosure, the composting of materials shall be considered recycling, consistent with the EPA Waste Hierarchy.

- Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.

- The scope of recycled and remanufactured packaging includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).

- Portions of products and materials that are disposed of in landfills are not considered recycled; only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the percentage recycled.

- Materials incinerated, including for energy recovery, are not considered reused or recycled. Energy recovery is defined as the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.

CN0403-16. Description of strategies to reduce the environmental impact of packaging throughout its lifecycle

.67 The registrant shall discuss its strategies to reduce the environmental impact of packaging throughout its lifecycle, such as reducing packaging weight and volume for a given application or using alternative materials, including those that are recycled, recyclable, compostable, or degradable.

.68 The registrant should discuss primary, secondary, and tertiary packaging of its private-label products as well as products from its vendors, where:

- Primary packaging is designed to come into direct contact with the product.

- Secondary packaging is designed to contain one or more primary packages together with any protective materials, where required.

- Tertiary packaging is designed to contain one or more articles or packages, or bulk material, for the purposes of transport, handling, and/or distribution. Tertiary packaging is also known as "distribution" or "transport" packaging.

- Private-label products include store-brand products packaged for sale with the retailer's name, whether manufactured by the retailer or by another manufacturer.

.69 Relevant disclosure may include, but is not limited to, the following:

- Strategies to optimize material use, weight reduction, transportation efficiency, product-to-package ratio, cube utilization, void fill, and design innovation.
- Implementation of the "Essential Requirements" in Article 9, Annex II of the E.U. Directive on Packaging and Packaging Waste (94/62/EC), which includes minimization of packaging weight and volume to the amount needed for safety, hygiene, and consumer acceptance of the packed product; minimization of noxious or hazardous constituents; and suitability for reuse, material recycling, energy recovery, or composting.
- Performance on the Sustainable Packaging Coalition's Material Use metrics, such as Material Use to Packaged Product Yield or Materials Health metrics, such as Toxicants Concentration and/or Toxicants Migration.
- Performance on the Global Protocol on Packaging Sustainability 2.0 metrics for Packaging Weight and Optimization and/or Assessment and Minimization of Substances Hazardous to the Environment.

References

Consumer Reports Greener Choices Eco-Labels

ISO 18601:2013 Packaging and the environment definitions

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

E-COMMERCE
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0404
Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

E-COMMERCE

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the E-commerce industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context— for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The E-Commerce industry is composed of firms that provide an online marketplace service for other firms or individuals to sell their goods and services, as well as retailers and wholesalers that provide an exclusively web-based platform for consumers to buy their goods. Firms in this industry sell to consumers as well as to other businesses. Due to the accessibility of e-commerce sites, the industry is a global marketplace for buyers and sellers.

Note: The standards discussed below are for "pure-play" e-commerce companies, and do not address the manufacturing or brick-and-mortar operations of companies. Many consumer goods manufacturers and retailers have incorporated, or are in the process of incorporating, an e-commerce component to their business. SASB has separate standards for the Multiline & Specialty Retailers & Distributors (CN0403); Apparel, Accessories, & Footwear (CN0501);

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

and Toys & Sporting Goods (CN0604) industries. Such companies should also consider the disclosure topics and metrics outlined in these other standards.

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the E-commerce industry, SASB has identified the following sustainability disclosure topics

- Energy & Water Footprint of Hardware Infrastructure
- Logistics & Packaging Efficiency
- Data Security & Fraud Protection
- Data Privacy
- Employee Recruitment, Inclusion, and Performance

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

---

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the E-commerce industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10

reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]

- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and

- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

million in assets.

[8] See US GAAP consolidation rules (Section 810).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Registrant-defined measure of customer activity[10]	Quantitative	Number	CN0404-A
Number of employees	Quantitative	Number	CN0404-B
Data processing capacity, percentage outsourced[11]	Quantitative	See note	CN0404-C
Number of shipments	Quantitative	Number	CN0404-D

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.
[10] Note to **CN0404-A**—The registrant shall define and disclose a basic measure of customer activity suitable for its business activities. This may include sales transactions, purchase transactions, number of searches, monthly active users, page views, URLs, etc.
[11] Note to **CN0404-C**—Data processing capacity shall be reported in units of measure typically tracked by the registrant or used as the basis for contracting its IT services needs, such as million service units (MSUs), million instructions per second (MIPS), mega floating-point operations per second (MFLOPS), compute cycles, or other units of measure. Alternatively, the registrant may disclose owned and outsourced data processing needs in other units of measure, such as rack space or data center square footage. The percentage outsourced shall include co-location facilities and cloud services (e.g., Platform as a Service and Infrastructure as a Service).

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term “shall” is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms “should” and “may” are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Energy & Water Footprint of Hardware Infrastructure	Total energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0404-01
	(1) Total water withdrawn, percentage in regions with High or Extremely High Baseline Water Stress and (2) percentage recycled water usage	Quantitative	Cubic meters (m^3), Percentage (%)	CN0404-02
	Description of the integration of environmental considerations into strategic planning for data center needs	Discussion and Analysis	n/a	CN0404-03
Logistics & Packaging Efficiency	Total greenhouse gas footprint of product shipments	Quantitative	Metrics tons CO_2-e	CN0404-04
	Description of strategies to reduce the environmental impact of product delivery	Discussion and Analysis	n/a	CN0404-05
Data Security & Fraud Protection	Discussion of management approach to identifying and addressing data security risks	Discussion and Analysis	n/a	CN0404-06
	Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected[12]	Quantitative	Number, Percentage (%)	CN0404-07
Data Privacy	Percentage of users whose customer information is collected for secondary purposes, percentage who have opted in	Quantitative	Percentage (%)	CN0404-08
	Discussion of policies and practices relating to behavioral advertising and customer privacy	Discussion and Analysis	n/a	CN0404-09
Employee Recruitment, Inclusion, and Performance	Percentage of computer and mathematical employees who are H-1B visa holders	Quantitative	Percentage (%)	CN0404-10
	Percentage of successful H-1B visa applications	Quantitative	Percentage (%)	CN0404-11
	Employee engagement as a percentage	Quantitative	Percentage (%)	CN0404-12
	(1) Voluntary and (2) involuntary employee turnover rate	Quantitative	Rate	CN0404-13
	Percentage of gender and racial/ethnic group representation for (1) executives and (2) all others	Quantitative	Percentage (%)	CN0404-14

[12] Note to **CN0404-07**—Disclosure shall include a description of corrective actions implemented in response to data security breaches or threats.

Energy & Water Footprint of Hardware Infrastructure

Description

A large part of the energy consumed by the industry is used to power critical hardware and IT infrastructure in data centers. Data centers need to be powered continuously, and disruptions to energy supply can have a material impact on operations, depending on the magnitude and timing of the disruption. Companies also face a tradeoff when it comes to energy and water consumption for their data center cooling needs: Cooling data centers with water instead of chillers is a means of improving energy efficiency, but it can lead to dependence on significant local water resources. Companies that manage this issue well may benefit from cost savings and minimize reputational risks, as there is growing concern over energy and water use.

Accounting Metrics

CN0404-01. Total energy consumed, percentage grid electricity, percentage renewable energy

.01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.

- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
- The scope includes only energy consumed by entities owned or controlled by the organization.
- The scope includes energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.

.02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.

.04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

.05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.

- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.
- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.[13]

- Renewable energy is defined as energy from sources that are replenished at a rate greater than or equal to their rate of depletion, consistent with U.S. Environmental Protection Agency (EPA) definitions, such as geothermal, wind, solar, hydro, and biomass.

.06 For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:

- Energy from hydro sources that are certified by the Low Impact Hydropower Institute or that are eligible for a state Renewable Portfolio Standard.

- Energy from biomass sources is limited to materials certified to a third-party standard (e.g., Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification, or American Tree Farm System), materials considered "eligible renewables" according to the Green-e Energy National Standard Version 2.5 (2014), and materials that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (for energy data including electricity from solar or wind energy).

.08 The registrant may choose to disclose the trailing twelve-month (TTM) weighted average power usage effectiveness (PUE) for its data centers where PUE is defined as the ratio of the total amount of power used by a computer data center facility to the amount of power delivered to computing equipment.

- If disclosing PUE, the registrant shall follow the guidance and calculation methodology described in The Green Grid's White Paper #49-PUE: A Comprehensive Examination of the Metric.

CN0404-02. (1) Total water withdrawn, percentage in regions with High or Extremely High Baseline Water Stress and (2) percentage recycled water usage

.09 The registrant shall disclose the amount of water (in thousands of cubic meters) that was withdrawn from fresh water sources for use in operations.

- Fresh water may be defined according to the local statutes and regulations where the registrant operates. Where there is no regulatory definition, fresh water shall be considered to be water that has a solids (TDS) concentration of less than 1000 mg/l per the Water Quality Association definition.

- Water obtained from a water utility can be assumed to meet the definition of fresh water.

[13] SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

.10 Using the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct (publicly available online here), the registrant shall analyze all of its operations for water risks and identify activities that are in a location with High (40–80%) or Extremely High (>80%) Baseline Water Stress. Water withdrawn in locations with High or Extremely High Baseline Water Stress shall be indicated as a percentage of the total water withdrawn.

.11 The registrant shall disclose the percentage of its total water usage that was met from recycled water usage during the fiscal year, where:

- Total water usage includes all fresh water withdrawals, non-fresh water withdrawals, and all usage of recycled water (which, if reused multiple times, shall be counted as usage each time it is reused).
- Recycled water usage includes any volume of water that is recycled and reused, and water reused multiple times shall be counted as recycled each time it is recycled and reused.
- Recycled water includes water that is reused in closed-loop and open-loop systems.
- Recycled water includes grey water, water treated prior to reuse, and water not treated prior to reuse.
- The percentage shall be calculated as the total recycled water usage divided by total water usage.

CN0404-03. Description of the integration of environmental considerations into strategic planning for data center needs

.12 The registrant shall disclose strategic environmental considerations for the specifications of data centers, including factors affecting energy and water consumption.

.13 Relevant aspects of data center specifications include, but are not limited to, the selection, design, construction, refurbishment, and location of data center operations.

.14 The scope of this disclosure includes existing registrant-owned data centers, new data centers, and outsourced data center services, insofar as their selection integrates environmental considerations.

.15 Examples of environmental criteria may include, but are not limited to, energy-efficiency standards; layout design, such as hot aisle/cold aisle; and location-based factors, such as regional humidity, average temperature, water availability, regional- or state-level carbon legislation or pricing, or carbon intensity of grid electricity, among others.

.16 The registrant shall disclose how the environmental considerations were incorporated into data center specifications made during the reporting year, including decisions to insource or outsource data center services, improve efficiency of existing data centers, or construct new data centers.

Logistics & Packaging Efficiency

Description

A significant part of the added value of the E-Commerce industry comes from firms' ability to deliver a wide array of goods to consumers in a timely manner. Larger firms in this industry maintain their own logistics fleets, as do traditional retail firms that have begun to operate in the e-commerce space. These firms also rely in part on third-party shippers. Smaller firms outsource logistics services for all of their shipping needs. While firms that outsource shipping logistics have relatively less control over the specific processes of shipping operations, they can still select suppliers that have more energy-efficient business practices. As this is a highly competitive and low-margin industry, the ability to shave off shipping costs through fuel reduction and more efficient routing can allow firms to pass those savings onto their customers and gain market share.

Accounting Metrics

CN0404-04. Total greenhouse gas footprint of product shipments

.17 The registrant shall disclose the complete tank-to-wheels greenhouse gas (GHG) footprint, in metric tons of CO_2-e, associated with outbound shipment of the registrant's products, where:

- Tank-to-wheels emissions relate to vehicle processes and exclude upstream emissions associated with primary energy production (i.e., well-to-tank emissions).

.18 The scope of disclosure includes emissions from all freight transportation and logistics activities associated with outbound shipment of the registrant's products, including those from contract carriers and outsourced freight forwarding services and logistics providers (Scope 3) as well as those from the registrant's own assets (Scope 1).

.19 The scope of disclosure includes emissions from all modes of transportation, such as road freight, air freight, barge transport, marine transport, and rail transport.

.20 The registrant shall calculate its disclosure according to EN 16258:2012, *Methodology for calculation and declaration of energy consumption and GHG emissions of transport services (freight and passengers)*.

- Calculations shall be consistent with the methodology used to calculate the "tank-to-wheels GHG emissions (G_t)" result that is described in EN 16258:2012.

- Determination of transportation system scope, boundaries, and any necessary allocations shall be consistent with the methodology described in EN 16258:2012.

.21 Consistent with EN 16258:2012, disclosure may be based on calculations from a mix of categories of emissions values (i.e., specific measured values, transport operator vehicle-type- or route-type-specific values, transport operator fleet values, and default values).

.22 Where relevant and necessary for interpretation of disclosure, the registrant shall describe its allocation methods, emissions values, boundaries, mix of transport services used, and other information.

CN0404-05. Description of strategies to reduce the environmental impact of product delivery

.23 The registrant shall discuss its strategies to reduce the environmental impact of fulfillment and delivery of its products, including impacts associated with packaging materials and those associated with products transportation.

.24 Relevant disclosure may include, but is not limited to:

- Discussion of logistics selection, mode selection, and management (e.g., rail transport vs. air freight transport) and/or operation for route efficiency.
- Discussion of packaging choice, including, but not limited to, use of recycled material, use of renewable material (e.g., bio-based plastic), lightweighting of materials and source reduction, use of refillable or reusable packaging, and design for efficient shipping and transport.
- Discussion of fuel choice and vehicle choice, such as the use of renewable and low-emission fuels and low-emission vehicles.
- Other relevant fuel-efficiency strategies, such as reducing idling, strategic location of distribution centers, and use of strategic delivery times to minimize traffic.

Data Security & Fraud Protection

Description

The entire structure of e-commerce depends on a firm's ability to securely process electronic payments. As consumers become more educated about the threats of cybercrime, particularly in the wake of continued high-profile attacks, having a reputation for security will become increasingly important to maintaining or gaining market share. There is an opportunity for the most trusted brands to position themselves favorably in the eyes of consumers and gain significant competitive advantage.

Accounting Metrics

CN0404-06. Discussion of management approach to identifying and addressing data security risks

.25 The registrant shall identify vulnerabilities in its information systems that pose a data security threat, where:

- A data security threat is defined as any circumstance or event with the potential to adversely impact organizational operations (including mission, functions, image, or reputation), organizational assets, individuals, other organizations, or the nation through an information system via unauthorized access, destruction, disclosure, modification of information, and/or denial of service.

- Vulnerability is defined as a weakness in an information system, system security procedures, internal controls, or implementation that could be exploited by a data security threat source.

.26 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to, operational procedures, management processes, structure of products, selection of business partners, employee training, or use of technology.

.27 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.

.28 Disclosure shall be additional but complementary to the disclosure of preparation, detection, containment, and post-incident activity according to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

- At a minimum, this includes disclosing when the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition or would cause reported financial information to not necessarily be indicative of future operating results or financial condition (e.g., reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

.29 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

.30 The registrant may choose to describe the degree to which its management approach is aligned with an external standard or framework for managing data security, such as:

- ISO/IEC 27001:2013—Information technology—Security techniques—Information security management systems—Requirements

- "Framework for Improving Critical Infrastructure Cybersecurity, Version 1.0," February 12, 2014, National Institute of Standards and Technology (NIST)

CN0404-07. Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected

.31 The registrant shall calculate and disclose the total number of data security breaches, which are defined as instances of unauthorized acquisition, access, use, or disclosure of protected information.

.32 The scope of disclosure shall be limited to data security breaches, cybersecurity risks, and incidents that resulted in the registrant's business processes deviating from its expected outcomes for confidentiality, integrity, and availability.

- The scope of disclosure shall include incidents of unauthorized acquisition or acquisition without valid authorization, resulting from deficiencies or failures of people, processes, or technology.

- The scope of disclosure shall exclude disruptions of service due to equipment failures.

.33 The registrant shall disclose the percentage of data security breaches in which customers' personally identifiable information (PII) was breached, where:

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information. [14]

- The scope of disclosure is limited to breaches in which customers were notified of the breach, either as required by state law or voluntarily by the registrant.

- Disclosure shall include incidents in which encrypted data were acquired with an encryption key that was also acquired.

- The registrant may delay disclosure if a law enforcement agency has determined that notification impedes a criminal investigation until the law enforcement agency determines that such notification does not compromise the investigation.

.34 The registrant shall disclose the total number of customers who were affected by data breaches, which includes all those whose personal data was compromised in a data breach.

.35 Disclosure shall be additional but complementary to the SEC's CF Disclosure Guidance: Topic No. 2, Cybersecurity.

[14] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- At a minimum, this includes instances in which the costs or other consequences associated with one or more known incidents—or the risk of potential incidents—represents a material event, trend, or uncertainty that is reasonably likely to have a material effect on the registrant's results of operations, liquidity, or financial condition, or would cause reported financial information not to be necessarily indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).

Note to **CN0404-07**

.36 The registrant shall describe the corrective actions taken in response to specific incidents, such as changes in operations, management, processes, products, business partners, training, or technology.

.37 All disclosure shall be sufficient such that it is specific to the risks the registrant faces, but disclosure itself will not compromise the registrant's ability to maintain data privacy and security.

Data Privacy

Description

Large amounts of consumer data are being generated by the increasing use of e-commerce platforms to make purchases. Companies in this industry must carefully manage two separate and often conflicting priorities: On one hand, companies compete on their ability to leverage data to provide customers with relevant services and targeted advertising or product recommendations based on their preferences and behavior patterns. On the other hand, the fact that companies have access to a wide range of customer data, such as personal, demographic, and behavioral data, raises privacy concerns among users and the public at large, and is leading to increased regulatory scrutiny from the U.S. Federal Trade Commission (FTC) as well as authorities in Europe and other jurisdictions. Proper management of the issue will reduce regulatory and reputational risks.

Accounting Metrics

CN0404-08. Percentage of users whose customer information is collected for secondary purposes, percentage who have opted in

.38 The registrant shall indicate the percentage of customers whose customer information is collected for its own secondary use or for transfer to a third party, where:

- Customer information includes information that pertains to a user's attributes or actions, including, but not limited to, records of communications, content of communications, demographic data, behavioral data, location data, or PII.
- Demographic data is defined as the quantifiable statistics that identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.
- Behavioral data is defined as the product of tracking, measuring, and recording individual consumers' behaviors, such as online browsing patterns, buying habits, brand preferences, and product usage patterns, among others.
- Location data is defined as data describing the physical location or movement patterns of an individual, such as Global Positioning System (GPS) coordinates or other related data that would enable the identification and tracking of an individual's physical location.
- "Secondary use" is defined as the intentional use of data by the registrant (i.e., not a breach of security) that is outside the primary purpose for which the data was collected. Examples of secondary uses include, but are not limited to, selling targeted ads, selling aggregated behavioral or location data, improving the registrant's own product and service offerings, and transferring data or information to a third party through sale, rental, or sharing.

.39 Of the users whose customer information is collected for secondary use or transfer to third parties, the registrant shall indicate the percentage that provided opt-in consent, where:

- Opt-in is defined as express affirmative consent required to use or share content.

.40 The registrant may choose to discuss what type of customer information is collected, the scope of data collected from different groups, and/or the types of secondary uses for which demographic data is collected.

CN0404-09. Discussion of policies and practices relating to behavioral advertising and customer privacy

.41 The registrant shall describe the nature, scope, and implementation of its policies and practices related to customer privacy, with a specific focus on how it addresses the collection, usage, and retention of customer information, demographic data, customer behavioral data, location data from cellphone usage, and PII, where:

- Customer information includes information that pertains to a user's attributes or actions, including, but not limited to, records of communications, content of communications, demographic data, behavioral data, location data, or PII.

- Demographic data is defined as the quantifiable statistics that identify and distinguish a given population. Examples of demographic data include gender, age, ethnicity, knowledge of languages, disabilities, mobility, home ownership, and employment status.

- Behavioral data is defined as the product of tracking, measuring, and recording consumers' individual behaviors, such as online browsing patterns, buying habits, brand preferences, and product usage patterns, among others.

- Location data is defined as data describing the physical location or movement patterns of an individual, such as GPS coordinates or other related data that would enable the identification and tracking of an individual's physical location.

- PII is defined as any information about an individual that is maintained by an entity, including (1) any information that can be used to distinguish or trace an individual's identity, such as name, Social Security number, date and place of birth, mother's maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.[15]

.42 The registrant shall describe the information "lifecycle" (i.e., collection, use, retention, processing, disclosure, and destruction of information) and how information-handling practices at each stage may affect individuals' privacy.

- With respect to data collection, it may be relevant for the registrant to discuss which data or types of data are collected without the consent of an individual, which require opt-in consent, and which require opt-out action from the individual.

---

[15] *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- With respect to usage of data, it may be relevant for the registrant to discuss which data or types of data are used by the registrant internally, and under which circumstances the registrant shares, sells, rents, or otherwise distributes data or information to third parties.

- With respect to retention, it may be relevant for the registrant to discuss which data or types of data it retains, the length of time of retention, and practices used to ensure that data is stored securely.

.43 The registrant shall discuss the degree to which its policies and practices address similar issues as those outlined in the OMB Guidance for Implementing the Privacy Provisions of the E-Government Act of 2002 (M-03-22), including use of Privacy Impact Assessments (PIAs), where:

- A PIA is an analysis of how information is handled that ensures handling conforms to applicable legal, regulatory, and policy requirements regarding privacy; determines the risks and effects of collecting, maintaining, and disseminating information in identifiable form in an electronic information system; and examines and evaluates protections and alternative processes for handling information in order to mitigate potential privacy risks.

- As outlined by OMB M-03-22, PIAs must analyze and describe: (a) what information is to be collected, (b) why the information is being collected, (c) the intended use of the information, (d) with whom the information will be shared, (e) what opportunities individuals have to decline to provide information (i.e., where providing information is voluntary) or to consent to particular uses of the information (other than required or authorized uses), including how individuals can grant consent, and (f) how the information will be secured, among other government-specific requirements.

.44 The registrant shall discuss how its policies and practices related to the privacy of customer information address children's privacy, which at a minimum includes the provisions of the Children's Online Privacy Protection Act (COPPA).

Additional References

The NIST 800 Series is a set of documents that describe U.S. federal government computer security policies, procedures, and guidelines. NIST (National Institute of Standards and Technology) is a unit of the Commerce Department. The documents are available free of charge (available online here), and can be useful to businesses and educational institutions as well as government agencies. See, for example, NIST Special Publication 800-122, Guide to Protecting the Confidentiality of Personally Identifiable Information (PII).

Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information, GAO Report 08-536, May 2008.

Employee Recruitment, Inclusion, and Performance

Description

Firms in this industry rely on, and compete for, a scarce number of employees with highly technical skill sets. The ability to retain highly skilled employees is of the utmost importance in a field where technological innovation is a vital part of gaining a competitive edge and increasing market share. This causes intense competition between firms in this industry, as well as firms in other industries such as software or Internet media. Companies that are successful in retaining and developing a diverse and inclusive workforce have the potential to enhance shareholder value over the long term.

Accounting Metrics

CN0404-10. Percentage of computer and mathematical employees who are H-1B visa holders

.45 The registrant shall disclose the percentage of its computer and mathematical workforce that held valid H-1B visas as of the close of the fiscal year, where:

- Computer and mathematical employees include those in occupations in the 15-0000 Major Group of the Standard Occupation Classification (SOC) system from U.S. Bureau of Labor Statistics (BLS).

.46 The percentage shall be calculated as the number of computer and mathematical employees with valid H-1B visas divided by the total number of computer and mathematical employees.

.47 The scope of employees includes those directly employed by the registrant and excludes contractors and outsourced employees.

.48 The scope of employees includes both full- and part-time employees.

CN0404-11. Percentage of successful H-1B visa applications

.49 The registrant shall disclose the percentage of H-1B visa petitions (Form 1-129) and Labor Condition Applications (LCA) that the registrant filed on behalf of its workforce that were approved by the U.S. Citizenship and Immigration Services (USCIS).

.50 The percentage shall be calculated as the number of H-1B petitions and LCAs approved by USCIS divided by the total number of H-1B petitions filed on behalf of employees.

.51 The scope includes new and renewal visa petitions and LCAs, as well as petitions to transfer an LCA.

CN0404-12. Employee engagement as a percentage

.52 The registrant shall disclose employee engagement as a percentage (i.e., the percentage of employees deemed "actively engaged" as opposed to "not engaged," "passive," or "actively disengaged"). If engagement is measured as an index (e.g., strength of employee agreement with a survey statement), it shall be converted into a percentage for this disclosure.

.53 The disclosure shall be calculated based on the results of an employee engagement survey or research study conducted by the registrant, an external entity contracted to perform such a study by the registrant, or an independent third party.

Note to **CN0404-12**

.54 The registrant shall briefly describe:

- The source of its survey (e.g., third-party survey or registrant's own);
- The methodology used to calculate the percentage (e.g., a simple average of individual employee survey responses, with a numerical value assigned to the strength of agreement or disagreement with a survey statement); and
- A summary of questions or statements included in the survey or study (e.g., those related to goal setting, support to achieve goals, training and development, work processes, and commitment to the organization).

.55 Where the survey methodology has changed compared to previous reporting years, the registrant shall indicate results based on both the old and new methods for the year in which the change is made.

.56 If results are limited to a subset of employees, the registrant shall include the percentage of employees included in the study or survey and the representativeness of the sample.

.57 The registrant may choose to disclose results of other survey findings, such as the percentage of employees who are: proud of their work/where they work, inspired by their work/co-workers, aligned with corporate strategy and goals, etc.

CN0404-13. (1) Voluntary and (2) involuntary employee turnover rate

.58 The registrant shall disclose employee turnover as a percentage, where:

- Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.

.59 The registrant shall calculate the voluntary turnover percentage as the total number of employee-initiated voluntary separations (such as resignations, retirement, etc.) during the fiscal year, divided by the total number of employees during the fiscal year.

.60 The registrant shall calculate the involuntary turnover percentage as the total number of registrant-initiated separations (such as dismissal, downsizing, redundancy, non-renewal of contract, etc.) during the fiscal year, divided by the number of employees during the fiscal year.

CN0404-14. Percentage of gender and racial/ethnic group representation for (1) executives and (2) all others

The registrant should summarize and disclose employee representation by employee category in the following table format:

Employee Category	Gender (%)			Race and Ethnicity (%)					
	Male	Female	NA*	White	Black or African American	Hispanic or Latino	Asian	Other^	NA*
Executives									
All others									

*NA = not available/not disclosed

^Other includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications.

.61 The registrant shall classify its employees according to the U.S. Equal Employment Opportunity Commission EEO-1 Job Classification Guide into the following two categories: Executives/Sr. Managers and All Others (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).

.62 The registrant shall categorize the gender of its employees as: male, female, or not disclosed/available.

.63 The registrant shall classify the racial/ethnic group of its employees in the following categories, using the same definitions employed for the registrant's EEO-1 Report: White, Black or African American, Hispanic or Latino, Asian, Other (which includes American Indian or Alaska Native, Native Hawaiian or Other Pacific Islander, and "two or more races" classifications), or not disclosed/available.

.64 Where racial/ethnic group and/or gender representation percentages are significantly influenced by the country or region where the workforce is located, the registrant shall provide contextual disclosure to ensure proper interpretation of results.

.65 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

APPAREL, ACCESSORIES, & FOOTWEAR
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0501

Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

APPAREL, ACCESSORIES, & FOOTWEAR
Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Apparel, Accessories & Footwear industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context—for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Apparel, Accessories & Footwear industry includes companies involved in the design, manufacturing, wholesaling, and in some cases retailing of various products, including men's, women's, and children's clothing, handbags, jewelry, watches, and footwear. Publicly listed companies in the Apparel, Accessories & Footwear industry are typically not vertically integrated into the manufacturing of their products, requiring less up-front capital and overhead. The majority of industry participants outsource production to manufacturers and suppliers in emerging markets.

Note: The standards discussed below are for "pure-play" apparel, accessories, and footwear companies that design and wholesale products but do not have a retail presence. Major brands often retail their products through own brand stores or online. SASB has separate standards for the E-Commerce (CN0404) and the Multiline & Specialty Retailers &

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

Distributors (CN0403) industries. Companies with a significant retail presence should also consider the disclosure topics and metrics outlined in these other standards.

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Apparel, Accessories & Footwear industry, SASB has identified the following sustainability disclosure topics

- Product Safety
- Raw Materials Sourcing & Materials Innovation
- Working Conditions & Environmental Impacts in the Supply Chain

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).
[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

---

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Apparel, Accessories & Footwear industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

---

[8] See US GAAP consolidation rules (Section 810).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1[10]	Quantitative	Number	CN0501-A
Top five countries in which contract manufacturing production takes place, percentage of total production within each[11]	Quantitative	Percentage by spend (%)	CN0501-B

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.
[10] Note to **CN0501-A**—Tier 1 suppliers are finished goods manufacturers (cut and sew facilities). Suppliers beyond Tier 1 include manufacturers, processing plants, and raw materials extraction (mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.) The registrant shall disclose whether any supplier data beyond Tier 1 is based on assumptions, estimates, or otherwise includes any uncertainty.
[11] Note to **CN0501-B**—Contract manufacturing includes finished goods manufacturers and processing plants.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Product Safety	Percentage of products free of regulated substances	Quantitative	Percentage (%) by revenue	CN0501-01
	Description of the process to identify and manage risks associated with chemicals of concern	Discussion and Analysis	n/a	CN0501-02
Raw Materials Sourcing Risks & Materials Innovation	Top five types of raw materials used in products, by weight[12]	Quantitative	Metric tons (t)	CN0501-03
	Percentage of raw materials third-party certified to an environmental or social sustainability standard	Quantitative	Percentage (%) by COGS	CN0501-04
	Percentage of cotton sourced from regions with High or Extremely High Baseline Water Stress	Quantitative	Percentage (%) by COGS	CN0501-05
Working Conditions & Environmental Impacts in the Supply Chain	Percentage of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1 that have been audited to a social and environmental responsibility code of conduct, percentage conducted by a third-party auditor	Quantitative	Percentage (%)	CN0501-06
	Priority non-conformance rate and associated corrective action rate for suppliers' social and environmental responsibility audits	Quantitative	Rate	CN0501-07
	Top three (1) working conditions non-conformances and (2) environmental non-conformances identified in suppliers' social and environmental responsibility audits[13]	Discussion and Analysis	n/a	CN0501-08
	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 tested for priority chemical discharge, percentage verified as free of all chemicals in Zero Discharge of Hazardous Chemicals (ZDHC) priority chemical groups	Quantitative	Percentage (%)	CN0501-09
	Percentage of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1 who have completed the Sustainable Apparel Coalition's Higg Index Facility Module assessment	Quantitative	Percentage (%)	CN0501-10

[12] Note to **CN0501-03**—Disclosure shall include a discussion of social and environmental risks and opportunities associated with materials sourcing.
[13] Note to **CN0501-08**—Disclosure shall include a discussion of strategies and efforts to reduce these non-conformances.

Product Safety

Description

Growing concerns for the industry include the presence of harmful substances in apparel, accessories, and footwear. Companies in the industry have varying degrees of control over the amount of chemicals used in their products. Design decisions by apparel companies dictate the use of some chemicals, while others are a result of manufacturing processes used by companies' suppliers. Harmful chemicals used in processing can remain in the product when it reaches customers. Management of these chemicals allows companies to maintain and expand demand for their products and mitigate regulatory and reputational risks.

Accounting Metrics

CN0501-01. Percentage of products free of regulated substances

.01 The registrant shall calculate the percentage as revenue, in U.S. dollars, from products that are verified as free of regulated substances divided by total revenue from products.

.02 Products can be verified as free of regulated substances through testing or third-party certification.

.03 Regulated substances are defined as substances that are restricted or banned in finished home textile, apparel, and footwear products because of a regulation or law, where substances include, at a minimum, those identified by:

- The strictest regulations of all countries or markets in which the brand operates and sells products (e.g., regulations in manufacturing, marketing, or sales location);
- The American Apparel and Footwear Association's (AAFA) Restricted Substances List (RSL); and

.04 A product shall be considered to contain a regulated substance if it has a concentration of the substance above detection limits or above the restricted level as outlined in the AAFA RSL or equivalent foreign regulation where the substance is regulated.

CN0501-02. Description of the process to identify and manage risks associated with chemicals of concern

.05 The registrant shall discuss its approach to managing the use of materials, chemicals, and substances that may be of human health and/or environmental concern to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.) but are not currently regulated.

- "Materials, chemicals, and substances" include individual compounds, classes of chemicals, and categories of chemicals.

.06 At a minimum, the registrant shall discuss how it assesses materials and chemicals for hazardous characteristics and risk traits, including the operational processes it employs for these assessments and other actions it takes to manage hazards and risks.

.07 Relevant operational processes may include, but are not limited to, product formulation and design, materials and chemicals procurement, product safety testing, product labeling, and product declarations (e.g., material safety data sheets).

.08 Relevant actions to discuss may include the exclusion of substances (e.g., use of banned substances lists), use of material substitution assessments, product labeling, use of tools and screening methods (e.g., Voluntary Product Environmental Profile (VPEP)), use of the Outdoor Industry Association's Chemicals Management Framework Tool, certifications (e.g., OEKO-TEX Standard 100 Certification, Bluesign, or Intertek Eco-Certification), or any other methods that consider the usage of materials, chemicals, and substances of concern.

.09 Examples of restricted substances lists that embody the precautionary principle include the List of Non-Regulated Substances Contained in the AFIRM RSL Guidance, Clean Production Action (CPA) and Healthy Building Network Red Lists of Lists, SIN list, and others that include all nine categories of potential chemical hazards (persistent bioaccumulative and toxic (PBT); very persistent and very bioaccumulative (vPvB); very persistent and toxic (vPT); very bioaccumulative and toxic (vBT); carcinogenic, mutagenic or reproductive (CMR); neurotoxicity (N); and endocrine activity (E)).

- The List of Non-Regulated Substances Contained in the AFIRM RSL Guidance, available here.

.10 The registrant should discuss its use of chemicals that appear on California's Proposition 65 list of carcinogens and reproductive toxicants.

Raw Materials Sourcing Risks & Materials Innovation

Description

Concerns over climate change, water scarcity, and environmental impacts of sourcing certain raw materials are shaping the industry's competitive landscape. Apparel, accessories, and footwear companies rely heavily on raw materials such as cotton, synthetics, and leather and are thus exposed to pricing volatility associated with these commodities. Growing water scarcity and concerns over the environmental impacts of raw materials are affecting the supply of these materials, which can lead to cost inflation and can affect company profitability.

Accounting Metrics

CN0501-03. Top five types of raw materials used in products, by weight

.11 The registrant shall list and disclose the weight (in metric tons) of each of the five raw materials it used in the greatest amounts during the fiscal year.

.12 Raw materials include synthetic fibers and fabrics, natural fibers and fabrics, cellulosic materials, materials derived from animals, and any other materials used directly to make apparel, accessories, or footwear products, including, but not limited to:

- Cotton, rayon, polyester, acrylic, spandex, nylon, rubber, leather, wool, flax, silk, hemp, and down.

.13 The registrant shall disclose the top five materials that comprise its products regardless of whether the registrant purchased the materials directly or its suppliers purchased the materials.

Note to **CN0501-03**

.14 Disclosure shall include a discussion of social and environmental risks and opportunities associated with materials sourcing.

.15 The registrant shall discuss its approach to managing supply chain risks and constraints that could affect raw materials supply, which may include supplier diversification, supply chain codes of conduct, training programs, substitute materials, supplier audits, and/or certifications, among other strategies.

.16 Environmental supply chain risks and opportunities may include impacts on crop production due to climate change (e.g., changing temperatures, water stress, etc.), price impacts on materials due to availability of supply or fuel prices, regulations, lack of full traceability, land use, or other environmental factors that could affect availability of supplies.

.17 Social impacts may include animal welfare practices, labor rights and human rights issues, and international trade barriers, among others.

.18 The registrant should also discuss the percentage of its top five raw materials that are fully traceable to the source.

.19 The registrant shall discuss its contingency plan if supply of a top raw material becomes limited, unavailable, or significantly increases in cost, including considerations such as alternate suppliers, product or ingredient substitution, and revised designs, among others.

CN0501-04. Percentage of raw materials third-party certified to an environmental or social sustainability standard

.20 The registrant shall disclose the percentage of raw materials, by cost of goods sold (COGS), that are third-party certified to an environmental or social sustainability standard.

.21 Environmental and social sustainability standards are defined as those that address environmental and social impacts that result from the primary sourcing of raw materials, such as standards for organic or recycled content, animal welfare, fair labor, and others that aim to reduce the environmental impact of sourcing.

.22 Third-party certifications include, but are not limited to:

- Outdoor Industry Association's Content Claim Standard (CCS)
- Textile Exchange's Recycled Claim Standard, Global Recycled Standard, Organic Cotton Standard, and Responsible Down Standard
- Certified Organic
- Control Union Global Organic Textile Standard
- Better Cotton Initiative
- Forestry Stewardship Council certification (for lyocell and rubber)
- Rainforest Alliance leather products

.23 The registrant may also choose to discuss sustainable materials, such as those that consume fewer resources during production, fibers such as reclaimed cotton and wool, and fibers in Class A, B, and C of the Made-By: Environmental Benchmark for Fibres.

CN0501-05. Percentage of cotton sourced from regions of High or Extremely High Baseline Water Stress

.24 The registrant shall disclose the percentage, on a COGS basis, of cotton grown in regions with High or Extremely High Baseline Water Stress.

.25 The percentage is calculated as the total COGS, in U.S. dollars, of cotton grown in regions with High or Extremely High Baseline Water Stress divided by the total cost of cotton sourced.

.26 Using the World Resources Institute's (WRI) Water Risk Atlas tool, Aqueduct (publicly available online here), the registrant shall analyze all of its known sources for water risks and identify sources that are in a location with High (40–80%) or Extremely High (>80%) Baseline Water Stress.

.27 For the registrant's sources that are unknown and cannot be directly measured, estimation is acceptable and shall be disclosed as such.

.28 The registrant may choose to discuss other raw materials whose availability may be impacted by water scarcity.

Working Conditions & Environmental Impacts in the Supply Chain

Description

Because the vast majority of production is contracted out to factories in emerging economies, companies in this industry must manage the social and environmental externalities of assembly and production. Fair treatment of workers and protection of worker rights in the industry's supply chain are growing concerns among consumers, regulators, and branded apparel, accessories, and footwear companies. Worker issues include employee health and safety, fair pay, and eliminating discrimination and forced labor in the supply chain. Environmental issues in the supply chain include energy use, the use of chemicals in production, and wastewater management. Environmental impacts associated with supplier manufacturing in developing countries can reflect on an apparel, accessories, and footwear company's brand, while also affecting its cost structure over time.

Accounting Metrics

CN0501-06. Percentage of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1 that have been audited to a social and environmental responsibility code of conduct, percentage conducted by a third-party auditor

.29 The registrant shall disclose the percentage of Tier 1 suppliers and the percentage of suppliers beyond Tier 1 that have been audited to a social and environmental responsibility code of conduct during the fiscal year.

.30 A code of conduct is a corporate policy, standard, or contract that outlines a set of working conditions, labor practices, and safety and environmental requirements for suppliers and contractors. At a minimum, a code of conduct ensures that suppliers are in compliance with regulations.

.31 Social code of conduct criteria shall include, at a minimum, an assessment of worker hours/excessive overtime, minimum age requirements, compensation practices, freedom of association (worker involvement and communication), worker treatment and development (anti-harassment and anti-abuse policies), termination and retrenchment policies, and health and safety conditions.

.32 Environmental code of conduct criteria shall include, at a minimum, an assessment of environmental provisions, including criteria focused on environmental permits and reporting; pollution prevention and source reduction; hazardous substances; wastewater and solid waste; air emissions; and product content restrictions.

.33 Audits are defined as visits to a supplier's facility and review of records to ensure compliance with the code of conduct. Audits can be conducted by an internal corporate representative or by a third-party auditor.

.34 The registrant shall disclose the percentage of audits that were conducted by an independent third-party auditor.

.35 Disclosure may also include audit frequency for each supplier, the number of factories shown to be at risk, and a discussion of practices and processes for at-risk suppliers.

CN0501-07. Priority non-conformance rate and associated corrective action rate for suppliers' social and environmental responsibility audits

.36 The registrant shall disclose the rate of its suppliers' non-compliance with external social and environmental audit standards or internally developed supplier code(s) of conduct and the rate at which those instances of non-compliance have been subject to corrective action.

.37 The priority non-conformance rate shall be calculated as the total number of priority non-conformances identified in the supply chain divided by the number of facilities audited, where:

- Priority non-conformances are defined as the highest severity of non-conformance and require escalation by auditors. Priority non-conformances may arise from a significant risk to safety or the environment, non-compliance with relevant regulatory requirements, or failure to adequately address prior minor non-conformances.

- The number of facilities audited includes those that were audited to external social and environmental audit standards and internally developed supplier code(s) of conduct.

.38 The registrant shall calculate and disclose its corrective action rate for priority non-conformances as the number of corrective action plans completed to address priority non-conformances divided by the total number of priority non-conformances that have been identified.

.39 A corrective action is defined as an action to eliminate the cause of a detected non-conformance, including the implementation of practices or systems to eliminate any non-conformance and ensure there will be no reoccurrence of the non-conformance as well as verification that the corrective action has taken place.

.40 The registrant shall disclose the standards to which it has measured social and environmental responsibility audit compliance.

- For internally developed supplier code(s) of conduct, the registrant shall disclose the public location where such code(s) can be viewed.

.41 The registrant may choose to disclose the number of contracts with suppliers that were terminated as result of non-conformances.

.42 The registrant may also choose to provide a breakdown of levels in the supply chain where non-conformances occurred (Tier 1, Tier 2, or other).

CN0501-08. Top three (1) working conditions non-conformances and (2) environmental non-conformances identified in suppliers' social and environmental responsibility audits

.43 The registrant shall disclose the three issues of working conditions non-conformance and the three issues of environmental non-conformance that were found most frequently during social and environmental responsibility audits at supplier facilities.

.44 Working conditions non-conformances include those related to the criteria outlined in the code of conduct or audit criteria, such as worker hours, overtime, age, compensation practices, freedom of association, worker treatment (harassment or abuse), and health and safety conditions.

.45 Environmental non-conformances include those related to the criteria outlined in the code of conduct or audit criteria, such as violation of environmental permits, reporting, pollution, hazardous substances, wastewater and solid waste disposal, and air emissions.

.46 The registrant may choose to discuss any trends in non-conformances, such as how frequently the top working conditions and environmental non-conformance issues occurred, any differences between geographic regions, or the points in the supply chain at which these non-conformances occurred (tier 1 level or beyond tier 1).

Note to **CN0501-08**

.47 Disclosure shall include a discussion of strategies and efforts to reduce these non-conformances, such as increased frequency of audits, supplier engagement programs, or any other policies or programs to mitigate non-conformances.

CN0501-09. Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 tested for priority chemical discharge, percentage verified as free of all chemicals in Zero Discharge of Hazardous Chemicals (ZDHC) priority chemical groups

.48 The registrant shall disclose the percentage of its Tier 1 supplier facilities and supplier facilities beyond Tier 1 that were tested for priority chemical discharge, where:

- Testing includes an initial assessment at the facility to determine the complete list of chemicals and substances used at the facility.

.49 Tier 1 suppliers are the registrant's direct suppliers and include assembly (cut-and-sew) suppliers. Tier 2 suppliers are the key suppliers to the registrant's Tier 1 suppliers and can include material vendors and material processing plants, however, the registrant should indicate if their supplier tiers differ as well as the degree of estimation if the registrant doesn't know its complete list of suppliers beyond Tier 1.

.50 ZDHC priority chemical groups include alkylphenol ethoxylates/alkylphenols (APEOs/APEs), brominated and chlorinated flame retardants, chlorinated solvents, chlorobenzenes, chlorophenols, heavy metals, organotin compounds (e.g., TBT), perfluorinated chemicals (PFCs), phthalates (ortho-phthalates), short-chain chlorinated paraffins (SCCPs), and toxic azo dyes.

.51 The ZDHC Manufacturing Restricted Substances List is available here.

.52 The registrant shall disclose the percentage of its suppliers that are verified as free of all ZDHC priority chemical groups.

.53 The registrant may also choose to discuss any actions or programs to reduce chemical use in its manufacturing facilities and progress toward achieving zero discharge.

CN0501-10. Percentage of (1) Tier 1 suppliers and (2) suppliers beyond Tier 1 who have completed the Sustainable Apparel Coalition's Higg Index Facility Module assessment

.54 The registrant shall disclose the percentage of Tier 1 suppliers and the percentage of suppliers beyond Tier 1 who have completed the Sustainable Apparel Coalition's Higg Index Facility Module assessment.

.55 Tier 1 suppliers are the registrant's direct suppliers and include assembly (cut-and-sew) suppliers.

.56 Tier 2 suppliers are the key suppliers to the registrant's Tier 1 suppliers and can include material vendors and material processing plants, however, the registrant should indicate if their supplier tiers differ and the degree of estimation if the registrant doesn't know its complete list of suppliers beyond Tier 1.

.57 A Facility Module assessment shall be considered complete if the supplier completed all sections, where applicable, of the Facility Module (Facility Profile, Environmental, and Social).

.58 The Facility Module is available online here.

.59 The registrant may also choose to discuss efforts to improve the outcomes of Higg Index Facility Module indicators at supplier facilities.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

APPLIANCE MANUFACTURING
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0601

Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

APPLIANCE MANUFACTURING
Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Appliance Manufacturing industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context—for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Appliance Manufacturing industry includes companies involved in the design and manufacturing of household appliances and hand tools. The industry operates globally, selling and manufacturing products around the world. The Appliance Manufacturing industry primarily sells products to consumers through retail locations.

---

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Appliance Manufacturing industry, SASB has identified the following sustainability disclosure topics

- Product Safety Hazards
- Product Lifecycle Environmental Impacts

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Appliance Manufacturing industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

---

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]

- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and

- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

---

[8] See US GAAP consolidation rules (Section 810).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Annual Production[10]	Quantitative	Number of units	CN0601-A

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.
[10] Note to **CN0601**—Production should be disclosed as the number of units produced by product category, where relevant product categories may include small appliances, major appliance, etc.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Product Safety Hazards	Number of recalls and total units recalled[11]	Quantitative	Number	CN0601-01
	Number of Letters of Advice (LOA) received	Quantitative	Number	CN0601-02
	Amount of legal and regulatory fines and settlements associated with product safety[12]	Quantitative	U.S. Dollars ($)	CN0601-03
Product Lifecycle Environmental Impacts	Percentage of eligible products certified to a U.S. EPA ENERGY STAR® standard	Quantitative	Percentage (%) by revenue	CN0601-04
	Percentage of eligible products certified to an Association of Home Appliance Manufacturers (AHAM) sustainability standard	Quantitative	Percentage (%) by revenue	CN0601-05
	Weight of materials recycled or remanufactured	Quantitative	Metric tons (t)	CN0601-06

[11] Note to **CN0601-01**—The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.

[12] Note to **CN0601-03**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Product Safety Hazards

Description

The Appliance Manufacturing industry sells large products that are susceptible to quality and safety issues. The potential for product malfunction opens up firms in this industry to risks related to litigation and negative consumer sentiment, which can affect brand value. Product recalls, common in home appliances, have the potential to materially influence company operations. When an appliance malfunctions, it can result in fires that damage property and cause injury and even death, which can result in product liability claims.

Accounting Metrics

CN0601-01. Number of recalls and total units recalled

.01 The registrant shall disclose the total number of recalls and the total number of units that were recalled.

.02 The scope includes voluntary recalls initiated by the registrant and involuntary recalls mandated by the Consumer Product Safety Commission (CPSC) or other relevant government agency.

.03 The registrant may choose, in addition to total units recalled, to disclose the percentage of recalls that were (1) voluntarily and (2) involuntarily issued.

Note to **CN0601-01**

.04 The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.

.05 For such recalls the registrant should provide:

- Description and cause of the recall issue
- The total number of units recalled
- The cost to remedy the issue (in U.S. dollars)
- Whether the recall was voluntary or involuntary (mandated by CPSC)
- Corrective actions
- Any other significant outcomes (e.g., legal proceedings, customer fatalities, etc.)

CN0601-02. Number of Letters of Advice (LOA) received

.06 The registrant shall disclose the number of Letters of Advice it received from the CPSC, where:

- An LOA is issued by the CPSC when there is a violation of a mandatory standard. LOAs advise the company of the violation and the nature of the necessary corrective action (i.e., to correct future production (CFP); to stop sale and CFP; or to recall, stop sale, and CFP).

.07 The registrant may choose to discuss corrective actions implemented in response to receipt of an LOA.

CN0601-03. Amount of legal and regulatory fines and settlements associated with product safety

.08 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with incidents relating to product safety, including, but not limited to, violations of the following:

- Consumer Product Safety Act and all associated regulations
- Refrigerator Safety Act
- Occupational Safety and Health Administration (OSHA) Safety Standards (e.g., requirements for testing and certification of electrical equipment by a Nationally Recognized Testing Laboratory (NRTL) under 29 CFR Part 1910, or by a Qualified Testing Laboratory (QTL) under 29 CFR Part 1926).

.09 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0601-03**

.10 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., inadequate testing or certification, etc.) of fines and settlements.

.11 The registrant shall describe any corrective actions it has implemented as a result of each incident. These may include, but are not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

Product Lifecycle Environmental Impacts

Description

Companies in the Appliance Manufacturing industry are constantly trying to differentiate their products from those of their competitors, and this includes the sustainability footprint of their products. This issue involves a company's ability to design products with the entire lifecycle in mind, from creation and use to disposal. In particular, this covers energy efficiency in appliances, which account for a significant proportion of a home's energy usage, as well as water efficiency, raw material use, and end-of-life disposal.

Accounting Metrics

CN0601-04. Percentage of eligible products certified to a U.S. EPA ENERGY STAR® standard

.12 The registrant shall calculate the percentage as the revenue, in U.S. dollars, from products meeting the requirements for U.S. Environmental Protection Agency (EPA) ENERGY STAR certification divided by total revenue from products eligible for ENERGY STAR certification.

- Eligible products are those in a product category for which ENERGY STAR certification exists, which includes the following appliance and heating and cooling product categories: air purifiers, clothes dryers, clothes washers, dehumidifiers, dishwashers, freezers, refrigerators, air conditioning, boilers, ductless heating and cooling, furnaces, heat pumps, and ventilation fans.

.13 The scope of disclosure includes products that meet the criteria of the most current version of the applicable ENERGY STAR standard.

- If the registrant has products certified to a previous version of an ENERGY STAR standard, it shall disclose this information, including which version of the standard its products are certified to, a breakdown of how many products are certified to that version of the standard, and its timelines for achieving certification to the most current version of the standard.

CN0601-05. Percentage of eligible products certified to an Association of Home Appliance Manufacturers (AHAM) sustainability standard

.14 The registrant shall calculate the percentage as the revenue, in U.S. dollars, from products certified to an AHAM sustainability standard divided by total revenue from products addressed by the scope of an AHAM sustainability standard.

- Eligible products are those addressed by the following standards:
    - Major Appliances, including clothes dryers (AHAM HLD-1-2010), clothes washers (AHAM HLW-1-2010), dehumidifiers (ANSI/AHAM DH-1-2008 (under revision)), dishwashers (ANSI/AHAM DW-1-2010), electric ranges (ANSI/AHAM ER-1-2007), food waste disposers (AHAM FWD-1-2009), oven volume (AHAM OV-1-2011), refrigerators/freezers (AHAM HRF-1-2008 (under revision)), room air conditioners (ANSI/AHAM RAC-1-R2008 (under revision)), and trash compactors (AHAM TC-1-2012).

- Portable appliances, including coffee makers (AHAM CM-1-2012), humidifiers (ANSI/AHAM HU-1-2006 (R2011)), Irons (ANSI/AHAM I-1-2005 (R2011)), room air cleaners—CADR (ANSI/AHAM AC-1-2006 (under revision)), room air cleaners—sound (ANSI/AHAM AC-2-2004 (R2008) (under revision)), room air cleaners—accelerated loading (AHAM AC-3-2009), and slow cookers (AHAM SC-1-2007 (R2011)).

.15 AHAM sustainability standards are available here.

CN0601-06. Weight of materials recycled or remanufactured

.16 The registrant shall disclose the weight, in metric tons, of materials recycled including through recycling services, product take-back programs, and refurbishment services, where:

- The scope of disclosure shall include products, materials, and parts at the end of their useful life that would have otherwise been disposed of as waste or used for energy recovery, but have instead been collected, as well as pre-consumer (post-industrial) waste.
- The scope of disclosure shall include both materials physically handled by the registrant and materials of which the registrant does not take physical possession, but for which it has contracted with a third party for the task of collection for the express purpose of reuse, recycling, or refurbishment.
- The scope of disclosure excludes products and parts that are in-warranty and have been collected for repairs.

.17 A material is recycled if it is used, reused, or reclaimed.

- Reclaimed materials are defined as those materials processed to recover or regenerate a usable product.
- Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.

.18 A remanufactured product is defined as an end-of-life product or component (i.e., one that was previously sold, worn, or non-functional) that has undergone an industrial process to be returned to original working condition (i.e., is considered "like new").

.19 Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.

.20 The scope of recycled and remanufactured products includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).

.21 Portions of products and materials that are disposed of in landfills are not considered recycled. Only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the weight recycled.

.22 Materials incinerated, including for energy recovery, are not considered reused, recycled, or reclaimed. Energy recovery is defined as the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

BUILDING PRODUCTS & FURNISHINGS
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0603
Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

BUILDING PRODUCTS & FURNISHINGS

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Building Products & Furnishings industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context—for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Building Products & Furnishings industry includes companies involved in the design and manufacturing of various home and office furnishings and other products, including flooring, home and office furniture and fixtures, and office supplies. Globally, the largest segments by revenue are home furniture, windows, and doors, while for U.S.-listed companies, the largest segments are office furniture and flooring. Companies in this industry typically sell their products through distribution channels into retail stores or through independent or company-owned dealerships. A typical large company in this industry operates globally and sources revenue from multiple regions.

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Building Products & Furnishings industry, SASB has identified the following sustainability disclosure topics

- Energy Management in Manufacturing
- Health Impacts of Chemicals in Products
- Product Lifecycle Environmental Impacts
- Wood Sourcing Risks

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

---

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Building Products & Furnishings industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]

- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and

- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

[8] See US GAAP consolidation rules (Section 810).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Annual production[10]	Quantitative	See note	CN0603-A
Area of manufacturing facilities[11]	Quantitative	Square meters (m^2)	CN0603-B

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.
[10] Note to **CNO601-A**—Production shall be disclosed in typical units tracked by the registrant such as number of units, weight, square feet, etc.
[11] Note to **CN0601-B**—The scope shall be limited to total area under roof, including manufacturing and administrative functions.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Energy Management in Manufacturing	Total energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0603-01
Health Impacts of Chemicals in Products	Description of chemical hazard and risk management program	Discussion and Analysis	n/a	CN0603-02
	Percentage of applicable products meeting California Standard Section 01350 Specification for VOCs	Quantitative	Percentage (%) by revenue	CN0603-03
Product Lifecycle Environmental Impacts	Discussion of efforts to manage product lifecycle impacts and meet demand for sustainable products	Discussion and Analysis	n/a	CN0603-04
	Percentage of products sold that are recyclable or reusable	Quantitative	Percentage (%) by weight	CN0603-05
	Percentage of raw materials from recycled content	Quantitative	Percentage by weight (%)	CN0603-06
	Weight of end-of-life material recovered, percentage of recovered materials that are recycled	Quantitative	Metric tons (t), Percentage (%) by weight	CN0603-07
Wood Sourcing Risks	Total wood fiber purchased, percentage from third-party certified sources	Quantitative	Metric tons (t), Percentage (%) by weight	CN0603-08

Energy Management in Manufacturing

Description

The Building Products & Furnishings industry relies heavily on its use of energy, particularly electricity, for value creation in manufacturing processes. Due to the fact that the industry operates on relatively low margins, even small savings on energy costs may have a material influence on company profits. Various sustainability factors are leading to an increase in the cost of conventional energy sources. These factors include greenhouse gas (GHG) emissions pricing, incentives for energy efficiency and renewable energy, and risks associated with nuclear energy and its increasingly limited license to operate. Therefore, it is becoming increasingly material for companies in energy-intensive industries to manage their overall energy efficiency, their reliance on different types of energy and the associated risks, and their access to alternative energy sources. The industry also has some potential to utilize renewable forms of energy in production, which may help offset increases in energy prices.

Accounting Metrics

CN0603-01. Total energy consumed, percentage grid electricity, percentage renewable energy

.01 The registrant shall disclose total energy consumption from all sources as an aggregate figure in gigajoules or their multiples.

- The scope includes energy purchased from sources external to the organization or produced by the organization itself (self-generated).
- The scope includes only energy consumed by entities owned or controlled by the organization.
- The scope includes energy from all sources, including direct fuel usage, purchased electricity, and heating, cooling, and steam energy.

.02 In calculating energy consumption from fuels and biofuels, the registrant shall use higher heating values (HHV), also known as gross calorific values (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

.03 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.

.04 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

.05 The scope of renewable energy includes renewable fuel the registrant consumes and renewable energy the registrant directly produces, purchases through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs), or for which Green-e Energy Certified RECs are paired with grid electricity.

- For any renewable electricity generated on-site, any RECs must be retained (i.e., not sold) and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- For renewable PPAs, the agreement must explicitly include and convey that RECs be retained and retired on behalf of the registrant in order for the registrant to claim them as renewable energy.

- The renewable portion of the electricity grid mix that is outside of the control or influence of the registrant is excluded from disclosure.[12]

- Renewable energy is defined as energy from sources that are replenished at a rate greater than or equal to their rate of depletion, consistent with EPA definitions, such as geothermal, wind, solar, hydro, and biomass.

.06 For the purposes of this disclosure, the scope of renewable energy from hydro and biomass sources is limited to the following:

- Energy from hydro sources that are certified by the Low Impact Hydropower Institute or that are eligible for a state Renewable Portfolio Standard.

- Energy from biomass sources is limited to materials certified to a third-party standard (e.g., Forest Stewardship Council, Sustainable Forest Initiative, Programme for the Endorsement of Forest Certification, or American Tree Farm System), materials considered "eligible renewables" according to the Green-e Energy National Standard Version 2.5 (2014), and materials that are eligible for a state Renewable Portfolio Standard.

.07 The registrant shall apply conversion factors consistently for all data reported under this disclosure, such as the use of HHVs for fuel usage (including biofuels) and conversion of kWh to gigajoules (for energy data including electricity from solar or wind energy).

[12] SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid, and that a premium has been paid by the purchaser of the REC to enable generation of renewable energy beyond any renewable energy already in the grid mix, absent the market for RECs.

Health Impacts of Chemicals in Products

Description

Management of chemicals relates to the presence of certain chemicals in products that have the potential to harm human health and the environment. While many of these chemicals are banned in other products, such as children's toys, they are still used widely in flooring and furniture products. This may present a potential risk for future regulation around products containing excessive levels of harmful chemicals. Customer preference for products that avoid harmful chemicals are driving industry efforts to eliminate such chemicals from products. New building certifications aim to address human health and wellness in living spaces through efforts such as requesting full disclosure of chemicals used in building products and furnishings used in indoor spaces and awarding certification points to products that reduce the use of such chemicals. This trend toward certification can drive demand for products that avoid harmful chemicals and assist customers in obtaining building certifications. Companies that address harmful chemicals in their products may enjoy a competitive advantage over the long term through increased customer demand and improved brand reputation.

Accounting Metrics

CN0603-02. Description of chemical hazard and risk management program

.08 The registrant shall discuss its approach to managing the use of materials, chemicals, and substances that may be of human health and/or environmental concern to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.) but are not currently regulated.

- "Materials, chemicals, and substances" include individual compounds, classes of chemicals, and categories of chemicals.

.09 At a minimum, the registrant shall:

- Discuss how it assesses materials and chemicals for hazardous characteristics and risk traits, including the operational processes it employs for these assessments and other actions it takes to manage hazards and risks.
- Identify specific materials, chemicals, and substances that it considers to be of concern to its customers, regulators, and/or other stakeholders.
- Describe any pertinent future plans and targets for the reduction and/or removal of certain chemicals of concern from its products.

.10 Relevant operational processes may include, but are not limited to, product formulation and design, materials and chemicals procurement, product safety testing, product labeling, and product declarations (e.g., material safety data sheets).

.11 Other relevant actions to discuss may include the exclusion of substances (e.g., use of banned substances lists such as the Clean Production Action (CPA) Healthy Building Network Red List of Lists, etc.), use of material substitution assessments, use of tools and screening methods (e.g., GreenScreen® For Safer

Chemicals or CleanGredients® Data Verification), or any other methods that consider the usage of materials, chemicals, and substances of concern.

.12 The registrant should discuss its use of chemicals that appear on California's Proposition 65 list of carcinogens and reproductive toxicants, agents classified as Group 1 carcinogens by the *IARC Monographs on the Evaluation of Carcinogenic Risks to Humans*, and substances listed in Annex XVII to REACH.

CN0603-03. Percentage of applicable products meeting California Standard Section 01350 Specification for VOCs

.13 The registrant shall disclose the percentage of its products (by revenue), in U.S. dollars, that have been tested and modeled to the California Department of Public Health (CDPH) and Environmental Health Laboratory Branch (EHLB) *Standard Method for the Testing and Evaluation of Volatile Organic Chemical Emissions from Indoor Sources Using Environmental Chambers* (also referred to as CDPH/EHLB Standard Method V1.1, 2010 or California Standard Section 01350) and confirmed to meet the allowable limits for modeled indoor air concentrations at 14 days.

.14 The percentage shall be calculated as the revenue from products tested to meet the allowable limits for modeled indoor air concentrations at 14 days specified in CDPH/EHLB Standard Method V1.1, 2010, divided by the revenue from all applicable products, where:

- A product is considered applicable if it considered within the scope of CDPH/EHLB Standard Method V1.1, 2010, including any product category generally used within the envelope of an enclosed indoor environment that can be tested whole or by representative sample in environmental chambers, such as paints, other architectural coatings and finishes, sealants, adhesives, wall coverings, floor coverings, acoustical ceilings, wood paneling, and wall and ceiling insulation used in public and commercial office buildings, schools, residences, and other building types.

- Through their inclusion in the scope of CDPH/EHLB Standard Method V1.1, 2010, freestanding furniture used in schools and offices and open-plan office furniture are also considered applicable products.

.15 A product shall be considered to be in compliance with CDPH/EHLB Standard Method V1.1, 2010, if it has achieved certification to one of the many harmonized indoor air quality standards and certifications, including:

- Indoor Advantage Gold™ certification
- GREENGUARD Children & Schools certification
- Collaborative for High Performance Schools (CHPS) requirements
- LEED v4 Indoor Environmental Quality criteria (low-emitting materials)

Product Lifecycle Environmental Impacts

Description

The Building Products & Furnishing industry is characterized by high levels of demand for products that are designed and manufactured with the environment in mind. This demand is driven by customers, regulators, and new certifications that help address many of the sustainability challenges faced by the industry through its products' lifecycles. Challenges include product recyclability and end-of-life treatment, which have environmental impacts and are shaping the industry's sustainability commitments. These commitments include using closed-loop materials that help minimize a product's end-of-life environmental impacts and reduce the need for extracting or producing virgin materials. Additionally, there are disposal laws that affect some products' end-of-life treatment.

Accounting Metrics

CN0603-04. Discussion of efforts to manage product lifecycle impacts and meet demand for sustainable products

.16 The registrant shall discuss its strategies to assess and manage the environmental impact of products throughout their lifecycle, where:

- Relevant strategies and efforts to assess product lifecycle impacts include the use of environmentally focused design principles, the use of sustainability performance standards, and the use of screening tools and sampling methods, among others, including the operational processes it employs for these assessments.
- Relevant strategies and efforts to manage product lifecycle impacts include changes in materials selection, assessment of upstream environmental impacts, changes in manufacturing (resource intensity), use of recycled materials, use of renewable materials, reduction of packaging, design for consolidated shipping, design of low-energy-consumption products, design for product take-back, and labeling for recycling, among others.

.17 The registrant shall discuss factors that drive demand for its sustainable building products, including green building certification programs, federal and state procurement criteria, demand from retailers, and/or retail consumer demand.

.18 The registrant may choose to discuss its use of Life Cycle Assessment (LCA) and Environmental Product Declarations (EPD) in the context of its approach to reducing environmental impact and maximizing product resource efficiency.

- Improvements to the environmental efficiency of products should be discussed in terms of LCA functional unit service parameters (i.e., time, extent, and quality of function).
- LCA should be based on ISO 14040 and 14040 and EPD should be based on ISO 14025.

.19 The registrant may choose to disclose the percentage of its products that are certified to third-party multi-attribute or single-attribute sustainability standards, where:

- Multi-attribute sustainability standards include NSF/ANSI 140: Carpet, NSF/ANSI 332: Resilient Floor Coverings, NSF/ANSI 336: Commercial Furnishings Fabric, NSF/ANSI 342: Wallcoverings, NSF/ANSI 347: Single Ply Roofing Membranes, ANSI/NSC 373: Sustainable Stone, NSF P391: Services and Service Providers, Green Squared℠: Tile and Installation Materials / ANSI A138.1-2011, ANSI/BIFMA e3 level®: Business Furniture, and the Cradle to Cradle Certified™ Products Standard.

- Single-attribute standards include ENERGYSTAR®, WaterSense, and recycled content certifications.

CN0603-05. Percentage of products sold that are recyclable or reusable

.20 The registrant shall disclose the percentage of products, by weight (in metric tons), that are reusable or recyclable, where:

- “Reusable” is defined as a product or packaging that has been conceived and designed to accomplish, within its lifecycle, a certain number of trips, rotations, or uses for the same purpose for which it was conceived, consistent with definitions in ISO 14021:1999, *Environmental labels and declarations—Self-declared environmental claims (Type II environmental labelling)*.

- “Recyclable” is defined a product or packaging that can be diverted from the waste stream through available processes and programs and can be collected, processed, and returned to use in the form of raw materials or products, consistent with definitions in ISO 14021:1999, *Environmental labels and declarations—Self-declared environmental claims (Type II environmental labelling)*.

.21 For products or product materials that are partially made of recyclable or reusable materials, the registrant shall classify the portion of the material that is recyclable or reusable based on a calculation (or estimate, where appropriate) of the weight of each portion.

.22 A product or its components shall be considered recyclable or reusable if this claim is aligned with 16 CFR Part 260, Guides for the Use of Environmental Marketing Claims; Final Rule, (also known as the “FTC Green Guides”), including the following elements:

- A product or package shall not be marketed as recyclable unless it can be collected, separated, or otherwise recovered from the waste stream through an established recycling program for reuse or use in manufacturing or assembling another item.

- When recycling facilities are available to a substantial majority (i.e., 60 percent) of consumers or communities where the item is sold, the registrant may consider the product (or product component) recyclable without a qualification.

- When recycling facilities are available to less than a substantial majority of customers or communities where the product is sold, the registrant shall only consider the product (or product components) recyclable if it makes the appropriate qualification to its customers.

- For items that are partially made of recyclable components, the registrant shall only consider those components recyclable if (a) it clearly and prominently qualifies the recyclable claim to avoid deception about which portions are recyclable, and (b) no components significantly limit the ability to dissemble and recycle the product or components of the product (e.g., the size, shape, or assembly method).

CN0603-06. Percentage of raw materials from recycled content

.23 The registrant shall disclose the percentage of raw materials consumed, by weight (in metric tons), that are derived from recycled content.

.24 Recycled content is defined, consistent with definitions in ISO 14021:1999, *Environmental labels and declarations—Self-declared environmental claims (Type II environmental labelling)*, as the portion, by mass, of recycled or recovered material in a product or packaging, where only pre-consumer and post-consumer materials shall be considered as recycled content, and where:

- Recycled material is defined as material that has been reprocessed from recovered (or reclaimed) material by means of a manufacturing process and made into a final product or a component for incorporation into a product.

- Recovered material is defined as material that would have otherwise been disposed of as waste or used for energy recovery, but has instead been collected and recovered (or reclaimed) as a material input, in lieu of new primary material, for a recycling or manufacturing process.

- Pre-consumer material (also referred to as "post-industrial material") is defined as material that has been diverted from the waste stream during a manufacturing process. Excluded is reutilization of materials such as rework, regrind, or scrap that is generated in a process and is capable of being reclaimed within the same process that generated it.

- Post-consumer material is defined as material generated by households or by commercial, industrial, and institutional facilities in their role as end-users of the product that can no longer be used for its intended purpose. This includes returns of material from the distribution chain.

.25 The percentage shall be calculated as the total weight (in metric tons) of raw materials from recycled content divided by the total weight, in metric tons, of all raw materials for products, where:

- The scope of raw materials in the denominator of the percentage calculation includes all inputs that are processed to be sold as a finished good, including recycled raw materials and virgin raw materials.

- The weight of raw materials should be calculated as the amount of materials in inventory at the beginning of the reporting period, plus any purchase of materials made during the reporting period, less any materials in raw materials inventory on hand at the end of the reporting period.

.26 For products or product materials that contain both recycled and virgin parts, the registrant shall classify the portion of the material as recycled, based on a calculation (or estimate, where appropriate) of the weight of each portion.

CN0603-07. Weight of end-of-life material recovered, percentage of recovered materials that are recycled

.27 The registrant shall disclose the weight, in metric tons, of materials recovered, including those recovered through recycling services, product take-back programs, and refurbishment services, where:

- The scope of disclosure shall include products, materials, and parts at the end of their useful life that would have otherwise been disposed of as waste or used for energy recovery, but have instead been collected.
- The scope of disclosure shall include both materials physically handled by the registrant and materials of which the registrant does not take physical possession, but for which it has contracted with a third party the task of collection for the expressed purpose of reuse, recycling, or refurbishment.
- The scope of disclosure excludes products and parts that are in-warranty and have been collected for repairs.

.28 The percentage recycled shall be calculated as the weight of incoming material that was reused or reclaimed, plus the weight of material recycled or remanufactured (through treatment or processing) by the registrant, plus the weight of material sent externally for further recycling, divided by the total weight of incoming recovered material, where:

- A material is recycled if it is used, reused, or reclaimed.
- Reclaimed materials are defined as those processed to recover or regenerate a usable product.
- Reused materials are defined as those recovered products or components of products that are used for the same purpose for which they were conceived.
- Recycled and remanufactured materials are defined as waste materials that have been reprocessed or treated by means of production or manufacturing processes and made into a final product or a component for incorporation into a product.
- Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.
- The scope of recycled and remanufactured products includes primary recycled materials, co-products (outputs of equal value to primary recycled materials), and by-products (outputs of lesser value than primary recycled materials).

- Portions of products and materials that are disposed of in landfills are not considered recycled. Only the portions of products that are directly incorporated into new products, co-products, or by-products shall be included in the percentage recycled.

- Materials incinerated, including for energy recovery, are not considered reused, recycled, or reclaimed. Energy recovery is defined as the use of combustible waste as a means to generate energy through direct incineration, with or without other waste, but with recovery of the heat.

Wood Sourcing Risks

Description

Wood sourcing risks encompass the risks inherent in the harvesting and sourcing of timber materials used in the Building Products & Furnishings industry. The industry utilizes large amounts of wood for various product lines. The harvesting and sourcing of these materials can involve poor practices, such as illegal logging, which destroys animal habitats and contributes to deforestation and may be in violation of international law. Wood is a key material for manufacturers of hardwood flooring, furniture, and home improvement products. Companies in the industry source wood from all over the world, including areas that are susceptible to illegal logging practices. This presents potential regulatory and reputational risks for the industry. Meanwhile, new certifications for responsible sourcing present incentives for the industry to comply with regulation and appeal to customer demand.

Accounting Metrics

CN0603-08. Total wood fiber purchased, percentage from third-party certified sources

.29 The registrant shall disclose the total weight, in metric tons, of wood-fiber-based raw materials purchased during the fiscal year.

- The scope of raw materials includes all inputs that are processed to be sold as a finished good, including recycled raw materials, virgin raw materials, and goods that will be consumed directly in the production process.

.30 The percentage shall be calculated as the total weight (in metric tons) of its wood-fiber-based raw materials that are certified to a responsible sourcing standard divided by the total weight (in metric tons) of wood-fiber-based raw materials, where responsible sourcing certifications include those promulgated by the following organizations (or the equivalent):

- Forest Stewardship Council (FSC) (i.e., FSC 100% label and FSC Mixed Sources and FSC Recycled labels);
- Sustainable Forest Initiative (SFI) (i.e., SFI Chain of Custody and SFI Certified Sourcing labels);
- Programme for the Endorsement of Forest Certification (PEFC) (i.e., PEFC Certified and PEFC Recycled labels); and
- American Tree Farm System (ATFS).

.31 The registrant may disclose separately the percent of fiber that is certified to each relevant responsible sourcing standard (e.g., FSC, SFI, PEFC, and ATFS) and relevant standards (e.g., FSC 100% label, FSC Mixed Sources and FSC Recycled labels, SFI Chain of Custody and SFI Certified Sourcing labels, and PEFC Certified and PEFC Recycled labels).

.32 For products that are certified to multiple schemes, the registrant shall not account for the product's weight more than once.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

TOYS & SPORTING GOODS
Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0604
Prepared by the
Sustainability Accounting Standards Board®

April 2015

Exposure Draft Standard for Public Comment

TOYS & SPORTING GOODS

Sustainability Accounting Standard

About SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly listed corporations in the U.S. in disclosing material sustainability information for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization. Through 2016, SASB is developing standards for more than 80 industries in 10 sectors.

About this Standard

This Standard is an exposure draft presented for public review and comment. This version is not intended for implementation.

The public comment period lasts for 90 days, beginning on Wednesday, April 8th, 2015, and ending on Tuesday, July 7th, 2015. The Standard is subject to change thereafter.

For instructions on providing comments to SASB, please click here.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org

Table of Contents

INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Toys & Sporting Goods industry.

SASB Sustainability Accounting Standards are comprised of **(1) disclosure guidance and (2) accounting standards on sustainability topics** for use by U.S. and foreign public companies in their annual filings (Form 10-K or 20-F) with the U.S. Securities and Exchange Commission (SEC). To the extent relevant, SASB Standards may also be applicable to other periodic mandatory filings with the SEC, such as the Form 10-Q, Form S-1, and Form 8-K.

SASB Standards identify sustainability topics at an industry level, which may constitute material information—depending on a company's specific operating context—for a company within that industry. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is material and should therefore be included in its Form 10-K or 20-F and other periodic SEC filings.

SASB Standards provide companies with standardized sustainability metrics designed to communicate performance on industry level sustainability topics. When making disclosure on sustainability topics, companies can use SASB Standards to help ensure that disclosure is standardized and therefore decision-useful, relevant, comparable, and complete.

SASB Standards are intended to constitute "suitable criteria" as defined by AT 101.23 -. 32[1] and referenced in AT 701[2], as having the following attributes:

- *Objectivity*—Criteria should be free from bias.
- *Measurability*—Criteria should permit reasonably consistent measurements, qualitative or quantitative, of subject matter.
- *Completeness*—Criteria should be sufficiently complete so that those relevant factors that would alter a conclusion about subject matter are not omitted.
- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Toys & Sporting Goods industry comprises two main segments: companies involved in the manufacturing or licensing of toys and games and companies that manufacture sporting and athletic goods, such as bicycles, golf clubs, fitness equipment, and other similar products. Companies mainly sell their products to consumers through retail stores. Much of the production is contracted out to low-wage countries.

[1] http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7
[2] http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx

Guidance for Disclosure of Sustainability Topics in SEC Filings

1. Industry-Level Sustainability Topics

For the Toys & Sporting Goods industry, SASB has identified the following sustainability disclosure topics

- Chemicals Usage & Safety Hazards of Products
- Working Conditions in the Supply Chain

2. Company-Level Determination and Disclosure of Material Sustainability Topics

Sustainability disclosures are governed by the same laws and regulations that govern disclosures by securities issuers generally. According to the U.S. Supreme Court, a fact is material if, in the event such fact is omitted from a particular disclosure, there is "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available." [3, 4]

SASB has attempted to identify those sustainability topics that are reasonably likely to have a material effect on the financial condition or operating performance of companies within each SICS industry. SASB recognizes, however, that each company is ultimately responsible for determining what information should be disclosed within the context of Regulation S-K and other guidance.

Regulation S-K, which sets forth certain disclosure requirements associated with Form 10-K and other SEC filings, requires companies, among other things, to describe in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

Furthermore, Instructions to Item 303 state that the MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."[2]

The SEC has provided guidance for companies to use in determining whether a trend or uncertainty should be disclosed. The two-part assessment –prescribed by the SEC, based on probability and magnitude, can be applied to the topics included within this standard:

- First, a company is not required to make disclosure about a known trend or uncertainty if its management determines that such trend or uncertainty is not reasonably likely to occur.

- Second, if a company's management cannot make a reasonable determination of the likelihood of an event or uncertainty, then disclosure is required unless management determines that a material effect on the registrant's financial condition or results of operation is not reasonably likely to occur.

[3] TSC Industries v. Northway, Inc., 426 U.S. 438 (1976).

[4] C.F.R. 229.303(Item 303)(a)(3)(ii).

3. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, that companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures**."[5]

b. Other Relevant Sections of Form 10-K

In addition to the MD&A section, it may be relevant for companies to disclose sustainability information in other sections of Form 10-K, including, but not limited to:

- **Description of business**—Item 101 of Regulation S-K requires a company to provide a description of its business and its subsidiaries. Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

Appropriate disclosure also shall be made as to the material effects that compliance with Federal, State and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, may have upon the capital expenditures, earnings and competitive position of the registrant and its subsidiaries.

- **Legal proceedings**—Item 103 of Regulation S-K requires companies to describe briefly any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulations that target discharge of materials into the environment or that are primarily for the purpose of protecting the environment.

- **Risk factors**—Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

c. Rule 12b-20

Securities Act Rule 408 and Exchange Act Rule 12b-20 require a registrant to disclose, in addition to the information expressly required by law or regulation, "such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

More detailed guidance on disclosure of material sustainability topics can be found in the **SASB Conceptual Framework**, available for download via http://www.sasb.org/approach/conceptual-framework/.

[5] SEC [Release Nos. 33-8056; 34-45321; FR-61] Commission Statement about Management's Discussion and Analysis of Financial Condition and Results of Operations: "We also want to remind registrants that disclosure must be both useful and understandable. That is, management should provide the most relevant information and provide it using language and formats that investors can be expected to understand. Registrants should be aware also that investors will often find information relating to a particular matter more meaningful if it is disclosed in a single location, rather than presented in a fragmented manner throughout the filing."

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the Toys & Sporting Goods industry Sustainability Accounting Standard, SASB identifies accounting metrics.

SASB recommends that each company consider using these sustainability accounting metrics when preparing disclosures on the sustainability topics identified herein;

As appropriate—and consistent with Rule 12b-20[6]—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).

SASB recommends that registrants use SASB Standards specific to their primary industry as identified in the Sustainable Industry Classification System (SICS™). If a registrant generates significant revenue from multiple industries, SASB recommends that it also consider sustainability topics that SASB has identified for those industries and disclose the associated SASB accounting metrics.

In disclosing to SASB Standards, it is expected that registrants disclose with the same level of rigor, accuracy, and responsibility as they apply to all other information contained in their SEC filings.

Users of the SASB Standards

The SASB Standards are intended to provide guidance for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and those that issue securities registered under the Securities Exchange Act of 1934 (the Exchange Act),[7] for use in SEC filings, including, without limitation, annual reports on Form10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K, and registration statements on Forms S-1 and S-3. Disclosure with respect to the SASB Standards is not required or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

---

[6] SEC Rule 12b-20: "In addition to the information expressly required to be included in a statement or report, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading."

[7] Registration under the Securities Exchange Act of 1934 is required (1) for securities to be listed on a national securities exchange such as the New York Stock Exchange, the NYSE Amex, and the NASDAQ Stock Market or (2) if (A) the securities are equity securities and are held by more than 2,000 persons (or 500 persons who are not accredited investors) and (B) the company has more than $10 million in assets.

Scope of Disclosure

Unless otherwise specified, SASB recommends:

- That a registrant disclose on sustainability issues and metrics for itself and for entities that are consolidated for financial reporting purposes as defined by accounting principles generally accepted in the United States for consistency with other accompanying information within SEC filings[8]
- That for consolidated entities, disclosures be made, and accounting metrics calculated, for the whole entity, regardless of the size of the minority interest; and
- That information from unconsolidated entities not be included in the computation of SASB accounting metrics. A registrant should disclose, however, information about unconsolidated entities to the extent that the registrant considers the information necessary for investors to understand the effect of sustainability topics on the company's financial condition or operating performance (typically, this disclosure would be limited to risks and opportunities associated with these entities).

Reporting Format

Use of Financial Data

In instances where accounting metrics, activity metrics, and technical protocols in this standard incorporate financial data (e.g., revenues, cost of sales, expenses recorded and disclosed for fines, etc.), such financial data shall be prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP") and be consistent with the corresponding financial data reported within the registrant's SEC filings. Should accounting metrics, activity metrics and technical protocols in this standard incorporate disclosure of financial data that is not prepared in accordance with US GAAP, the registrant shall disclose such information in accordance with the SEC Regulation G.

Activity Metrics and Normalization

SASB recognizes that normalizing accounting metrics is important for the analysis of SASB disclosures.

SASB recommends that a registrant disclose any basic business data that may assist in the accurate evaluation and comparability of disclosure, to the extent that they are not already disclosed in the Form 10-K (e.g., revenue, EBITDA, etc.).

Such data—termed "activity metrics"—may include high-level business data such as total number of employees, quantity of products produced or services provided, number of facilities, or number of customers. It may also include industry-specific data such as plant capacity utilization (e.g., for specialty chemical companies), number of transactions (e.g., for Internet media and services companies), hospital bed days (e.g., for health care delivery companies), or proven and probable reserves (e.g., for oil and gas exploration and production companies).

---

[8] See US GAAP consolidation rules (Section 810).

Activity metrics disclosed should:

- Convey contextual information that would not otherwise be apparent from SASB accounting metrics.
- Be deemed generally useful for an investor relying on SASB accounting metrics in performing their own calculations and creating their own ratios.
- Be explained and consistently disclosed from period to period to the extent they continue to be relevant. However, a decision to make a voluntary disclosure in one period does not obligate a continuation of that disclosure if it is no longer relevant or if a better metric becomes available.[9]

Where relevant, SASB recommends specific activity metrics that—at a minimum—should accompany SASB accounting metric disclosures.

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Annual production	Quantitative	Number of units	CN0604-A
Number of manufacturing facilities, percentage outsourced[10]	Quantitative	Number, Percentage (%)	CN0604-B

Units of Measure

Unless specified, disclosures should be reported in International System of Units (SI units).

Uncertainty

SASB recognizes that there may be inherent uncertainty when disclosing certain sustainability data and information. This may be related to variables such as the reliance on data from third-party reporting systems and technologies, or the unpredictable nature of climate events. Where uncertainty around a particular disclosure exists, SASB recommends that the registrant should consider discussing its nature and likelihood.

Estimates

SASB recognizes that scientifically-based estimates, such as the reliance on certain conversion factors or the exclusion of *de minimis* values, may occur for certain quantitative disclosures. Where appropriate, SASB does not discourage the use of such estimates. When using an estimate for a particular disclosure, SASB expects that the registrant discuss its nature and substantiate its basis.

Timing

Unless otherwise specified, disclosure shall be for the registrant's fiscal year.

[9] Improving Business Reporting: Insights into Enhancing Voluntary Disclosures, FASB Business Reporting Research Project, January 29, 2001.

[10] Note to **CN0604-A**—The scope of disclosure for total number of facilities includes those owned and operated by the registrant as well as those directly contracted by the registrant. The percentage outsourced shall account for those manufacturing locations directly contracted by the registrant.

Limitations

There is no guarantee that SASB Standards address all sustainability impacts or opportunities associated with a sector, industry, or company, and therefore, a company must determine for itself the topics—sustainability-related or otherwise—that warrant discussion in its SEC filings.

Disclosure under SASB Standards is voluntary. It is not intended to replace any legal or regulatory requirements that may be applicable to user operations. Where such laws or regulations address legal or regulatory topics, disclosure under SASB Standards is not meant to supersede those requirements. Disclosure according to SASB Standards shall not be construed as demonstration of compliance with any law, regulation, or other requirement.

SASB Standards are intended to be aligned with the principles of materiality enforced by the SEC. However, SASB is not affiliated with or endorsed by the SEC or other entities governing financial reporting, such as FASB, GASB, or IASB.

Forward-looking Statements

Disclosures on sustainability topics can involve discussion of future trends and uncertainties related to the registrant's operations and financial condition, including those influenced by external variables (e.g., environmental, social, regulatory, and political). Companies making such disclosures should familiarize themselves with the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Exchange Act, which preclude civil liability for material misstatements or omissions in such statements if the registrant takes certain steps, including, among other things, identifying the disclosure as "forward-looking" and accompanying such disclosure with "meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statements."

The following sections contain the disclosure guidance associated with each accounting metric such as guidance on definitions, scope, accounting, compilation, and presentation.

The term "shall" is used throughout this document to indicate those elements that reflect requirements of the Standard. The terms "should" and "may" are used to indicate guidance, which, although not required, provides a recommended means of disclosure.

Table 1. Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Chemical Usage & Safety Hazards of Products	Number of recalls and total units recalled[11]	Quantitative	Number	CN0604-01
	Number of Letters of Advice (LOA) received	Quantitative	Number	CN0604-02
	Amount of legal and regulatory fines and settlements associated with product safety[12]	Quantitative	U.S. Dollars ($)	CN0604-03
	Description of chemical hazard and risk management program	Discussion and Analysis	n/a	CN0604-04
Working Conditions in the Supply Chain	Percentage of facilities audited in the International Council of Toy Industries (ICTI) CARE audit program or to an equivalent social and environmental responsibility code of conduct	Quantitative	Percentage (%)	CN0604-05
	Priority non-conformance rate and associated corrective action rate for suppliers' social and environmental responsibility audits	Quantitative	Rate	CN0604-06

[11] Note to **CN0604-01**—The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.
[12] Note to **CN0604-03**— Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Chemicals Usage & Safety Hazards of Products

Description

This issue relates to the industry's responsibility to create products that do not harm consumers. It can be managed by limiting the presence of harmful chemicals and ensuring proper product design. The Toys & Sporting Goods industry is exposed to multiple forms of regulation surrounding the safety of its products. The toys segment of the industry in particular is highly regulated in order to protect children. The presence of certain chemicals in products can have chronic impacts on child development and health, whereas faulty or poorly designed products that create choking, fire, or other hazards can result in acute impacts such as injury or death. Failure to create products that are safe for consumers may provoke new regulatory oversight and affect a company's social license to operate. Furthermore, failure to evaluate and effectively test a product's safety characteristics can lead to costly recalls, litigation, or reputational damage that affects sales, and may invite further burdensome government regulation.

Accounting Metrics

CN0604-01. Number of recalls and total units recalled

.01 The registrant shall disclose the total number of recalls and the total number of units that were recalled.

.02 The scope includes voluntary recalls initiated by the registrant and involuntary recalls mandated by the Consumer Product Safety Commission (CPSC) or other relevant government agency.

.03 The registrant may choose, in addition to total units recalled, to disclose the percentage of recalls that were (1) voluntarily and (2) involuntarily issued.

Note to **CN0604-01**

.04 The registrant shall discuss notable recalls such as those that affected a significant number of units of one product or those related to serious injury or fatality.

.05 For such recalls the registrant should provide:

- Description and cause of the recall issue
- The total number of units recalled
- The cost to remedy the issue (in U.S. dollars)
- Whether the recall was voluntary or involuntary (mandated by CPSC)
- Corrective actions
- Any other significant outcomes (e.g., legal proceedings, customer fatalities, etc.)

CN0604-02. Number of Letters of Advice (LOA) received

.06 The registrant shall disclose the number of Letters of Advice it received from the CPSC, where:

- An LOA is issued by the CPSC when there is a violation of a mandatory standard. LOAs advise the company of the violation and the nature of the necessary corrective action (i.e., to correct future production (CFP); to stop sale and CFP; or to recall, stop sale, and CFP).

.07 The registrant may choose to discuss corrective actions implemented in response to receipt of an LOA.

CN0604-03. Amount of legal and regulatory fines and settlements associated with product safety

.08 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with incidents relating to product safety in U.S. dollars, including, but not limited to, violations of the following:

- Consumer Product Safety Act and all associated regulations
- Consumer Product Safety Improvement Act (CPSIA)
- ASTM F963-11
- Federal Hazardous Substance Act (FHSA)
- Child Safety Protection Act (CSPA)

.09 Disclosure shall include civil actions (e.g., civil judgment, settlements, or regulatory penalties) and criminal actions (e.g., criminal judgment, penalties, or restitutions) taken by any entity (government, businesses, or individuals).

Note to **CN0604-03**

.10 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., inadequate testing or certification, etc.) of fines and settlements.

.11 The registrant shall describe any corrective actions it has implemented as a result of each incident. These may include, but are not limited to, specific changes in operations, management, processes, products, business partners, training, or technology.

CN0604-04. Description of chemical hazard and risk management program

.12 The registrant shall discuss its approach to managing the use of materials, chemicals, and substances that may be of human health and/or environmental concern to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.) but are not currently regulated.

- "Materials, chemicals, and substances" include individual compounds, classes of chemicals, and categories of chemicals.

.13 At a minimum, the registrant shall:

- Discuss how it assesses materials and chemicals for hazardous characteristics and risk traits, including the operational processes it employs for these assessments and other actions it takes to manage hazards and risks.

- Identify specific materials, chemicals, and substances that it considers to be of concern to its customers, regulators, and/or other stakeholders.
- Discuss policies and practices to manage chemicals and/or chemical risks, especially related to the use of PVC, BPA, brominated flame retardants, and (non-regulated) phthalates.
- Describe any pertinent future plans and targets for the reduction and/or removal of certain chemicals of concern from its products.

.14 Relevant operational processes may include, but are not limited to, product formulation and design, materials and chemicals procurement, product safety testing, product labeling, and product declarations (e.g., material safety data sheets).

.15 Other relevant actions to discuss may include the exclusion of substances (e.g., use of banned substances lists such as the Clean Production Action (CPA) Healthy Building Network Red List of Lists, etc.), use of material substitution assessments, use of tools and screening methods (e.g., GreenScreen® For Safer Chemicals or CleanGredients® Data Verification) and restricted substances lists (RSLs), or any other methods that consider the usage of materials, chemicals, and substances of concern.

.16 The registrant should discuss its use of chemicals that appear on California's Proposition 65 list of carcinogens and reproductive toxicants, agents classified as Group 1 carcinogens by *the IARC Monographs on the Evaluation of Carcinogenic Risks to Humans*, and substances listed in Annex XVII to REACH.

Working Conditions in the Supply Chain

Description

The fair treatment of workers and protection of worker rights in the supply chain are growing concerns among consumers, regulators, and companies in the industry. Due to the industry's structure, workers overseas are susceptible to exploitation in terms of working overtime and not being paid fairly. The majority of the Toys & Sporting Goods industry's supply chain is located in emerging economies with lower manufacturing costs. Worker issues include employee health and safety, fair pay, and eliminating discrimination and forced labor in the supply chain. Some large companies utilize more than 100 different suppliers, adding to the complexity of managing this issue. The lack of transparency and, often, poor performance of companies with regard to this issue exposes the industry to reputational and supply disruption risk associated with the unfair treatment of workers.

Accounting Metrics

CN0604-05. Percentage of facilities audited in the International Council of Toy Industries (ICTI) CARE audit program or to an equivalent social and environmental responsibility code of conduct

.17 The registrant shall disclose the percentage of facilities that have been audited in the ICTI CARE audit program or to a social and environmental responsibility code of conduct during the fiscal year, where:

- The ICTI CARE Process (ICP) audit program monitors the performance of suppliers to make sure they meet their responsibilities in the areas of health and safety, child and forced labor, working hours and wages, discrimination and disciplinary practices, and social benefits.
- ICTI audit requirements are outlined in Section 2 of the ICTI CARE Audit Protocol Handbook Audit Checklist.
- The scope of facilities includes those owned and operated by the registrant as well as third-party vendors.

.18 A code of conduct is a corporate policy, standard, or contract that outlines a set of working conditions, labor practices, and safety and environmental requirements for suppliers and contractors. At a minimum, a code of conduct ensures that suppliers are in compliance with regulations.

.19 Social code of conduct criteria shall include, at a minimum, an assessment of worker hours/excessive overtime, wages and compensation, underage labor, forced labor, disciplinary practices, discrimination, freedom of association (worker involvement and communication), worker treatment and development (anti-harassment and anti-abuse policies), termination and retrenchment policies, and health and safety conditions.

.20 Environmental code of conduct criteria shall include, at a minimum, an assessment of environmental provisions, including criteria focused on environmental permits and reporting, fire protection, pollution prevention and source reduction, hazardous substances, wastewater, and solid waste.

.21 Audits are defined as visits to a facility and review of records to ensure compliance with the code of conduct. Audits can be conducted by an internal corporate representative or by a third-party auditor.

.22 Disclosure may also include audit frequency for each facility, the number of facilities shown to be at risk, and a discussion of practices and processes for at-risk facilities.

CN0604-06. Priority non-conformance rate and associated corrective action rate for suppliers' social and environmental responsibility audits

.23 The registrant shall disclose the rate of its suppliers' non-compliance with external social and environmental audit standards or internally developed supplier code(s) of conduct and the rate at which those instances of non-compliance have been subject to corrective action.

.24 The priority non-conformance rate shall be calculated as the total number of priority non-conformances identified in the supply chain divided by the number of facilities audited, where:

- Priority non-conformances are defined as the highest severity of non-conformance and require escalation by auditors. Priority non-conformances may arise from a significant risk to safety or the environment, non-compliance with relevant regulatory requirements, or failure to adequately address prior minor non-conformances. These may also be referred to as "zero tolerance" issues or "core violations."

- The number of facilities audited includes those that were audited to external social and environmental audit standards, such as ICTI CARE, as well as internally developed supplier code(s) of conduct.

.25 The registrant shall calculate and disclose its corrective action rate for priority non-conformances as the number of corrective action plans completed to address priority non-conformances divided by the total number of priority non-conformances that have been identified.

.26 A corrective action is defined as an action to eliminate the cause of a detected non-conformance, including the implementation of practices or systems to eliminate any non-conformance and ensure there will be no reoccurrence of the non-conformance as well as verification that the corrective action has taken place.

.27 The registrant shall disclose the standards to which it has measured social and environmental responsibility audit compliance.

- For internally developed supplier code(s) of conduct, the registrant shall disclose the public location where such code(s) can be viewed.

.28 The registrant may choose to disclose the number of contracts with suppliers that were terminated as result of non-conformances.

SUSTAINABILITY ACCOUNTING STANDARDS BOARD®

75 Broadway, Suite 202
San Francisco, CA 94111
415.830.9220
info@sasb.org

www.sasb.org