



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®

September 2015
Provisional Standard

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 78 industries in 10 sectors.

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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 - 32¹ and referenced in AT 701², 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

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 sold include

¹ http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7

² <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

fresh meat and produce, prepared foods, processed foods, baked goods, frozen and canned foods, nonalcoholic 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 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 & Fleet Fuel Management
- Food Waste Management
- Data Security
- Food Safety
- Product Health & Nutrition
- Product Labeling & Marketing
- Fair Labor Practices
- Management of Environmental & Social 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

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

⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management’s Discussion and Analysis

For purposes of comparability and usability, 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

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.”

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/>.

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-20⁶—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 \(SICSTM\)](#). If a registrant generates significant revenue from multiple

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.”

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 Form 10-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

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

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.

⁸ See US GAAP consolidation rules (Section 810).

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.

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).

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.

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

ACTIVITY METRIC	CATEGORY	UNIT OF MEASURE	CODE
Number of (1) retail locations and (2) 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 vehicles in commercial fleet	Quantitative	Number	CN0401-C
Ton-miles travelled	Quantitative	Ton-miles	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.

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 from refrigerants	Quantitative	Metric tons CO ₂ -e	CN0401-01
	Percentage of refrigerants consumed with zero ozone-depleting potential	Quantitative	Percentage (%) by weight	CN0401-02
	Average refrigerant emissions rate	Quantitative	Percentage (%)	CN0401-03
Energy & Fleet Fuel Management	Operational energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0401-04
	Fleet fuel consumed, percentage renewable	Quantitative	Gigajoules (GJ), Percentage (%)	CN0401-05
Food Waste Management	Amount of food waste generated, percentage diverted from the waste stream	Quantitative	Metric tons (t), Percentage (%)	CN0401-06
Data Security	Discussion of management approach to identifying and addressing data security risks	Discussion and Analysis	n/a	CN0401-07
	Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected ¹⁰	Quantitative	Number, Percentage (%)	CN0401-08
Food Safety	High-risk food safety violation rate	Quantitative	Rate	CN0401-09
	Number of food-safety-related recalls, number of units recalled, percentage for 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
	Description of the process to identify and manage products and ingredients of concern and emerging dietary preferences	Discussion and Analysis	n/a	CN0401-12

¹⁰ Note to **CN0401-08**—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
Product Labeling & Marketing	Notices of violations received for non-conformance with regulatory labeling and/or marketing codes	Quantitative	Number	CN0401-13
	Amount of legal and regulatory fines and settlements associated with food marketing and/or labeling ¹²	Quantitative	U.S. Dollars (\$)	CN0401-14
	Revenue from products labeled as (1) containing genetically modified organisms (GMOs) and (2) non-GMO	Quantitative	U.S. Dollars (\$)	CN0401-15
Fair Labor Practices	Average hourly wage and percentage of in-store employees earning minimum wage	Quantitative	U.S. Dollars (\$), Percentage (%)	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 (1) labor law violations and (2) employment discrimination ¹⁴	Quantitative	U.S. Dollars (\$)	CN0401-19
Management of Environmental & Social Impacts in the Supply Chain	Discussion of strategy to manage environmental and social risks within the supply chain	Discussion and Analysis	n/a	CN0401-20
	Revenue from products third-party certified to an environmental and/or social sustainability sourcing standard	Quantitative	U.S. Dollars (\$)	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
	Description of strategies to reduce the environmental impact of packaging	Discussion and Analysis	n/a	CN0401-23

¹² Note to **CN0401-14**—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

Emissions of refrigeration chemicals from equipment used to store and display perishable foods create unique regulatory risks for the industry. Substances that leak from refrigeration equipment can impact the environment through two primary channels: First, internationally regulated hydrochlorofluorocarbons (HCFCs) can damage Earth's ozone layer; second, many common HCFCs and hydrofluorocarbons are highly potent greenhouse gases (GHGs) that heighten the industry's exposure to future climate-change-related GHG regulation. Emissions of GHG and ozone-depleting substances introduce industry-specific regulatory risks. Regulators can assess penalties to companies that violate emissions standards, while companies may be required to upgrade or replace equipment to reduce their emissions or replace existing refrigerants with costlier alternatives.

Accounting Metrics

CN0401-01. Gross global Scope 1 emissions from refrigerants

- .01 The registrant shall disclose gross global Scope 1 greenhouse gas (GHG) emissions to the atmosphere of the seven GHGs covered under the Kyoto Protocol (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulfur hexafluoride, and nitrogen trifluoride) that originated from the use of refrigerants.
 - Emissions of all gases shall be disclosed in metric tons of carbon dioxide equivalents (CO₂-e), calculated in accordance with published 100-year time horizon global warming potential (GWP) factors.
 - 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.
 - The registrant shall consider the CDP Climate Change Questionnaire as a normative reference, thus any updates made year-on-year shall be considered updates to this guidance.
 - Refrigerants are defined as substances or mixtures used in a heat pump or refrigeration cycle for the purpose of absorbing and releasing heat.
- .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").
 - The scope includes all direct emissions of GHGs resulting from the use of commercial stationary and mobile refrigerants in retail locations, distribution centers, and its transportation fleet.
 - For the purposes of this disclosure, the scope excludes direct emissions of GHGs from the combustion of fossil fuels, non-refrigerant process emissions, and other sources.

- .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-07, “Organisational boundary,” of the CDSB Framework (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 calculate the Scope 1 GHG emissions from refrigerants using the U.S. Environmental Protection Agency (EPA) GHG Inventory Guidance: [Direct Fugitive Emissions from Refrigeration, Air Conditioning, Fire Suppression, and Industrial Gases](#), November 2014.
- The registrant shall calculate Scope 1 GHG emissions from each piece of equipment that uses refrigerants and each type of emission (installation, operation, and disposal).
 - The registrant shall calculate separate emissions totals for each type of refrigerant used by multiplying the emissions of each refrigerant by the refrigerant’s global warming potential factor (GWP) from Table 1 “Global Warming Potentials” or Table 2 “GWPs for Refrigerant Blends” in the EPA GHG Inventory Guidance.
- .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 The registrant may choose to disclose their total Scope 1 GHG emissions, in addition to its Scope 1 GHG emissions from refrigerants, 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. However, primary disclosure shall be according to the guidelines described above.

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*.

- .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.

CN0401-02. Percentage of refrigerants consumed with zero ozone-depleting potential

- .10 The registrant shall calculate the percentage of the refrigerants consumed in its operations that have zero ozone-depleting potential (ODP) as the amount (by weight) of refrigerants consumed in its operations that have zero ODP, divided by the total amount (by weight) of refrigerants consumed in its operations.
 - Consumption of refrigerants is defined as the amount of refrigerant charged into the registrant's commercial refrigeration equipment during the fiscal year.
- .11 ODP is defined as the number that refers to the amount of ozone depletion caused by a substance, where ozone depletion is defined as a chemical destruction of the stratospheric ozone layer beyond natural reactions.
 - A refrigerant with zero ODP is defined as substance that has a published ODP value of zero, has no impact on the stratospheric ozone layer beyond natural reactions, and does not contain chlorofluorocarbons (CFCs), hydrochlorofluorocarbons (HCFCs), halons, methyl bromide, carbon tetrachloride, hydrobromofluorocarbons, chlorobromomethane, or methyl chloroform.
 - A list of all ozone-depleting substances (ODS) and their ODPs is available [here](#).
- .12 The scope includes all commercial stationary and mobile refrigerants used by the registrant in retail locations, distribution centers, and transportation fleet.

CN0401-03. Average refrigerant emissions rate

- .13 The registrant shall disclose its average annual emissions rate of refrigerants, which is calculated as the amount of refrigerant charge that is lost from the store's commercial refrigeration equipment and systems..
- .14 The scope includes all commercial stationary and mobile refrigerants used by the registrant in retail locations, distribution centers, and transportation fleet.
- .15 The registrant shall calculate its average refrigerant emissions rate as the average of the annual emissions rates from all of the registrant's stationary and mobile refrigerant sources (i.e., individual retail locations, distribution centers, and commercial fleets), where the individual annual emissions rate as a percentage is calculated as:
 - The amount of refrigerant emitted over the period of one year divided by the "system refrigerant charge," multiplied by 100.

- The amount of refrigerant emitted over the period of one year is equal to the amount of refrigerant charge lost from the store's commercial refrigeration equipment.
- “System refrigerant charge” is defined as the total weight, in pounds, of refrigerants that are charged into a store, distribution center, or a fleet’s commercial refrigeration equipment.

Additional References

EPA [Green Chill Store Certification Program Guidance](#)

EPA [Ozone Layer Protection Glossary](#)

Energy & Fleet Fuel Management

Description

Food retailer and distributor companies operate retail and distribution facilities that consume significant amounts of energy, particularly purchased electricity. Food retail and distribution facilities are typically more energy-intensive than other types of commercial spaces. Energy is used primarily for refrigeration, heating, ventilation, and air-conditioning (HVAC) and for lighting. Additionally, many operators in this industry own transportation fleets powered by fossil fuels. Fossil fuel-based electricity production and transportation fuel consumption contribute to environmental impacts including air pollution and climate change. Although use of purchased electricity is unlikely to present direct regulatory risks, it could have a financial effect on company value through its impact on operating costs. Conversely, energy efficiency and fuel efficiency can lower operating costs and generate financial benefits given the industry's narrow profit margins.

Accounting Metrics

CN0401-04. Operational energy consumed, percentage grid electricity, percentage renewable energy

- .16 The registrant shall disclose its total operational energy consumption from all sources as an aggregate figure in gigajoules or their multiples.
 - The scope includes energy purchased from sources external to the registrant or produced by the registrant itself (self-generated).
 - The scope includes only energy consumed by entities owned or controlled by the registrant.
 - The scope includes energy from all sources, including purchased electricity and heating, cooling, and steam energy.
 - The scope of disclosure excludes fuel that is consumed by the registrant's fleet vehicle operations.
- .17 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).
- .18 The registrant shall disclose purchased grid electricity consumption as a percentage of its total energy consumption.
- .19 The registrant shall disclose renewable energy consumption as a percentage of its total energy consumption.

- .20 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 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.
- .21 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.
- .22 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).

CN0401-05. Fleet fuel consumed, percentage renewable

- .23 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.
 - The scope excludes fuel consumed in the transportation of the registrant’s goods by third parties.

¹⁸ SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.

- .24 The registrant shall disclose the actual amount of fuel that its vehicles consumed rather than a figure based on the design parameters of the vehicles (i.e., rated fuel economy multiplied by vehicle miles traveled).
- .25 The registrant shall disclose renewable fuel consumption as a percentage of its total fuel consumption.
- Renewable fuel is defined, consistent with U.S. EPA's Renewable Fuel Standard (40 CFR Section 80.1401), as a fuel that 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).
- .28 The registrant may choose to disclose the number of vehicles in its fleet that are not powered by petroleum or diesel as well as the vehicle types (including, but not limited to, electric vehicles and liquefied natural gas (LNG) vehicles).

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, as well as contribute to food insecurity. Additionally, food waste can generate GHG emissions during landfill decomposition. Effective food waste management can present financial opportunities to reduce costs associated with inventory loss, as well as help improve food security by more efficiently diverting food resources to beneficial purposes.

Accounting Metrics

CN0401-06. Amount of food waste generated, percentage diverted from the waste stream

- .29 The registrant shall calculate the aggregate amount of food waste generated, in metric tons, at all of its retail locations, where:
- Food waste is defined as food and inedible parts for which the registrant has no further use and which would otherwise be discarded or released into the environment
 - Food is defined per the global *Food Loss & Waste Protocol Accounting & Reporting Standard* (hereafter "*FLW Standard*") 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.
 - Inedible parts are defined per the *FLW Standard* as the components associated with a food in a particular food supply chain that the registrant does not intend for human consumption.
 - 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 of food waste includes donations of food (e.g., food donated to social service agencies and/or charitable organizations) that is safe for human consumption but is no longer able to be sold.
 - The scope excludes cosmetics, tobacco, or substances used only as drugs.
 - The scope excludes waste from food that is taken off-site by customers.
 - The scope excludes packaging materials, such as boxes, wrapping, or plastic containers.
 - Where packaging is not separated from food prior to its disposal, the registrant shall obtain an estimate for the amount of food waste exclusive of the packaging material based on the *FLW Standard*.

- .30 The registrant may choose to additionally disclose the weight of food waste that is comprised of inedible parts.
- Should the registrant choose to disclose the amount of inedible parts separately from the amount of food, the registrant should quantify these two material types according to the *FLW Standard* which provides guidance on separating and categorizing material types, and guidance on quantifying material types (food and inedible parts) separately.
 - The registrant should describe the sources or frameworks that were used to categorize a material as food or as associated inedible parts, including any assumptions used to define whether a material was “intended” for human consumption or not, as well as whether estimates were made to separately quantify the food (or associated inedible parts), the approach used, all conversion and proxy factors, and related sources.
- .31 The percentage diverted shall be calculated as the total weight of food waste that has been diverted from the waste stream divided by the total weight of food waste generated, where food waste is considered diverted if it has been removed from the food supply chain but:
- Donated to social service agencies and/or charitable organizations;
 - The registrant may choose to disclose the percentage of the total food waste generated that was donated.
 - Used as feed for animals (directly or after processing);
 - Converted for use in bio-based industrial products such as fibers for packaging material, bioplastics, or raw material to make biodiesel, soaps, or cosmetics;
 - Broken down via bacteria in the absence of oxygen to generate biogas and nutrient-rich matter (i.e., codigested);
 - Broken down via bacteria in oxygen-rich environments to be used as soil amendment (i.e., composted);
 - Converted via microbes into alcohols in the absence of oxygen to produce metabolic waste products (i.e., fermented);
 - Applied to land through spreading, spraying, injecting, or incorporating onto or below the surface of land; and/or
 - Left in a field or tilled into the soil.
- .32 For the purposes of this disclosure, cooking oil that is recycled for energy use is considered diverted.

- .33 For the purposes of this disclosure, the following disposal methods are not considered to be diversion from the waste stream:
- Landfilling, which is defined as sending material to an area of land or an excavated site that is specifically designed and built to receive wastes.
 - Incineration, including for energy recovery, which is defined as combusting solid and liquid material in controlled incineration facilities. 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.
 - Open burning, which is defined as burning in the open without a chimney or a stack.
 - Dumping to land or sea, which is defined as abandoning material on land or disposing in the sea, including open dumps.
 - Disposal via sewer and wastewater treatment plants, which is defined as sending material down the sewer, with or without processing or treatment first. Sewage may go to an advanced wastewater treatment plant or be discharged without processing.
- .34 Materials sent for further recycling include those materials that are transferred to a third party for the express purpose of reuse, recycling, or refurbishment.
- .35 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).
- .36 The registrant shall use the requirements of the *FLW Standard* to describe the quantification methods used to calculate the amount of food waste, the amount of food waste diverted from the waste stream, and other approaches used (e.g., for calculating the inedible proportion, excluding packaging, sampling, and/or scaling up of the data).

Additional References

[Food Loss & Waste Protocol Accounting and Reporting Standard](#) coordinated by World Resources Institute (WRI) in collaboration with the Consumer Goods Forum (CGF), Food and Agriculture Organization of the United Nations (FAO), FUSIONS, UNEP, the World Business Council for Sustainable Development (WBCSD), and WRAP.

Data Security

Description

Through electronic payment transactions and the sharing of personal financial data, food retailers establish a relationship of trust with consumers. Data breaches can occur through breaches of the physical payment technology, called point-of-sales breaches, as well as through attacks on cybersecurity. Data breaches that result in the theft or loss of customers' private data can undermine their trust in a company's ability to securely manage their data. This loss of confidence could result in reduced customer foot traffic, lower revenues, and diminished brand value. Retailers with strong technological and managerial systems to avoid and respond to data breaches can position themselves favorably with customers and reduce potential litigation and costs associated with data breaches.

Accounting Metrics

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

- .37 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.
- .38 The registrant shall describe how it addresses the threats and vulnerabilities it has identified, including, but not limited to, operational procedures, management processes, selection of business partners, employee training, or use of technology.
- .39 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.
- .40 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.).
- .41 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.

- .42 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)

CN0401-08. Number of data security breaches, percentage involving customers’ personally identifiable information (PII), number of customers affected

- .43 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.
- .44 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.
- .45 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.
 - 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.

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

- .46 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.
- .47 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 **CN0401-08**

- .48 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.
- .49 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.
- .50 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

Food Safety

Description

Maintaining product quality and safety is crucial for this consumer-facing industry, 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. While food retail companies may not be directly responsible for a given food safety incident, they may ultimately be held accountable by consumers and can experience financial ramifications, damage to brand value, lower revenues, and increased costs associated with recalls, lost inventory, or litigation. Measures to prevent spoilage and contamination include temperature control, frequent food inspection, and supplier selection.

Accounting Metrics

CN0401-09. High-risk food safety violation rate

- .51 The registrant shall disclose the rate at which high-risk food safety violations occur, calculated as the total number of inspected locations that received any high-risk violations during the fiscal year divided by the total number of food safety inspections that were conducted at the registrant's retail locations and distribution centers 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.
 - The scope includes food safety inspections conducted by local health departments, state health departments, or other relevant agencies that govern food safety at retail locations and distribution center warehouses.
- .52 The registrant should disclose the number of U.S. Department of Agriculture (USDA) or Food and Drug Administration (FDA) notices of violation (NOV) it received at its retail locations or distribution centers.
- USDA NOVs 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](#).
 - FDA NOVs include, but are not limited to, Untitled Letters, Warning Letters, Section 305 Notices (Citations), or Administrative Detention. 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](#).

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

- .53 The registrant shall disclose the total number of food-safety-related recalls, including those that were initiated voluntarily by the registrant or at the request of the FDA, where:
- Food-safety-related recalls are defined as removal or correction of a marketed product that occurs when there is reason to believe that a food may cause consumers to become ill, and that the FDA considers to be in violation of the laws it administers and against which the agency would initiate legal action.
 - Removal means the physical removal of a device from its point of use to some other location for repair, modification, adjustment, relabeling, destruction, or inspection.
 - Correction means repair, modification, adjustment, relabeling, destruction, or inspection of a product without its physical removal to some other location.
 - The scope includes all food-safety-related recalls, whether initiated by the FDA (or other government agency) or voluntarily by the registrant.
 - The scope of recalls excludes market withdrawals, which are defined as a registrant's removal or correction of a distributed product that involves a minor violation that would not be subject to legal action by the FDA or that involves no violation (e.g., normal stock rotation practices).
- .54 The registrant shall disclose the total number of units of food product that were subject to a recall during the fiscal year.
- .55 The registrant shall disclose the percentage of the total number of units recalled that were for 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.
- .56 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, (2) FDA requested and (3) FDA mandated.
- .57 The registrant may choose to disclose the percentage of the total number of units recalled that were part of Class I recalls, where Class I recalls is defined as a situation in which there is a reasonable probability that the use of, or exposure to, a violative product will cause serious adverse health consequences or death.

Note to CN0401-10

- .58 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.

.59 For such recalls, the registrant should provide:

- Description and cause of the recall issue
- The total amount or units of the item recalled
- The registrant's cost to remedy the issue (in U.S. dollars)
- Whether the recall was initiated voluntarily by the registrant or at the request of the FDA
- 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, the USDA, 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.

Product Health & Nutrition

Description

Increasing consumer awareness of food content and nutritional value, and the impact these can have on health, is shaping the industry's competitive landscape. Demand for food products that are made with natural (nonsynthetic) ingredients or that are certified to be organic, low-fat, low-sugar, fresh, or made without genetically modified organisms (GMOs) has driven industry growth in recent years. Although the links between consumer health and certain foods, such as those that are genetically modified, 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 diverse products with improved health attributes are now offered at most retail stores.

Accounting Metrics

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

- .60 The registrant shall disclose the total revenue, in U.S. dollars, received from the sale of its products that are labeled and/or marketed to promote health and nutrition attributes, where:
- Products that are labeled to promote health and nutrition attributes contain labels and other written, printed, or graphic matter on the article itself, on any containers and wrappers, or otherwise accompanying the article, consistent with the definition of labeling provided by 21 U.S.C. § 321(m), that promote health and nutrition attributes.
 - Consistent with the American Marketing Association's definition of marketing, products are considered to be marketed to promote health and nutrition attributes when the registrant communicates, delivers, and exchanges offerings that promote the product's health and nutrition attributes.
- .61 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](#).
- .62 The scope excludes products that are organic, GMO-free, and gluten-free.

CN0401-12. Description of the process to identify and manage products and ingredients of concern and emerging dietary preferences

- .63 The registrant shall discuss its process to identify and manage products and ingredients of consumer, academic, non-governmental, regulatory, or other concern in the products it sells, including, but not limited to, the use of additives, portion sizes, and product content certifications.
- .64 The registrant shall discuss efforts to identify health concerns, the products related to those health concerns, and resulting risks, including those associated with the use of artificial colors, flavors, sweeteners, preservatives, and other ingredients or additives as described by the FDA (available [here](#)), if applicable.
- Relevant efforts to discuss include, but are not limited to, risk assessments, participation in long-term health studies, completion of toxicological screens, procedures for receiving and reviewing consumer concerns, labeling of novel food items, and phasing out, substituting, or using alternative materials for ingredients of concern.
 - The scope of disclosure shall focus on food ingredients, additives, and novel foods, but should include potential synergistic effects of ingredients or products as relevant.
- .65 The registrant shall describe how identified concerns are managed and risks are communicated.
- The registrant may choose to discuss implementation of relevant food-ingredient and additive standards, such as those under the CODEX Alimentarius International Food Standards of the Food and Agriculture Organization (FAO) and the World Health Organization (WHO) (available [here](#)) as a strategy to manage ingredients and products of concern.
- .66 The registrant shall discuss the use of portion control, efforts taken to improve the nutritional content of the products it sells, and/or other measures taken to address consumer concerns, trends, and preferences.
- The registrant may choose to discuss whether strategies are related to or associated with a formal health and nutrition initiative or strategy (e.g., WHO Global Strategy on Diet, Physical Activity and Health, Healthy Weight Commitment Foundation, or the Alliance for a Healthier Generation), including regional, national, international, or industry-specific programs.
- .67 The registrant shall discuss its use of certification programs that address consumer concerns and preferences over ingredients, additives, and potential allergens, where such certifications include, but are not limited to:
- USDA Organic
 - Non-GMO Project Verified
 - Certified Gluten-Free
- .68 The registrant should discuss any significant complaints it received related to its products' ingredients, such as those resulting in lawsuits or relating to products and/or ingredients of consumer concern, and any efforts to mitigate the related future risks.

Product Labeling & Marketing

Description

Communication with consumers through product labeling and marketing 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 manufactured for food retail companies makes product labeling and marketing especially relevant. Consumers today expect more detailed information about product ingredients and production methods, including genetically modified content, and this information can inform purchasing decisions. These issues can affect the competitive landscape of the industry, as companies may be subject to litigation or criticism resulting from making misleading statements or failing to adapt to consumer demand for increased labeling transparency. These factors can have an impact on companies' brand value and revenue growth. Additionally, regulations addressing the accurate labeling of products and their ingredients present the risk of penalties or litigation for food retail companies.

Accounting Metrics

CN0401-13. Notices of violations received for non-conformance with regulatory labeling and/or marketing codes

- .69 The registrant shall disclose the number of notices it has received that substantiate a violation of product 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](#).
 - The scope includes marketing for all products and labeling of the registrant's 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.
- .70 The scope of disclosure includes instances of non-conformance with 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

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

CN0401-14. Amount of legal and regulatory fines and settlements associated with food marketing and/or labeling

.72 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.

.73 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 **CN0401-14**

.74 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.

.75 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.

CN0401-15. Revenue from products labeled as (1) containing genetically modified organisms (GMOs) and (2) non-GMO

.76 The registrant shall disclose its revenue (in U.S. dollars) from products that are labeled as (1) containing 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.

.77 The registrant should disclose the revenue from its products that are labeled as (1) containing GMOs and (2) non-GMO in markets subject to GMO labeling regulation, including, but not limited to:

- Maine HP 0490 LD 718;
- Vermont H. 112 Act 0120;

- Connecticut House Bill 6527;
- E.U. Directive 2001/18/EC;
- Regulation EC 1829/2003; 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 (such as USDA Organic certification) shall be considered to be labeled “non-GMO.”

Fair Labor Practices

Description

The Food Retailers & Distributors industry employs many low-wage workers, including women and minorities. 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, companies in the industry have been involved in gender and racial discrimination cases, sometimes resulting in costly financial settlements. Companies may benefit from taking a long-term perspective on managing workers, including their pay and benefits, in a way that protects workers' rights and enhances their productivity while strengthening the company's reputation and brand value.

Accounting Metrics

CN0401-16. Average hourly wage and percentage of in-store employees earning minimum wage

- .79 The registrant shall disclose the average hourly wage, in U.S. dollars, for in-store and distribution center employees.
- In-store employees are classified in the Bureau of Labor Statistics (BLS) Standard Occupation Classification under the Food and Beverage Stores subsector (NAICS 445) and includes butchers and meat cutters; cashiers; first-line supervisors/managers of retail sales workers; food preparation workers; and stock clerks and order fillers.
 - Distribution center employees are classified in the Bureau of Labor Statistics (BLS) Standard Occupation Classification under the Warehousing and Storage subsector (NAICS 493) and includes industrial truck and tractor operators; laborers and freight, stock, and material movers; shipping, receiving, and traffic clerks; stock clerks and order fillers; and transportation, storage, and distribution managers
 - The scope of disclosure excludes corporate employees.
- .80 The average hourly wage is calculated as the 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.
- .81 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 minimum wage applicable for each worker.
 - For countries or regions with no 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.

- .82 The registrant shall disclose the minimum wage for each geographic region for which it conducts segment financial reporting.
- .83 The registrant should discuss the sensitivity of its costs and profit margins to future adjustments in minimum wage, including:
- The likelihood of a minimum wage increase in the regions where the registrant operates, and the regions in which this is more likely to occur.
 - The percentage of its current retail and distribution center employees whose salaries are near the current minimum wage, and whose salaries may necessitate an increase given a change in minimum wage regulations.
 - The magnitude of the financial impact that a minimum wage increase would likely have on the registrant.

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

- .84 The registrant shall disclose the percentage of its 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.
 - The scope includes all employees employed by the registrant, including full-time, part-time, and temporary employees.

CN0401-18. Number and total duration of work stoppages

- .85 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.
- .86 The scope of disclosure includes work stoppage due to disputes between labor and management, including strikes and lockouts.

Note to **CN0401-18**

- .87 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 (1) labor law violations and (2) employment discrimination

- .88 The registrant shall disclose separately the amount (excluding legal fees) of all fines or settlements associated with labor law violations and the amount associated with 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.
- Employment 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).
- .89 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 **CN0401-19**

- .90 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.
- .91 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.

Management of Environmental & Social Impacts in the Supply Chain

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, fair labor practices, and climate change. These are issues that, when poorly managed, can affect the price and availability of food. Additionally, 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 prepackaged, and more efficient 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 likely be better positioned to protect shareholder value.

Accounting Metrics

CN0401-20. Discussion of strategy to manage environmental and social risks within the supply chain

- .92 The registrant shall discuss its strategy to manage environmental and social risks that are present within its food and food products supply chain, where environmental and social supply chain risks may include:
- Impacts on crop and livestock production due to climate change (e.g., changing temperatures, water stress, etc.) that may affect cost and availability of produce, meat, poultry, dairy, and processed foods products;
 - Animal feed price increases resulting from environmental and social factors and/or tightening environmental regulations that may have price impacts on meat, poultry, and dairy;
 - Fuel economy regulation that could result in increased transportation costs;
 - 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;
 - Limits on harvesting of fish that could affect the supply of seafood products; and/or
 - Animal welfare, human rights, or related supply chain incidents that may result in reputational damage.
- .93 The registrant should identify which products or product lines present risks to its operations, the risks that are represented, and the strategies the registrant uses to mitigate such risks.

.94 The registrant shall discuss its approach to managing its environmental and social supply chain risks and mitigating constraints, which may include screening, codes of conduct, audits, and/or certifications, among other strategies.

- For environmental risks, relevant strategies to discuss include the diversification of suppliers, supplier training programs on environmental best management practices, and audits or certifications of suppliers' environmental practices.
- For social risks, relevant strategies to discuss include supplier engagement on labor and human rights issues and maintenance of a supply chain code of conduct.

CN0401-21. Revenue from products third-party certified to an environmental and/or social sustainability sourcing standard

.95 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 federal 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.
- It has achieved a certification relating to animal welfare, such as Animal Welfare Approved, Global Animal Partnership, Certified Humane, and Humane Farm Animal Care.

.96 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

.97 The registrant should disclose, on a percentage of revenue basis, the standards to which its products are certified, including the following where relevant:

- A breakdown of the certifications by product category (e.g., meat, produce, packaged goods, etc.)
 - A product category is defined as a particular group of related products that offer a similar general functionality.
- A breakdown by certification type (i.e., based on the topic or scope of the standard), where certification types can include animal welfare, working conditions, organic, sustainable fishing or harvesting, etc.

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

.98 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.

.99 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**

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

.101 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

.102 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. Description of strategies to reduce the environmental impact of packaging

.103 The registrant shall discuss its strategies to reduce the environmental impacts of packaging, such as optimizing packaging weight and volume for a given application, or using alternative materials, including those that are renewable, recycled, recyclable, or compostable.

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

- Design innovations, including strategies to optimize the amount of material used; packaging weight, shape, and size; product-to-package ratio; cube utilization; and void fill.
- 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 [Global Protocol on Packaging Sustainability 2.0](#) metrics for Packaging Weight and Optimization and/or Assessment and Minimization of Substances Hazardous to the Environment.

.105 The registrant should discuss its strategies as they relate to primary, secondary, and tertiary packaging of its private-label products as well as the packaging of 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.

.106 The registrant may choose to discuss its use of Life Cycle Assessment (LCA) analysis in the context of its approach to environmental impact reduction and maximization of product efficiency, including weight reduction and transportation efficiency.

- When discussing improvements to the environmental efficiency of packaging products, improvements should be discussed in terms of LCA functional unit service parameters (i.e., time, extent, and quality of function).

Additional References

Consumer Reports [Greener Choices Eco-Labels](#)

ISO 18601:2013 Packaging and the environment [definitions](#)

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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®

September 2015
Provisional Standard

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 78 industries in 10 sectors.

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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 - 32¹ and referenced in AT 701², 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 U.S. 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 retail 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
- Patient Health Outcomes
- Drug Supply Chain Integrity

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, 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.

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."

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/>.

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-20⁶—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 \(SICSTM\)](#). 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.

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.”

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 Form 10-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

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.

⁸ See US GAAP consolidation rules (Section 810).

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).

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	Quantitative	Number	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 ¹⁰	Quantitative	Number	CN0402-D

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

¹⁰ Note to **CN0402-D**—Pharmacists are employees in the 29-1051 group of the EEO-1 Job Classification Guide who 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.

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.

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 (1) only customers' PII and (2) customers' PHI, number of customers affected in each category ¹¹	Quantitative	Number, Percentage (%)	CN0402-03
	Amount of legal and regulatory fines and settlements associated with data security and privacy ¹²	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 ¹³	Quantitative	Percentage (%)	CN0402-05
	Amount of legal and regulatory fines and settlements associated with controlled substances ¹⁴	Quantitative	U.S. Dollars (\$)	CN0402-06
Patient Health Outcomes	First fill adherence rate ¹⁵	Quantitative	Percentage (%)	CN0402-07
	Description of policies and practices to prevent prescription dispensing errors	Discussion and Analysis	n/a	CN0402-08
	Amount of legal and regulatory fines and settlements associated with prescription dispensing errors ¹⁶	Quantitative	U.S. Dollars (\$)	CN0402-09
	Percentage of gender and racial/ethnic group representation for pharmacists	Quantitative	Percentage (%)	CN0402-10
Drug Supply Chain Integrity	Discussion of efforts to reduce the occurrence of compromised drugs within the supply chain	Discussion and Analysis	n/a	CN0402-11
	Number of drug recalls, total units recalled, percentage for private-label products ¹⁷	Quantitative	Number, Percentage (%)	CN0402-12

¹¹ Note to **CN0402-03**—Disclosure shall include a description of corrective actions implemented in response to data security breaches.

¹² Note to **CN0402-04**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

¹³ Note to **CN0402-05**—Disclosure shall include a description of additional verification procedures the registrant uses when dispensing controlled substances prescriptions to prevent controlled substance abuse.

¹⁴ Note to **CN0402-06**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

¹⁵ Note to **CN0402-07**—Disclosure shall include a description of strategies used to increase medication adherence.

¹⁶ Note to **CN0402-09**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

¹⁷ Note to **CN0402-12**—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.

Energy Management in Retail

Description

Chain drug retailers and convenience store companies operate thousands of 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. Energy efficiency in operation and diversifying their energy portfolio across a range of sources can mitigate exposure to rising energy costs and limit a company's contribution to indirect GHG emissions.

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.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.
- .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).

¹⁸ SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.

Data Security & Privacy

Description

Drug retailers, as distributors of prescription medication and operators of retail health clinics, have access to and manage protected health information. Companies have a legal obligation to safeguard their customers' information, a task that includes the proper handling of sensitive information by staff in pharmacies and clinics, as well as the safe storage of information on physical and electronic media. Cyber-attacks may compromise data stored electronically, which is increasingly the medium of choice. In addition to health information, industry players also have access to their customers' financial and personal data; 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. Strong internal controls are essential to protect customer information. Retailers that prevent major data breaches, including point-of-sales breaches and cyber-attacks, can avoid harming brand value, reduce contingent liabilities, and maintain market share.

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 it addresses the collection, usage, and retention of customers' information, where:

- PHI is defined in 45 CFR 160.103 and referenced in Section 13400 of Subtitle D ("Privacy") of the Health Information Technology for Economic and Clinical Health (HITECH) Act as 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) there is a reasonable basis to believe the information can be used to identify the individual.
 - Health information is defined as 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 information that is transmitted by electronic media, maintained in electronic media, or transmitted or maintained in any other form or medium.

- PHI excludes individually identifiable health information in education records covered by the Family Educational Rights and Privacy Act (20 U.S.C. 1232g), records described at 20 U.S.C. 1232g(a)(4)(B)(iv), and employment records held by a drug retailer in its role as employer.
 - PII is defined as any information about an individual that is maintained by an entity, including 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 any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information.¹⁹
- .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.
- 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.
 - 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.
 - 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.
- .10 The registrant shall discuss the systems it uses to ensure compliance with the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy and Security Rules and the HITECH Act, including policies and practices related to the collection, usage, storage, and disposal of PHI and PII.
- .11 The registrant shall discuss its efforts to ensure compliance in the context of how it implements the following three categories of system security:
- Administrative safeguards, which are defined as documented, formal policies and procedures that are intended to manage the selection and execution of security measures to protect data and manage the conduct of personnel in relation to the protection of data.
 - Physical safeguards, which are defined as the protection of physical computer systems and the buildings holding such systems from natural and environmental hazards and inappropriate intrusion or removal.
 - Technical safeguards, which are defined as processes put in place to protect information, authenticate users, and control individual access to information.

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

- .12 Relevant practices to discuss include internal monitoring practices, technology and security programs to prevent data breaches, training programs and protocols in place for employees who handle PHI or PII, and disposal methods for paper and electronic PHI records.
- .13 The registrant shall disclose if it employs heightened security measures to ensure the security of PHI, including a discussion of those additional measures.
- .14 The registrant should not include in its disclosure any information that compromises the security of its systems or its enrollees' PHI or PII.

CN0402-03. Number of data security breaches, percentage involving (1) only customers' PII and (2) customers' PHI, number of customers affected in each category

- .15 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.
- .16 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.
- .17 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.).
- .18 The registrant shall disclose the percentage of data security breaches in which only customers' PII (but not PHI) 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.²⁰ The scope of disclosure is limited to breaches in which

²⁰ *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

customers were notified of the breach, either as required by state law or voluntarily by the registrant.

.19 The registrant shall disclose the percentage of data security breaches in which customer's PHI was breached, where:

- PHI is defined in 45 CFR 160.103 and referenced in Section 13400 of Subtitle D ('Privacy') of the Health Information Technology for Economic and Clinical Health Act (HITECH Act) as 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) there is a reasonable basis to believe the information can be used to identify the individual.
 - Health information is defined as any information, whether oral or recorded in any form or medium, that 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 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 information that is transmitted by electronic media, maintained in electronic media, or transmitted or maintained in any other form or medium.
 - PHI excludes individually identifiable health information in education records covered by the Family Educational Rights and Privacy Act (20 U.S.C. 1232g), records described at 20 U.S.C. 1232g(a)(4)(B)(iv), and employment records held by a covered entity in its role as employer.
 - PHI is a subset of PII.

.20 Disclosure shall include incidents in which encrypted data were acquired with an encryption key that was also acquired.

.21 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.

.22 The registrant shall disclose the total number of customers that were affected by data breaches of (a) only PII and (b) PHI, where:

- The number of customers affected includes all those whose personal data (PII or PHI) was compromised in a data breach.

Note to **CN0402-03**

- .23 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.
- .24 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.
- .25 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

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

- .26 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 HIPPA, the HITECH Act, Directive 2002/58/EC (ePrivacy Directive) of the Federal Trade Commission Privacy Act, and the US-EU Safe Harbor Program.
- .27 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**

- .28 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, improper disposal of health information, etc.) of fines and settlements.
- .29 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 record keeping, distribution, dispensing, disposal, and security of controlled substances. 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, and illegal drug dispensing. These actions may result in adverse social externalities, including public health consequences related to drug abuse and the illicit drug trade, which are on the rise in the U.S. Drug retailers are participating in statewide drug-monitoring programs to help mitigate some of the social issues associated with dispensing controlled substances. Furthermore, regulatory enforcement of the CSA requirements can result in fines and license suspensions. Strong internal management of controlled substances can mitigate these risks and help protect shareholder value in the long term.

Accounting Metrics

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

- .30 The registrant shall disclose the percentage of controlled substance prescriptions that it dispensed for which a pharmacist queried a PDMP database prior to dispensing the prescription, where:
- Controlled substances are defined in §802(6) of Title 21, United States Code (U.S.C.) as drugs that have some potential for abuse or dependence and are regulated by the federal Controlled Substances Act (CSA). Controlled substances exclude 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 about 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.
 - A PDMP shall be considered queried if the registrant has a record that an authorized individual accessed the applicable PDMP system prior to dispensing a prescription in an effort to locate patient prescription history information.
 - Patients and circumstances of a type that are excluded from PDMP reporting and querying, based on waiver or exemption established by state law, shall be excluded from the scope of this calculation.
- .31 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.

- Patients and circumstances that are excluded from PDMP reporting and querying based on state exemptions shall not be included in the number of controlled substance prescriptions dispensed where a PDMP was queried or the total number of controlled substance prescriptions dispensed.

Note to **CN0402-05**

- .32 The registrant shall describe any additional verification procedures it uses when dispensing controlled substance prescriptions in order to prevent controlled substance abuse.
- .33 Relevant strategies to discuss include:
- Practices to identify physicians and prescribers who exhibit extreme patterns of prescribing “high-risk drugs.”
 - Identification of “red flags” in customers, such as their age, payment methods, the prescriber of the medication, how long the customer has been taking the medication, and the geographic proximity of the prescriber.

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

- .34 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 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, U.S.C. as a drug or other substance, or immediate precursor of such a substance, that is 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.
- .35 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**

- .36 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., failure to report specific drug orders, selling a controlled substance above the legal quantity, or other inappropriate dispensing practices, etc.) of fines and settlements and any significant results of violations (including loss of DEA license to sell certain products).
- .37 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.

Patient Health Outcomes

Description

Drug retailers and pharmacists play an important role in the healthcare delivery system, as they provide patients with medications and are often the last healthcare professionals to interact and engage with patients before medications are consumed. Therefore, to provide the best level of care, drug retailers can enhance patient outcomes by improving communication, avoiding dispensing errors, and raising patients' drug-adherence rates (i.e., the degree to which patients follow their physician-specified drug regimens). Patients' failure to adhere to drug medication schedules can lead to suboptimal health outcomes and result in social externalities in the form of increased hospital visits and avoidable healthcare costs. Pharmacies have the opportunity to engage and educate patients on the importance of adhering to prescriptions, which provides beneficial outcomes for patients as well as for businesses, as more prescriptions are refilled. 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. Pharmacies occasionally have errors in dispensing medications that can result in harm to consumers and create financial liabilities. While these occur infrequently, relative to the number of prescriptions filled every year, they still present risks to customer satisfaction and drug retailers' reputations.

Accounting Metrics

CN0402-07. First fill adherence rate

- .38 The registrant shall disclose its customers' first fill adherence rate, where the rate is calculated as:
- The percentage of customer prescriptions that are required by the prescriber to have one or more refill and were refilled by the registrant at least once after the initial fill divided by the total number of customer prescriptions that were initially filled by the registrant and were required by the prescriber to have at least one additional refill, regardless of whether the prescription was refilled.
- .39 The scope includes prescriptions that were initially filled in the registrant's pharmacies and excludes prescriptions that were transferred into the registrant's pharmacy from another pharmacy, and out of the registrant's pharmacy after the initial fill.

Note to CN0402-07

- .40 The registrant shall describe the strategies it uses to increase medication adherence in its pharmacies, where:
- 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 prescription information, directions, and reminders 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, cultural, language, or other engagement training programs for pharmacists, programs that provide educational resources to patients, efforts to increase diversity of pharmacy staff, and any other programs aimed at improving adherence that are in place.

- .42 The registrant may choose to disclose its performance on other relevant metrics it uses to measure progress on medication adherence
- Where the registrant discloses additional metrics related to medication adherence, it shall disclose the methodology used to calculate each such metric.

CN0402-08. 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 the medicine indicated on a prescription and the medicine that the pharmacy delivers to the patient, including the dispensing of a medicine with inferior pharmaceutical or informational quality.²¹
- .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.

CN0402-09. 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, including the dispensing of a medicine with inferior pharmaceutical or informational quality.
- .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).

²¹ ACG Egberts and PMLA van den Bemt, "Drug-related problems: definitions and classification," *EJHP Practice*, Vol. 13, 2007, pp. 62–64.

Note to **CN0402-09**

- .49 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., dispensing the incorrect dose or incorrect medicine, 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.

CN0402-10. Percentage of gender and racial/ethnic group representation for pharmacists

- .51 The registrant shall classify its pharmacists according to the following definition from the U.S. Equal Employment Opportunity Commission [EEO-1 Job Classification Guide](#):
 - 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.
- .52 The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.
- .53 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.
- .54 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.
- .55 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.
- .56 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									

*NA = not available/not disclosed

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

Drug Supply Chain Integrity

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 the quality and safety of pharmaceutical and healthcare products is of great importance. Compromised drugs include those that are counterfeit or are recalled or withdrawn for various consumer health and safety reasons. These drugs may enter the supply chain, presenting business and social safety risks. When there is a lack of quality control in a drug retailer's supply chain, it can raise the potential for human consumption of dangerous products. This can lead to costly recalls, some of which are outside the direct control of the drug retailers but still present significant consumer health and business risks. The importance of this issue is elevated by the prevalence of store-brand products, which constitute a growing portion of drugstore sales.

Accounting Metrics

CN0402-11. Discussion of efforts to reduce the occurrence of compromised drugs within the supply chain

- .57 The registrant shall describe any practices or policies it has implemented to mitigate the introduction of counterfeit or compromised drugs into its supply chain, including, but not limited to, implementation of or updates to internal controls and updates to operations, management, processes, products, business partners, training, or technology.
- .58 Compromised drugs include counterfeit drugs and other drugs that are recalled or that are of substandard quality because of a health or other safety hazard, mislabeling or improper packaging, potential contamination, or poor manufacturing.
 - Counterfeit drugs are defined by the U.S. law as drugs sold under a product name without proper authorization. Counterfeiting can apply to both brand name and generic products, where the identity of the source is mislabeled in a way that suggests that it is the authentic, approved product. Counterfeit products may include products that lack the active ingredient, contain an insufficient or excessive quantity of the active ingredient, contain the wrong active ingredient, or have fake packaging.
- .59 Relevant processes to discuss include:
 - Vendor inspection and supply chain audits
 - Traceability and bar code systems (including those related to Drug Supply Chain Security Act (DSCSA) compliance)
 - Participation in industry partnerships and initiatives, such as audit sharing programs
 - Implementation of alert systems
 - Training programs for pharmacists and other supply chain employees

- Coordination with law enforcement
 - Customer feedback tools
- .60 The registrant shall discuss whether its practices to identify compromised drugs in the supply chain differ between its private-label products and national brand products.
- .61 The registrant shall specifically discuss its plan for achieving complete implementation of the DSCSA within the DSCSA-mandated timeframe, including 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.
- .62 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.

CN0402-12. Number of drug recalls, total units recalled, percentage for private-label products

- .63 The registrant shall disclose the total number of recalls for drug products that the registrant retails, where:
- Drugs are defined by the FD&C Act sec. 201(g)(1) as articles intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease and articles (other than food) intended to affect the structure or any function of the body of man or other animals.
 - 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.
 - A recall is defined as removal or correction of a marketed product that the FDA considers to be in violation of the laws it administers and against which the agency would initiate legal action.
 - Removal means the physical removal of a device from its point of use to some other location for repair, modification, adjustment, relabeling, destruction, or inspection.
 - Correction means repair, modification, adjustment, relabeling, destruction, or inspection of a product without its physical removal to some other location.
 - The scope includes all recalls of drugs for sale by the registrant, whether initiated by the FDA or voluntarily by the registrant.
 - The scope of recalls excludes market withdrawals, which are defined as a registrant's removal or correction of a distributed product that involves a minor violation that would not be subject to legal action by the FDA or that involves no violation (e.g., normal stock rotation practices).

- .64 The scope of disclosure includes voluntary recalls initiated by the registrant and recalls requested or mandated by the FDA (or other relevant government agency).
- .65 The registrant shall disclose the total number of drug product units available for sale by the registrant that were subject to a recall.
- .66 The registrant shall disclose the percentage of the total number of units recalled that were for private-label products.
 - 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.
- .67 The registrant may choose to disclose, in addition to the total number of drug recalls, the percentage of recalls that were (1) voluntarily, (2) FDA requested and (3) FDA mandated.
- .68 The registrant may choose to disclose the percentage of the total number of units recalled that were part of Class I recalls, where Class I recalls is defined as a situation in which there is a reasonable probability that the use of, or exposure to, a violative product will cause serious adverse health consequences or death.

Note to **CN0402-12**

- .69 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.
- .70 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 initiated voluntarily or at the request of the FDA
 - Corrective actions
 - Any other significant outcomes (e.g., legal proceedings, customer fatalities, etc.)

Additional References

U.S. FDA [Backgrounds and Definitions](#)

U.S. FDA [Drug Supply Chain Integrity](#) and [Counterfeit Drugs Questions and Answers](#)

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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®

September 2015
Provisional Standard

MULTILINE AND SPECIALTY RETAILERS & DISTRIBUTORS

Sustainability Accounting Standard

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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 - 32¹ and referenced in AT 701², 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 such as department stores, mass merchants, home products stores, and warehouse clubs, as well as a smaller segment of distributors like electronics wholesalers and automotive wholesalers. Common to these companies (except for the distribution segment) is that they manage global supply chains to anticipate consumer demands, keep costs low, and keep products stocked in their brick-and-mortar storefronts. This is a highly competitive industry, in which each company category generally has a small number of key players, characterized by generally low margins. The relatively substitutable nature of retail makes companies in this industry especially susceptible to reputational risks.

¹ http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7

² <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

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 involved in food or drug retail, e-commerce, or 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
- Fair Labor Practices
- 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

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

⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management's Discussion and Analysis

For purposes of comparability and usability, 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.

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."

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/>.

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-20⁶—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 \(SICSTM\)](#). 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.

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.”

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 Form 10-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.

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.

⁸ See US GAAP consolidation rules (Section 810).

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).

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) retail locations and (2) distribution centers	Quantitative	Number	CN0403-A
Total area of (1) retail space and (2) distribution centers	Quantitative	Square meters (m ²)	CN0403-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,

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

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.

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	Total energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0403-01
Data Security	Discussion of management approach to identifying and addressing data security risks	Discussion and Analysis	n/a	CN0403-02
	Number of data security breaches, percentage involving customers' personally identifiable information (PII), number of customers affected ¹⁰	Quantitative	Number, Percentage (%)	CN0403-03
Workforce Diversity & Inclusion	Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees	Quantitative	Percentage (%)	CN0403-04
	Amount of legal and regulatory fines and settlements associated with employment discrimination ¹¹	Quantitative	U.S. Dollars (\$)	CN0403-05
Fair Labor Practices	Average hourly wage and percentage of in-store employees earning minimum wage, by region	Quantitative	U.S. Dollars (\$), Percentage (%)	CN0403-06
	(1) Voluntary and (2) involuntary employee turnover rate for in-store employees	Quantitative	Rate	CN0403-07
	Amount of legal and regulatory fines and settlements associated with labor law violations ¹²	Quantitative	U.S. Dollars (\$)	CN0403-08
Product Sourcing, Packaging, and Marketing	Revenue from products third-party certified to environmental and/or social sustainability standards	Quantitative	U.S. Dollars (\$)	CN0403-09
	Description of processes to assess and manage risks and/or hazards associated with chemicals in products	Discussion and Analysis	n/a	CN0403-10
	Description of strategies to reduce the environmental impact of packaging	Discussion and Analysis	n/a	CN0403-11

¹⁰ Note to **CN0403-03**—Disclosure shall include a description of corrective actions implemented in response to data security breaches.

¹¹ Note to **CN0403-05**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

¹² Note to **CN0403-08**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Energy Management in Retail & Distribution

Description

Companies in this industry require significant amounts of energy for their retail facilities and warehouses. Sustainability factors—such as the increasing number of GHG-emissions regulations, incentives for energy efficiency and renewable energy, and risks associated with nuclear energy and its increasingly limited license to operate—are leading to price increases in conventional electricity sources while making alternative sources more cost-competitive. Fossil fuel-based energy production and consumption contribute to significant environmental impacts, including climate change and pollution. It is becoming increasingly important for companies to manage their overall energy efficiency, and their access to alternative energy sources. 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. 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).

¹³ SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.

Data Security

Description

Consumers trust retail companies with their financial and personal data every time they make a noncash transaction. Credit cards and debit cards have steadily eclipsed cash and checks as consumers' preferred payment methods. In these noncash transactions, retailers build up a relationship of trust with consumers, assuring them of the safety of their personal information. Data breaches can occur both through breaches of the physical payment technology, called point-of-sales breaches, as well as through cyber-attacks. Retailers that prevent major data breaches can avoid harming brand value, reduce contingent liabilities, and maintain market share.

Accounting Metrics

CN0403-02. Discussion of management approach to identifying and addressing data security risks

- .08 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.
- .09 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.
- .10 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.
- .11 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.).
- .12 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.

- .13 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)

CN0403-03. Number of data security breaches, percentage involving customers’ personally identifiable information (PII), number of customers affected

- .14 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.
- .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 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.).
- .17 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

¹⁴ *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- 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.

.18 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.

Note to **CN0403-03**

.19 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.

.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.

.21 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

Workforce Diversity & Inclusion

Description

This industry is consumer-facing and relies on the ability to communicate effectively with customers during the sales process and adapt to changing consumer demands for products. The U.S. population is currently undergoing a massive demographic shift, with an increase in minority populations. Companies in this industry can benefit from ensuring that their company culture and hiring and promotion practices embrace the building of a diverse workforce at management and junior positions. Retailers that respond to this demographic trend and employ staff who will be able to recognize the needs of these populations may be better able to capture demand from these segments, which can provide companies a competitive advantage.

Accounting Metrics

CN0403-04. Percentage of gender and racial/ethnic group representation for (1) management and (2) all other employees

- .22 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 in management roles other than those of 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-Level 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 managers, 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 managers.

- 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.

- .23 The registrant shall categorize the gender of its employees as male, female, or not disclosed/available.
- .24 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.
- .25 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.
- .26 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.
- .27 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.

CN0403-05. Amount of legal and regulatory fines and settlements associated with employment discrimination

- .28 The registrant shall disclose the amount (excluding legal fees) of all fines or settlements associated with discrimination.
- .29 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 and includes sexual harassment, is prohibited by Title VII of the Civil Rights Act of 1964.

.30 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 **CN0403-05**

- .31 The registrant shall briefly describe the nature (e.g., guilty plea, deferred agreement, or non-prosecution agreement) and context (e.g., unfair hiring and/or promotion practices, biased compensation practices, etc.) of fines and settlements.
- .32 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.

Fair Labor Practices

Description

Retail's significance to the U.S. economy as a major employer means that it is also often at the center of public labor-practice discussions and fair wage arguments. This can have serious reputational implications for companies in the industry whose performance on labor relations is poor. The low average wages in the industry, which help companies maintain low prices on products, may increase these labor-related risks. Since customers regularly interact directly with employees, companies can face a decrease in market share and revenue from negative consumer sentiment due to public disagreement between companies and their workers. Companies may benefit from taking a long-term perspective on managing workers, including fair compensation, in a way that protects workers' rights and enhances their productivity, which can help to strengthen a company's reputation and financial success.

Accounting Metrics

CN0403-06. Average hourly wage and percentage of in-store employees earning minimum wage, by region

- .34 The registrant shall disclose the average hourly wage, in U.S. dollars, paid to in-store and distribution center 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.
 - In-store employees are classified in the Bureau of Labor Statistics (BLS) Standard Occupation Classification under the General Merchandise Stores subsector (NAICS 452) and includes cashiers; customer service representatives; first-line supervisors/managers of retail sales workers; retail salespersons; and stock clerks and order fillers.
 - If segment reporting (as determined by FASB Accounting Standards Codification Topic 280) does not apply to the registrant, the registrant should disclose one number for the average hourly wage paid to its in-store and distribution center employees.
- .35 The average hourly wage is calculated as the total hourly wages (in U.S. dollars) paid to in-store and distribution center employees, excluding overtime, for the fiscal year, divided by the number of regular hours worked, excluding overtime hours, by in-store and distribution center employees during the fiscal year.
- .36 The registrant shall disclose the percentage of in-store employees that earn minimum wage, where:
- Minimum wage is defined as the locally mandated minimum wage applicable for each worker.
 - For countries or regions with no 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.

- .37 The registrant shall disclose the minimum hourly wage for each geographic region for which it conducts segment financial reporting.
- .38 The registrant should discuss the sensitivity of its costs and profit margins to future adjustments in minimum wage, including:
- The likelihood of a minimum wage increase in the regions where the registrant operates, and the regions in which this is more likely to occur.
 - The percentage of its current retail and distribution center employees whose salaries are near the current minimum wage, and whose salaries may necessitate an increase given a change in minimum wage regulations.
 - The magnitude of the financial impact that a minimum wage increase would likely have on the registrant.

CN0403-07. (1) Voluntary and (2) involuntary employee turnover rate for in-store employees

- .39 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 and distribution center employees (i.e., those employees who work on-site in retail facilities, warehouses, or distribution centers).
- .40 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.
- .41 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.

CN0403-08. Amount of legal and regulatory fines and settlements associated with labor law violations

- .42 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.

- .43 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 **CN0403-08**

- .44 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.
- .45 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

Companies in this industry sell a wide array of products including electronics, clothing, furnishings, and cosmetics, which all have varying environmental and social impacts throughout their lifecycles. The size and subsequent buying power of many companies in this industry allow them to work effectively with their suppliers to source products and packaging with low lifecycle environmental and social impacts. Companies can lower their costs from these efficiencies, as well as advertise these characteristics to their customers, to gain market share.

Accounting Metrics

CN0403-09. Revenue from products third-party certified to environmental and/or social sustainability standards

- .46 The registrant shall disclose its revenue, in U.S. dollars, from products that are third-party certified to an environmental or social sustainability standard, 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. EPA 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 or sustainability standards promulgated by organizations such as the American National Standards Institute (ANSI) or ASTM International, including, but not limited to, Fair Trade Certified, Forestry Stewardship Council (FSC), Sustainable Forestry Initiative (SFI), Rainforest Alliance Certified, BPI Compostable, Cradle to Cradle, Green Seal, or Marine Stewardship Council.
 - A product with third-party certification shall be considered certified regardless of what level or tier of certification it received.
- .47 Third-party certification is defined as review by an independent organization that determines that the final product complies with specific standards.
- .48 The scope of disclosure includes third-party certifications that are based on either environmental or social best practices or both environmental and social best practices.

CN0403-10. Description of processes to assess and manage risks and/or hazards associated with chemicals in products

- .49 The registrant shall describe the business and operational processes it employs to assess and manage potential risks and hazards associated with materials, chemicals, and substances (hereafter “chemicals”) in products it offers for sale.
- The scope of disclosure shall focus on chemicals that may be detected at certain levels in the national brand products and private-label products and that are offered for sale by the registrant.

- Private-label products include store-brand products packaged for sale under the registrant's brand name(s), whether manufactured by the registrant or by another manufacturer.
- The registrant may choose to discuss its management of chemicals used during manufacturing and production of products or that are associated with the production of raw materials or components of products, but which are not present in finished products.

.50 The registrant shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:

- A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human-health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and the dosages (amounts) of a substance it takes to cause an adverse effect.¹⁵
- A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure (i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.¹⁶
- Other approaches may include the usage of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.

.51 The registrant shall describe the operational processes it employs for chemicals management, where:

- Relevant operational processes that typify hazard-based approaches include limiting or restricting certain chemicals in products it chooses to sell because the chemicals may be prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in finished products (e.g., use of a restricted substances list (RSL) for chemicals that are banned where the registrant operates and/or for chemicals that the registrant has chosen to limit or eliminate).
- Relevant operational processes that typify risk-based management include evaluating products' chemical hazard data, conducting an assessment of exposure pathways resulting from use of products, and identifying potential corresponding health risks from products through the use of screening methods and chemical risk framework tools, such as the World Health Organization (WHO) [Human Health Risk Assessment Toolkit: Chemical Hazards](#) and the International Council of Chemical Associations (ICCA) [Guidance on Chemical Risk Assessment](#).

¹⁵ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

¹⁶ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

- Additional frameworks for hazard- and risk-based chemical assessments include those compiled by the Organisation for Economic Co-operation and Development (OECD), available [here](#).
- .52 The registrant shall describe how it prioritizes chemicals for reduction and/or elimination from products it offers for sale, how it communicates these priorities to suppliers and enforces compliance, and whether it encourages or requires suppliers to consider alternative chemicals in product formulations.
- Examples of assessment tools and methods include, but are not limited to, GreenScreen® For Safer Chemicals and U.S. EPA Design for the Environment (DfE) [Alternatives Assessments](#).
- .53 The registrant shall disclose whether it has a policy to require disclosure of full chemical formulations for the products it offers for sale (both national brand and private label products), where:
- Disclosure is defined as disclosure of the full product formulations and all product ingredients, including all priority chemicals, either online, to the registrant, to a third-party, or directly on the product packaging or label.
- .54 The registrant shall disclose if it pursues testing and/or third-party certification to verify the chemical content of its private-label products or if it selects national brand products based on whether they have obtained third-party certification that verifies their chemical content, including which certifications it holds and which products the certifications apply to.
- .55 The registrant may choose to identify chemicals found in its product portfolio that it has a policy for to reduce, eliminate, or assess for reasons such as:
- There is incomplete and/or insufficient availability of toxicity information such that the registrant cannot determine if the chemical is safe for use;
 - Pending or anticipated regulations may limit or restrict the use of the chemical in the future;
 - There is potential for environmental harm, but not human health harm, that the registrant wishes to limit; and/or
 - In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the registrant as being “of concern” to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).
- .56 Where the registrant has identified specific chemicals for elimination or substitution in its product portfolio, it should discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals.
- .57 The registrant should discuss its policy for selecting products to sell that use chemicals 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, including its policy for labeling such products.

- .58 Where applicable, the registrant shall discuss its approach to chemicals management in the context of each stage in its private-label products' lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.
- .59 Where chemicals management policies and practices differ significantly by business unit, product category, or geography, the registrant shall describe those differences.

CN0403-11. Description of strategies to reduce the environmental impact of packaging

- .60 The registrant shall discuss its strategies to reduce the environmental impacts of packaging, such as optimizing packaging weight and volume for a given application, or using alternative materials, including those that are renewable, recycled, recyclable, or compostable.
- .61 Relevant disclosure may include, but is not limited to, the following:
- Design innovations, including strategies to optimize the amount of material used; packaging weight, shape, and size; product-to-package ratio; cube utilization; and void fill.
 - 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 [Global Protocol on Packaging Sustainability 2.0](#) metrics for Packaging Weight and Optimization and/or Assessment and Minimization of Substances Hazardous to the Environment.
- .62 The registrant should discuss its strategies as they relate to primary, secondary, and tertiary packaging of its private-label products as well as the packaging of 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.
- .63 The registrant may choose to discuss its use of Life Cycle Assessment (LCA) analysis in the context of its approach to environmental impact reduction and maximization of product efficiency, including weight reduction and transportation efficiency.

- When discussing improvements to the environmental efficiency of packaging products, improvements should be discussed in terms of LCA functional unit service parameters (i.e., time, extent, and quality of function).

Additional References

Consumer Reports [Greener Choices Eco-Labels](#)

ISO 18601:2013 Packaging and the environment [definitions](#)

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SUSTAINABILITY ACCOUNTING STANDARD
CONSUMPTION II SECTOR

E-COMMERCE

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0404

Prepared by the
Sustainability Accounting Standards Board®

September 2015
Provisional Standard

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 78 industries in 10 sectors.

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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 - 32¹ and referenced in AT 701², 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 goods and services. Firms in this industry sell to consumers as well as to other businesses. Because of 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 retail operations of companies. Many consumer goods manufacturers and

¹ http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7

² <http://pcaobus.org/Standards/Attestation/Pages/AT701.aspx>

retailers have incorporated, or are in the process of incorporating, an E-Commerce component to their business. SASB has separate standards for the Multiline and Specialty Retailers & Distributors (CN0403); Apparel, Accessories & Footwear (CN0501); and Toys & Sporting Goods (CN0604) industries. Depending on the specific activities and operations of firms in the aforementioned industries, disclosure topics and accounting metrics associated with E-Commerce may also be relevant.

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.”

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

⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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. Sustainability Accounting Standard Disclosures in Form 10-K

a. Management’s Discussion and Analysis

For purposes of comparability and usability, 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

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.”

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/>.

Guidance on Accounting for Sustainability Topics

For each sustainability topic included in the E-Commerce 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-20⁶—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

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.”

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 Form 10-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

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.

⁸ See US GAAP consolidation rules (Section 810).

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).

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
Data processing capacity, percentage outsourced ¹¹	Quantitative	See note	CN0404-B
Number of shipments	Quantitative	Number	CN0404-C

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 measure may be sales transactions, purchase transactions, number of searches, monthly active users, page views, unique URLs, etc.

¹¹ Note to **CN0404-B**—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).

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.

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 and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress	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 (GHG) footprint of product shipments	Quantitative	Metric 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	Employee engagement as a percentage ¹³	Quantitative	Percentage (%)	CN0404-10
	(1) Voluntary and (2) involuntary employee turnover rate	Quantitative	Rate	CN0404-11
	Percentage of gender and racial/ethnic group representation for (1) executives, (2) technical staff, and (3) all others	Quantitative	Percentage (%)	CN0404-12
	Percentage of technical employees who are H-1B visa holders	Quantitative	Percentage (%)	CN0404-13
	Percentage of successful H-1B visa applications	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.

¹³ Note to **CN0404-10**—Disclosure shall include a description of the methodology employed.

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 the 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 well manage this issue 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.¹⁴
 - 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 and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress

- .09 The registrant shall disclose the amount of water (in thousands of cubic meters) that was withdrawn from all sources, where:
- Water sources include surface water (including water from wetlands, rivers, lakes, and oceans), groundwater, rainwater collected directly and stored by the registrant, wastewater obtained from other entities, municipal water supplies, or supply from other water utilities.

¹⁴SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.

- .10 The registrant may choose to disclose the portion of its supply by source if, for example, significant portions of withdrawals are from non-fresh water sources, where:
- 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 in compliance with U.S. [National Primary Drinking Water Regulations](#) can be assumed to meet the definition of fresh water.
- .11 The registrant shall disclose the amount of water (in thousands of cubic meters) that was consumed in its operations, where water consumption is defined as:
- Water that evaporates during withdrawal, usage, and discharge;
 - Water that is directly or indirectly incorporated into the registrant’s product or service; and
 - Water that does not otherwise return to the same catchment area from which it was withdrawn, such as water returned to another catchment area or the sea.
- .12 The registrant shall analyze all of its operations for water risks and identify activities that withdraw and consume water in locations with High (40–80%) or Extremely High (>80%) Baseline Water Stress as classified by the World Resources Institute’s (WRI) Water Risk Atlas tool, Aqueduct (publicly accessible online [here](#)).
- .13 The registrant shall disclose its water withdrawn in locations with High or Extremely High Baseline Water Stress as a percentage of the total water withdrawn.
- .14 The registrant shall disclose its water consumed in locations with High or Extremely High Baseline Water Stress as a percentage of the total water consumed.

CN0404-03. Description of the integration of environmental considerations into strategic planning for data center needs

- .15 The registrant shall discuss the environmental considerations that it integrates into siting, design, construction, refurbishment, and operational specifications for its data centers, including factors related to energy and water consumption.
- .16 The scope of disclosure shall include data centers currently owned and operated by the registrant, data centers that have been planned or are under construction, and outsourced data center services, insofar as their selection integrates environmental considerations.
- .17 Examples of environmental factors may include, but are not limited to, energy-efficiency standards; layout design, such as “hot aisle/cold aisle” layouts; and location-based factors, such as accounting for regional

humidity, average temperature, water availability and groundwater stress, regional- or state-level carbon legislation or pricing, and the carbon intensity of electricity from the local grid.

- .18 The registrant shall describe how the environmental considerations it identifies were incorporated into decisions related to its data centers that were made during the fiscal year, including if they influenced decisions to insource or outsource data center services, improve efficiency of existing data centers, and/or construct new data centers.

Logistics & Packaging Efficiency

Description

A significant part of the E-Commerce industry's added value comes from firms' ability to move a wide array of goods efficiently to consumers who would otherwise have to personally travel to collect the goods from brick-and-mortar stores. As the volume of packaging shipments increases, the industry may become more exposed to environmental externalities, such as carbon pricing and subsequent rising fuel costs that present risks associated with the shipping of its products. While firms that outsource shipping and logistics have less control over the specific processes of shipping operations, they can still select suppliers with 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 on to their customers. Additionally, e-commerce firms have an incentive to minimize the use of packaging. Efficient packaging can lead to cost savings from reducing the amount of material that needs to be purchased, as well as saving on logistics costs, as more products can fit into a single shipping load.

Accounting Metrics

CN0404-04. Total greenhouse gas (GHG) footprint of product shipments

- .19 The registrant shall disclose the complete tank-to-wheels greenhouse gas (GHG) footprint, in metric tons of CO₂-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).
- .20 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).
- .21 The scope of disclosure includes emissions from all modes of transportation, such as road freight, air freight, barge transport, marine transport, and rail transport.
- .22 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 (Gt)" 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.
- .23 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).

.24 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

.25 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 product transportation.

.26 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 choices, including, but not limited to, decisions to utilize recycled or renewable (e.g., bio-based plastic) packaging material, decisions to optimize the amount of packaging materials used (e.g., source reduction), use of refillable or reusable packaging, and design for efficient shipping and transport.
- Discussion of fuel choices and vehicle choices for fleets owned and/or operated by the registrant, such as decisions to use renewable and low-emission fuels and low-emission vehicles.
- Other relevant strategies, such as efforts to reduce idling of vehicles owned and/or operated by the registrant, innovations to improve the efficiency of “last-mile” delivery, and strategies to optimize delivery times to reduce traffic congestion.

Data Security & Fraud Protection

Description

The general model 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 as a secure company will become increasingly important to maintain or gain market share. There is an opportunity for the most trusted brands to position themselves favorably in the eyes of consumers and gain a significant competitive advantage. This makes customer loyalty, which is highly influenced by the perception of the safety of the customer's valuable financial and personal information, particularly important to maintaining market share.

Accounting Metrics

CN0404-06. Discussion of management approach to identifying and addressing data security risks

- .27 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.
- .28 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 and services, selection of business partners, employee training, or use of technology.
- .29 The registrant should discuss trends it has observed in type, frequency, and origination of attacks to its data security and information systems.
- .30 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.).
- .31 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.

- .32 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

- .33 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.
- .34 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.
- .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 necessarily be indicative of future operating results or financial condition (e.g., theft of intellectual property, reduced revenue, increased cybersecurity protection expenditure, litigation costs, etc.).
- .36 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.¹⁵

¹⁵ *Privacy: Alternatives Exist for Enhancing Protection of Personally Identifiable Information*, GAO Report 08-536, May 2008.

- 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.

.37 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.

Note to **CN0404-07**

.38 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.

.39 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.

.40 The registrant should disclose its policy for disclosing data breaches to affected customers in a timely manner.

Data Privacy

Description

E-commerce companies have access to consumer information, including financial information, purchase history, and basic demographic data. 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 target advertising or product recommendations based on consumers' 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 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

- .41 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.
- .42 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.

.43 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

.44 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.¹⁶

.45 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.

¹⁶ *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.
- .46 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.
- .47 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).

Employee Recruitment, Inclusion, and Performance

Description

Employees are key contributors to value creation in the E-Commerce industry. While the number of job openings in the industry continues to grow, companies are finding it difficult to recruit qualified employees to fill these positions. The shortage in technically skilled domestic workers has created intense competition to acquire highly skilled employees, contributing to high turnover rates. This competition for talent and the search for innovation opportunities presents several interrelated sustainability challenges regarding human capital that companies must manage. Hiring foreign nationals to compensate for shortages in local talent can create risks related to perceived social implications in the host and home countries of workers. Companies offer significant monetary and nonmonetary benefits to improve employee engagement and, therefore, retention and productivity. Initiatives to improve employee engagement and work-life balance might influence the recruitment and retention of a diverse workforce. As the industry is characterized by relatively low representation from women and minority groups, efforts to recruit from and develop diverse talent pools can serve to address the talent shortage and generally to improve the value of company offerings. Greater workforce diversity is important for innovation, and it helps companies understand the needs of their diverse and global customer base.

Accounting Metrics

CN0404-10. Employee engagement as a percentage

- .48 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.
- .49 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 **CN0404-10**

- .50 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).

- .51 When 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.
- .52 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.
- .53 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.

CN0404-11. (1) Voluntary and (2) involuntary employee turnover rate

- .54 The registrant shall disclose employee turnover as a percentage, where:
 - Turnover shall be calculated and disclosed separately for voluntary and involuntary departures.
- .55 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.
- .56 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 total number of employees during the fiscal year.

CN0404-12. Percentage of gender and racial/ethnic group representation for (1) executives, (2) technical staff, and (3) all others

- .57 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 other employees (i.e., other EEO-1 categories, including mid-level managers, professionals, technicians, sales, admin support, and service workers).
- .58 The registrant shall further classify other employees as (2) technical staff and (3) all others, where:
 - Technical staff includes employees categorized in the [15-0000 group](#) (Computer and Mathematical Occupations) or [17-0000 group](#) (Architecture and Engineering Occupations) of the Standard Occupation Classification (SOC) system from U.S. Bureau of Labor Statistics (BLS).
 - All others include all remaining employees not classified as Executives/Sr. Managers or technical staff.
- .59 The registrant shall categorize the gender of its employees as: male, female, or not disclosed/available.
- .60 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.

- .61 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.
- .62 Where relevant, the registrant may provide supplemental breakdown of gender and racial/ethnic group representation by country or region.
- .63 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									
Technical staff									
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.

CN0404-13. Percentage of technical employees who are H-1B visa holders

- .64 The registrant shall disclose the percentage of its technical workforce that held valid H-1B visas as of the close of the fiscal year, where:
 - Technical staff includes employees categorized in the 15-0000 group (Computer and Mathematical Occupations) or 17-0000 group (Architecture and Engineering Occupations) of the Standard Occupation Classification (SOC) system from U.S. Bureau of Labor Statistics (BLS).
- .65 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.
- .66 The scope of employees includes those directly employed by the registrant and excludes contractors and outsourced employees.
- .67 The scope of employees includes both full- and part-time employees.

CN0404-14. Percentage of successful H-1B visa applications

- .68 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).
- .69 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.
- .70 The scope includes new and renewal visa petitions and LCAs, as well as petitions to transfer an LCA.

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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®

September 2015
Provisional Standard

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 78 industries in 10 sectors.

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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 - 32¹ and referenced in AT 701², 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 retailing of various products, including men’s, women’s, and children’s clothing, handbags, jewelry, watches, and footwear. These companies operate globally, and many are headquartered outside the U.S. Although the U.S. remains the largest single market for many apparel, accessories, and footwear companies, products are largely manufactured and imported from outside the U.S. Most companies in the industry outsource manufacturing to vendors in emerging markets and focus on design, wholesaling, marketing, and retail activities.

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 Apparel, Accessories & Footwear industry, SASB has identified the following sustainability disclosure topics:

- Management of Chemicals in Products
- Labor Conditions in the Supply Chain
- Raw Material Sourcing & Innovation
- 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:

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, 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 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-20⁶—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 \(SICSTM\)](#). 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

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.”

Securities Exchange Act of 1934 (the Exchange Act),⁷ for use in SEC filings, including, without limitation, annual reports on Form 10-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.

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.

⁸ See US GAAP consolidation rules (Section 810).

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).

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

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,

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 defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities). Suppliers beyond tier 1 are the key suppliers to the registrant’s tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., 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.

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.

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
Management of Chemicals in Products	Description of processes to maintain compliance with restricted substances regulations	Discussion and Analysis	n/a	CN0501-01
	Description of processes to assess and manage risks associated with chemicals in products	Discussion and Analysis	n/a	CN0501-02
Raw Material Sourcing & Innovation	Top five raw materials used in products, by weight ¹¹	Quantitative	Metric tons (t)	CN0501-03
	Percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard	Quantitative	Percentage (%) by weight	CN0501-04
Labor Conditions in the Supply Chain	Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 that have been audited to a labor code of conduct, percentage conducted by a third-party auditor	Quantitative	Percentage (%)	CN0501-05
	Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits	Quantitative	Rate	CN0501-06
	Discussion of greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	Discussion and Analysis	n/a	CN0501-07
Environmental Impacts in the Supply Chain	Percentage of (1) tier 1 supplier facilities and (2) supplier facilities beyond tier 1 with wastewater discharge meeting or exceeding legal requirements ¹²	Quantitative	Percentage (%)	CN0501-08
	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 or equivalent environmental data collection	Quantitative	Percentage (%)	CN0501-09

¹¹ Note to **CN0501-03**—Disclosure shall include a discussion of environmental and social risks associated with sourcing each of the top five raw materials used in products.

¹² Note to **CN0501-08**—Disclosure shall include a description of the risk related to wastewater discharge and the wastewater treatment and management method(s) used.

Management of Chemicals in Products

Description

The introduction of the Consumer Product Safety Improvement Act in the U.S. and the Registration, Evaluation, Authorization, and Restriction of Chemicals legislation in the E.U. demonstrates increasing regulatory and stakeholder concern surrounding the use of harmful or potentially harmful substances in consumer products, including apparel, accessories, and footwear. Finished apparel and footwear products have been found to contain traces of chemicals that have been banned or regulated. Depending on the chemical, the amount present in a product, and the type of exposure that consumers face, specific substances can be carcinogenic, and can disrupt hormone activity in humans and other organisms. Companies in this industry must work at both the design and manufacturing phases to manage the use of chemicals of concern, develop safe alternatives, and eliminate those that have been banned. Given the industry's reliance on outsourced manufacturing, this requires proactive partnerships with suppliers. In managing this issue, companies must balance the hazard posed by certain chemicals, some of which are important to the functionality or quality of a product, with the risk that consumers face in using these products. Failure to manage this issue may generate additional regulatory oversight and impact a company's social license to operate. In addition, the presence of harmful chemicals in products can lead to recalls, litigation, and reputational damage.

Accounting Metrics

CN0501-01. Description of processes to maintain compliance with restricted substances regulations

- .01 The registrant shall describe the processes it uses to verify that its products are in compliance with restricted substances regulations to which they are subject (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question Gen-B-4.1), where:
 - Restricted substances regulations are defined as laws, rules, and regulations that restrict or ban the use of certain materials, chemicals, and substances in finished home textile, apparel, and footwear products.
- .02 The registrant shall discuss its use of finished product and product input laboratory testing and verification, restricted substance lists (RSL), material supplier (i.e., vendor) agreements, and/or input stream management where:
 - An RSL is defined as a list of chemicals that the registrant restricts from inclusion in materials, components, and products that it produces. This list typically includes the common names of the chemicals, the Chemical Abstracts Service (CAS) numbers, the restriction levels in the final product or tested component, and the test method.
 - Material supplier agreements are defined as contracts between the registrant and its manufacturing suppliers that limit regulated substances to their restricted levels in the products that the supplier manufactures.

- Input stream management is defined as a preventive process for monitoring and optimizing chemical recipes, proactive reactants and reagents, or material inputs (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.5).
- .03 The registrant shall describe the verification and testing processes it employs to confirm that its materials maintain compliance with restricted substances regulations, (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-3.1) including:
- Whether the registrant tests each product input or finished products
 - Product inputs are defined as the component(s) of the finished product
 - Whether the registrant conducts its own lab testing or if testing is done by a third party
 - The frequency of testing, including whether or not random sampling is conducted
 - Whether the registrant has a standard operating procedure (SOP) for verifying compliance with restricted substances regulations as a part of its material selection and approval process (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-5.2).
- .04 The registrant shall describe the scope of the RSL(s) it uses, including whether it:
- Uses separate RSLs to manage legal compliance within each market it operates in or applies a single RSL to products in all markets in which it operates, regardless of whether the RSL contains chemicals that are not be regulated in certain markets.
 - Uses one or more RSL that it has independently developed or if it uses an industry-accepted RSL (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.1).
 - An industry-accepted RSL is defined as an RSL that is promulgated by an industry or trade organization (e.g., American Apparel & Footwear Association (AAFA) Restricted Substance List (RSL), June 2015 | Release 16).
 - Uses an RSL that reflects the strictest regulation in all of the countries or markets in which the brand operates and sells products (e.g., regulations that apply to manufacturing, marketing, and sales locations). (Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B.2.1.)
 - Strictest regulation is defined as the lowest allowable concentration of the regulated chemical found in any regulation in all locations worldwide where the chemical is regulated.
 - Uses an RSL that reflects the most restrictive allowable limits in all locations worldwide where the chemicals that may be used in the registrant’s products are regulated (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B.2.2).
 - An example of an RSL that reflects the most restrictive allowable limits worldwide is the American Apparel & Footwear Association (AAFA) RSL, June 2015 | Release 16.

- Uses one or more RSL that includes voluntary limits or bans of chemicals beyond what is covered in the most restrictive global regulations, or if it includes chemicals that may not be subject to regulation but which the registrant has voluntarily chosen to limit or ban from its products (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.3 and GEN-B-4.5.1).
 - An example of an RSL that includes chemicals that may not be subject to regulation but which a registrant may voluntarily have chosen to limit or ban from its products is the List of Non-Regulated Substances Contained in the AFIRM RSL Guidance.
- .05 The registrant shall disclose whether the RSL(s) it uses is publicly available and shall disclose its location. (Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-2.4.)
- Public disclosure is defined as online disclosure of the full list of chemicals on the RSL, their restriction limits, and the regulations to which the chemicals are subject.
- .06 The registrant shall disclose how it enforces compliance with restricted substances regulations within its supply chain, including:
- How it requires its suppliers to demonstrate adherence (i.e., through self-declaration or if the registrant includes RSL compliance requirements in supplier contracts/agreements) (Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question MAT-B-3.1).
 - Which tiers (i.e. tier 1, tier 2, or beyond tier 2) of suppliers the registrant directly verifies to be in compliance with restricted substance regulations.
 - How the registrant enforces corrective actions when it identifies non-compliance with its RSL(s) (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.3.1 and GEN-B-4.3.3).

CN0501-02. Description of processes to assess and manage risks and/or hazards associated with chemicals in products

- .07 The registrant shall describe the business and operational processes it employs to assess and manage potential risks and hazards associated with materials, chemicals, and substances (hereafter “chemicals”) (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.7).
- The scope of disclosure shall focus on chemicals that may be detected at certain levels in the registrant’s finished products
 - The scope of disclosure excludes chemicals management processes for chemicals used during manufacturing and production processes or that are associated with the production of raw materials or components of its products, but which are not present in finished products, which are addressed through CN0501-09.

- .08 Where chemicals management policies and practices differ significantly by business unit, product category, or geography, the registrant shall describe those differences.
- .09 The registrant shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:
- A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human-health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and dosages (amounts) of a substance it takes to cause an adverse effect.¹³
 - A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure (i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.¹⁴
 - Other approaches may include the usage of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.
- .10 The registrant shall describe the operational processes it employs for chemicals management, where:
- Relevant operational processes used for hazard-based approaches include the exclusion of chemicals in a finished product because their use is prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in the registrant's products (e.g., use of a comprehensive restricted substances list (RSL) for chemicals that are banned globally or in locations where the registrant operates) (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question MAT-B-4.1).
 - Relevant operational processes that typify risk-based management include evaluating chemical hazard data, conducting assessment of exposure pathways, and identifying potential corresponding health risks through the use of screening methods and chemical risk framework tools, such as the World Health Organization (WHO) [Human Health Risk Assessment Toolkit: Chemical Hazards](#), the International Council of Chemical Associations (ICCA) [Guidance on Chemical Risk Assessment, and](#) the Outdoor Industry Association's Chemicals Management Framework Tool.
 - Additional frameworks for hazard- and risk-based chemical assessment include those compiled by the Organisation for Economic Co-operation and Development (OECD), available [here](#).

¹³ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

¹⁴ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

- .11 The registrant shall discuss its approach to chemicals management in the context of each stage in its products' lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.
- .12 The registrant shall describe how it prioritizes chemicals for reduction and/or elimination from its products and how it works to incorporate alternative chemicals into product formulation and design, including through materials substitution assessments (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator questions GEN-B-4.6.1 and MAT-B-4.3).
- .13 The registrant shall describe whether it designs its products according to one or more green chemistry principles, including how it prioritizes a set of chemicals from its full product portfolio and evaluates sourcing options and potential material innovation (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question MAT-B-4.1 and MAT-B-4.3).
 - Green chemistry principles are defined by the [12 Principles of Green Chemistry](#).
 - A product shall be considered to have been designed with green chemistry principles if documentation shows that tools, frameworks, standards, and/or certifications were used to incorporate one or more green chemistry principle into the design, materials selection, manufacturing processes, use-phase, and/or end-of-life disposal of the product.
- .14 The registrant shall disclose whether it pursues third-party certifications to verify the chemical content of its finished products, including which certifications it holds and which products the certifications apply to.
 - Examples of third-party certifications that verify chemical content in products include, but are not limited to, OEKO-TEX Standard 100 Certification, Eco-Passport, Bluesign, and Intertek Eco-Certification.
- .15 The registrant shall describe how it works with its suppliers to manage risks and/or hazards associated with chemicals in products, (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question GEN-B-4.6) including:
 - Whether and how it works with its suppliers to implement its green chemistry program, if extant, and if it rewards suppliers for participating (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question MAT B-4.2 and MAT-B-4.3).
- .16 The registrant may choose to identify chemicals found in its finished products that it is targeting for reduction, elimination, or assessment for reasons such as:
 - There is incomplete and/or insufficient availability of toxicity information such that the registrant cannot determine if the chemical is safe for use;
 - Pending or anticipated regulations may limit or restrict the use of the chemical in the future;

- There is potential for environmental, but not human health, harm that the registrant wishes to limit; and/or
 - In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the registrant as being “of concern” to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).
 - Specific chemicals to discuss may include, but are not limited to, those found on the California Department of Toxic Substances Control [Priority Product Work Plan](#).
 - Disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.6.1.
- .17 Where the registrant has identified specific chemicals for elimination or substitution, it should discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question GEN-B-4.7).

Raw Material Sourcing & Innovation

Description

The Apparel, Accessories & Footwear industry relies on numerous raw materials as key inputs for finished products. Sustainability concerns related to climate change, water scarcity, land use, resource scarcity, and conflict in the supply chain are increasingly shaping the industry's ability to source materials, including cotton, leather, wool, rubber, and precious minerals and metals. The ability of companies to manage potential materials shortages, supply disruptions, price volatility, and reputational risks is made more difficult by the fact that they source materials from geographically diverse regions through supply chains that often lack transparency. Further, the types of risk faced for different materials can require different solutions, ranging from engaging with suppliers, enhancing transparency, using certification standards, to using innovative alternative materials. Companies that are most proactive are likely to reduce their exposure to price volatility and potential supply disruptions, while improving the brand reputation and developing new market opportunities. Failure to effectively manage this can lead to higher costs of capital, reduced margins, and constrained revenue growth.

Accounting Metrics

CN0501-03. Top five raw materials used in products, by weight

- .18 The registrant shall disclose the five raw materials that compose its finished products in the greatest amounts (by weight) during the fiscal year, and the amount of each, in metric tons.
- .19 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.
- .20 The registrant shall disclose the top five materials by weight that comprise its products regardless of whether the registrant purchased the materials directly or its suppliers purchased the materials.

Note to CN0501-03

- .21 The registrant shall discuss environmental and social risks associated with sourcing each of the top raw materials it used, and describe how it manages those risks.
- .22 Environmental supply chain risks include, but are not limited to:
 - Climate change impacts (e.g., changing temperatures, water stress, etc.) on natural fiber crop production that may affect their price and availability;
 - Legislation on greenhouse gases affecting the price of petroleum which may affect the price of petroleum-derived raw materials;

- Tightening environmental regulations for suppliers that could affect the cost or availability of raw materials they supply;
- Lack of full traceability to the source of the raw materials, which may hinder the ability to identify compliance incidents that could lead to negative effects on brand reputation;
- Improper land use practices within the supply chain that may affect the yield of natural fiber raw materials; and
- Other environmental factors that may have an impact on the registrant’s ability to source raw materials for its products.

.23 Social supply chain risks include, but are not limited to:

- Suppliers’ animal welfare, labor and human rights practices that may affect the registrant’s reputation; and
- Sourcing materials from regions of conflict which may affect the price and availability of raw materials.

.24 If the registrant identifies cotton as one of the top five raw materials used in its products, it shall discuss its vulnerability to cotton-growing regions with water stress and how it manages the risk of price variability due to sourcing cotton from these regions.

- The registrant may choose to identify its known sources of cotton for High (40–80%) or Extremely High (>80%) Baseline Water Stress using the World Resources Institute’s (WRI) Water Risk Atlas tool, Aqueduct (publicly available online [here](#))

.25 The registrant shall discuss its approach to managing risks associated with the use of raw materials in its products, including physical limits on availability, access, price, and reputational risks.

- Relevant strategies to discuss include due diligence practices, supply chain auditing, partnerships with industry groups or nongovernmental development organizations, using substitute materials, research and development into materials with less environmental or social risks, supplier diversification, implementing supply chain codes of conduct, training or engagement programs, supplier audits and/or certifications, and research into the full traceability of material sources, among other strategies.

CN0501-04. Percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard

.26 The registrant shall disclose the percentage of raw materials, by weight in metric tons, that are third-party certified to an environmental or social sustainability standard.

- .27 Environmental and social sustainability standards are defined as standards 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.
- .28 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
 - Global Organic Textile Standard
 - STeP by OEKO-TEX®,
 - OEKO-TEX® Standard 100
 - ECO PASSPORT
 - Cradle to Cradle
 - Bluesign
- .29 The scope of disclosure includes third-party certifications that are based on either environmental or social best practices or both.
- .30 The percentage is calculated as the total weight, in metric tons, of raw materials that are certified to a third-party environmental and/or social standard divided by the total weight of raw materials that compose the registrant's finished products.
- .31 The registrant shall disclose, on a percentage of cost basis, the certification schemes to which its raw materials are certified.
- .32 The registrant may also choose to discuss its use of other sustainable materials that may not be third-party certified, but may demonstrate an environmental lifecycle benefit, and fibers such as reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

Labor Conditions in the Supply Chain

Description

The fair treatment of workers and the protection of worker rights in the Apparel, Accessories, and Footwear industry's supply chain is of growing concern among consumers, regulators, and leading companies. Critical aspects of this issue include employee health and safety, fair pay, child labor, and forced labor. Although companies continue to improve performance on this issue, the industry's reliance on a multitiered system of suppliers, subcontractors, labor recruitment firms, and part-time workers makes it difficult to manage. Since companies in the industry typically contract with suppliers in countries with the lowest direct costs, the industry's products are often manufactured in countries that have limited regulations or enforcement protecting workers. This makes labor issues related to product manufacturing widely prevalent and important to address to reduce reputational risks and impacts on short- and long-term costs and sales. Such effects can arise from increasing regulation and its enforcement in response to high-profile safety or labor incidents, production disruptions due to strikes and other labor-related work stoppages, or through a shift in demand away from companies associated with such incidents. Companies with strong supply chain standards, monitoring, and engagement with suppliers to address labor concerns may therefore be better positioned to protect shareholder value over the long term.

Accounting Metrics

CN0501-05. Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 that have been audited to a labor code of conduct, percentage conducted by a third-party auditor

- .33 The registrant shall disclose the percentage of its tier 1 suppliers and the percentage of suppliers beyond tier 1 that have been audited to a labor code of conduct during the fiscal year, where:
- Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities).
 - Suppliers beyond tier 1 are the key suppliers to the registrant's tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.).
- .34 Audits are defined as visits to a supplier's facility and review of records to ensure compliance with the code of conduct.
- The scope includes audits conducted by an internal corporate representative or by a third-party auditor.
 - The scope includes audit results conducted by other brands or by external third parties not commissioned by the registrant in lieu of having an audit conducted solely for the registrant's purpose (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.1).
 - The registrant may choose to disclose the extent to which it has reduced audit duplicity by accepting audits conducted by other brands or external third parties (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.1).

- .35 A labor code of conduct is a corporate policy, standard, or contract that outlines a set of working conditions, labor practices, and environmental health and safety requirements for suppliers and contractors. At a minimum, a code of conduct ensures that suppliers are in compliance with regulations.
- Labor criteria in the code of conduct shall include, at a minimum, an assessment of worker hours/excessive overtime, nondiscrimination, minimum age requirements, compensation practices, freedom of association (worker involvement and communication), worker treatment and development (anti-harassment and anti-abuse policies), and termination and retrenchment policies.
 - Environmental health and safety criteria in the code of conduct shall include, at a minimum, an assessment of building and occupational safety hazards and environmental provisions relating to human health and safety, including criteria focused on compliance with environmental laws, environmental permits, pollution prevention and source reduction, hazardous materials management, wastewater and solid waste management, and air emissions levels.
 - Examples of apparel industry codes of conduct include the Fair Labor Association [Workplace Code of Conduct](#) and [Compliance Benchmarks](#) and the Outdoor Industry Association (OIA) [Code of Conduct](#) in the Fair Labor Toolkit.
- .36 The registrant shall disclose the standards to which it measures labor code of conduct compliance.
- For internally developed supplier code(s) of conduct, the registrant shall disclose the public location where such code(s) can be viewed.
- .37 The registrant shall disclose the percentage of the total audits conducted that were performed by an independent third-party auditor.
- An independent third-party audit is defined as an audit conducted by an independent external organization to determine that the supplier facility complies with specific standards.
- .38 The registrant may choose to describe its approach to auditing supplier facilities, including how the registrant adjusts the scope and frequency of monitoring for supplier facilities based on potential risk factors and the continuous performance of the facility (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question SL-B-2.2.1).
- .39 The registrant may choose to describe how the it assesses and prioritizes its supply chain partners (including subcontractors) to determine the level of risk associated with each in terms of labor and working conditions (disclosure corresponds to Sustainable Apparel Coalition’s Higg Index indicator question SL-B-2.1.2), including:
- If the registrant maintains an ongoing list of the tier 1 suppliers and suppliers beyond tier 1 involved with the production of its goods.
 - If the registrant records information about risk factors that impact performance on labor standards for manufacturers that have been mapped to determine proper levels of oversight and monitoring.

CN0501-06. Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits

- .40 The registrant shall disclose the rate of its suppliers' non-conformance with external labor code of conduct audit standards or internally developed supplier code(s) of conduct and the rate at which those instances of non-conformance have been subject to corrective action.
- .41 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:
- A non-conformance is defined as a finding of violation of a local law or one or more aspects of a code of conduct that has been corroborated by more than one source (e.g., management interview, worker interview, payroll review, on-site observation, etc.) unless that single source is incriminating.¹⁵
 - Priority non-conformances are defined as the highest severity of non-conformance and require escalation by auditors or the registrant. Priority non-conformances may arise from a significant risk to labor conditions, safety, or the environment; non-compliance with relevant regulatory requirements; or failure to adequately address prior minor non-conformances.
 - Priority non-conformances are defined by the registrant's or an external third party's code of conduct, and are also known as "high-risk violations," "severe violations, or "major deficiencies," among other terms. Examples of what constitutes a priority non-conformance in an apparel, accessories, or footwear supplier facility audit include the indicators of a "Major Deficiency" outlined in the OIA [Code of Conduct](#).
 - The number of facilities audited includes those that were audited by the registrant, by other brands, or by external third parties commissioned by the registrant in lieu of having an audit conducted solely for the registrant's purpose.
- .42 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.
- .43 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.
- .44 The registrant may choose to disclose the number of contracts with suppliers that were terminated as result of non-conformances.
- .45 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), or by geographic region.

¹⁵ Definition adapted from Fair Labor Association (FLA) Independent External Monitoring Reports, available online [here](#).

CN0501-07. Discussion of greatest (1) labor and (2) environmental, health, and safety risks in the supply chain

- .46 The registrant shall list the three labor conditions issues and the three environmental health and safety issues that pose the greatest potential risk in the registrant's supply chain.
- A risk can be identified because: (a) the registrant has determined its potential to cause accidents or incidents at supplier facilities, (b) it was identified as a non-conformance most frequently in labor code of conduct audits, or (c) the registrant has determined it to have the greatest potential to cause financial and/or reputational harm to the registrant or its suppliers if left uncorrected
- .47 Labor conditions risks include the following, related to the criteria outlined in the registrant's labor code of conduct or audit criteria: excessive worker hours, violations in minimum age requirements, unfair compensation practices, lack of freedom of association rights, unfair worker treatment (harassment or abuse), or other labor conditions risks identified by the registrant.
- .48 Environmental health and safety risks include the following, related to the criteria outlined in the registrant's environmental, health, and safety code of conduct or audit criteria: unsafe building and occupational safety hazards, noncompliance with environmental permits, unsafe levels of air and water pollution, improper management of hazardous substances, wastewater and solid waste disposal violations, or other risks identified by the registrant.
- .49 The registrant should discuss any trends within the labor and environmental, health, and safety risks in its supply chain, such as how frequently the greatest risks were identified through monitoring, any differences between geographic regions, or the level in the supply chain at which these risks occur (i.e., tier 1-level or beyond tier 1).
- .50 The registrant may choose to include a discussion of strategies and efforts to reduce the occurrence of the greatest labor conditions and environmental, health, and safety risks in its supply chain, (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.2) including, but not limited to:
- Tracking closure of corrective actions;
 - Capacity building efforts, such as analysis of root causes and management systems and engagement with workers in the remediation process;
 - Supplier training;
 - Self-auditing and reporting support;
 - Participation in multi-stakeholder initiatives; and
 - Providing incentives or mandating sanctions for labor and environmental, health, and safety performance (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question SL-B-2.2.4).

Environmental Impacts in the Supply Chain

Description

The Apparel, Accessories & Footwear industry's global supply chain contributes to significant environmental externalities, including water consumption and pollution and air pollution. Water pollution results from the discharge of chemicals during water-intensive dyeing and tanning processes, while air pollution stems from the industry's inefficient use of energy. These impacts have the potential to damage a company's reputation and to affect cost structures over time. The scale of this issue has historically been intensified by the fact that the industry relies on manufacturing partners in emerging markets where environmental regulations and oversight are limited. However, enhanced scrutiny on the part of stakeholders and consumers, coupled with the development of more stringent regulation in certain regions, has led companies throughout the industry to work with suppliers to reduce their environmental impact. Apparel, accessories, and footwear companies that leverage their market power to work with suppliers to improve operational efficiencies and resource consumption and limit pollution will be able to mitigate costs associated with increased resource scarcity and regulation. Further, those that engage with suppliers through monitoring, auditing, and strict standards will be better positioned to protect shareholder value over the long term.

Accounting Metrics

CN0501-08. Percentage of (1) tier 1 supplier facilities and (2) supplier facilities beyond tier 1 with wastewater discharge meeting or exceeding legal requirements

- .51 The registrant shall disclose the percentage of (1) its tier 1 supplier facilities and (2) its supplier facilities beyond tier 1 that have industrial wastewater treatment systems that meet or exceed applicable regulatory requirements and have wastewater levels that do not adversely affect the environment or the receiving infrastructure (i.e., drains, treatment plants, vehicles, etc.), as determined by applicable regulations or receiving facility limits (disclosure corresponds to Sustainable Apparel Coalition's Higg Index indicator question FAC-4.1.1).
- Wastewater discharge shall be considered to meet applicable regulatory requirements if it meets the limits established by local regulatory requirements for each chemical during testing conducted by local officials and by the registrant, and if the facility has not received a wastewater discharge violation during the fiscal year.
 - The scope includes supplier facilities that discharge industrial wastewater from any building, activity, piece of equipment, or process that uses water.
 - The scope includes facilities that conduct any of the following: dyeing, tanning, lamination, laundry/washing, wet finishing, boiler blow-down, steam generation, cooling waters, cleaning, printing, screen printing, and degreasing.
 - The scope includes wastewater treatment occurring on-site at the supplier facility and off-site (i.e., sent to a wastewater treatment facility).

- .52 Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities).
- .53 Suppliers beyond tier 1 are the key suppliers to the registrant's tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.)
- The registrant should indicate the degree of estimation if the registrant does not know its complete list of suppliers beyond tier 1.
- .54 The registrant shall disclose whether the wastewater standards to which its supplier facilities are subject to exceed regulated limits for the concentrations of chemicals in wastewater, and the location of those wastewater standards, if publicly available.
- Examples of relevant manufacturing wastewater standards that exceed regulated limits include, but are not limited to, the Zero Discharge of Hazardous Chemicals (ZDHC) [Manufacturing Restricted Substances List](#) (MSRL), [OEKO-TEX Standard 100](#), and Bluesign [criteria](#).
- .55 The registrant shall briefly characterize the treatment methods used for wastewater discharge at supplier facilities, where treatment methods include:
- Primary treatment is defined as screening and settling—clarification in which solids settle and oil and grease float.
 - Secondary treatment is defined as biological decomposition—degradation of organic content with aerobic and/or anaerobic biological treatment.
 - Tertiary treatment is defined as any additional method to further improve water quality, such as disinfection, nutrient removal, or reverse osmosis/ultra filtration.
 - The registrant may choose to disclose the percentage (by volume) of water treated and returned to the environment by each treatment method.
- .56 The registrant shall discuss how its requirements address wastewater discharge for:
- Illegal substances
 - Legally regulated substances
 - Substances or discharge parameters which are not regulated or prohibited by law, but may be a specific pollutant or risk to textile manufacturing, such as use of pesticides, allergenic dyes, or tin-organic compounds, and pH value.
- .57 The registrant shall describe the reasons for choosing wastewater discharge requirements for supplier facilities, which may include, but are not limited to:

- The type of effluents being discharged;
- The regulatory or voluntary standards that the registrant is subject to;
- The environmental setting of the facility; and
- The financial implications of developing such treatment methods.

.58 The registrant may choose to describe its procedure for testing wastewater quality at supplier facilities, including the frequency of testing, whether testing is done internally or externally, and the testing parameters used.

Note to **CN0501-08**

.59 The registrant shall discuss its supply chain risks associated with discharge of water from supplier facilities and describe how it manages these risks.

.60 The registrant shall discuss, where applicable, risks associated with discharge of wastewater in the supply chain.

- Relevant information to provide includes, but is not limited to:
 - Environmental constraints, such as the ability to maintain compliance with regulations focused on the quality of effluent discharged to the environment, the ability to eliminate existing and emerging pollutants of concern, and the ability to maintain control over storm water discharges.
 - External constraints, such as increased liability and/or reputational risks, restrictions to discharges and/or increased operating costs due to regulation, stakeholder perceptions and concerns related to water discharges (e.g., those from local communities, non-governmental organizations, and regulatory agencies), and the ability to obtain discharge rights or permits.
 - How risks may vary by discharges to different destinations, including wetlands, rivers, lakes, oceans, groundwater, rainwater, municipal water supplies, or other water utilities.

.61 The registrant should include a discussion of the potential impacts that these risks may have on its supply chain operations and the timeline over which such risks are expected to manifest.

- Impacts may include, but are not limited to, those associated with costs, revenues, liabilities, continuity of operations, and reputation.

.62 The registrant may choose to describe any practices, programs, technology, or methods it utilizes to manage and improve wastewater quality and chemical formulations used at its supplier facilities (disclosure corresponds with Sustainable Apparel Coalition’s Higg Index indicator FAC-4.3.2).

- Relevant programs to discuss include adherence to certification schemes with wastewater discharge standards, including, but not limited to, STeP by OEKO-TEX, German Blue Angel, Bluesign, and Cradle

to Cradle Certified, and improving chemical formulations at supplier facilities to eliminate priority chemicals identified in the ZDHC Manufacturing Restricted Substances List (available [here](#)).

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 or equivalent environmental data collection

- .63 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 or collected equivalent environmental data.
- .64 Tier 1 suppliers are defined as suppliers that transact directly with the registrant, such as finished goods manufacturers (cut and sew facilities).
- .65 Suppliers beyond tier 1 are the key suppliers to the registrant’s tier 1 suppliers and can include manufacturers, processing plants, and providers of raw materials extraction (e.g., mills, dye houses and washing facilities, sundry manufacturers, tanneries, embroiderers, screen printers, farms, slaughter houses, etc.).
- .66 A Facility Module assessment shall be considered complete if the supplier completed all of the questions in the Facility Module (Facility Profile, Environmental, and Social), available online [here](#).
- .67 If the registrant collects environmental inventory data from its suppliers without using the Facility Module, the data collection shall be considered equivalent to the Facility Module if the registrant gathers inventory data and reduction targets for all categories and criteria covered in the Facility Module, including data on:
 - Environmental management systems
 - Energy use
 - Greenhouse gas (GHG) emissions
 - Water use
 - Wastewater/effluent discharge
 - Air emissions
 - Waste management
 - Chemicals management
- .68 The registrant may also choose to discuss efforts to improve the outcomes of Facility Module indicators at supplier facilities, such as working with supplier facilities and providing resources to achieve reduction targets.

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APPLIANCE MANUFACTURING

Sustainability Accounting Standard

Sustainable Industry Classification System™ (SICS™) #CN0601

Prepared by the
Sustainability Accounting Standards Board®

September 2015
Provisional Standard

APPLIANCE MANUFACTURING

Sustainability Accounting Standard

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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 - 32¹ and referenced in AT 701², 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 sells and manufactures products around the world, primarily selling 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
- 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

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

⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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, 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 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-20⁶—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 \(SICSTM\)](#). 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 Form 10-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
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.

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

¹⁰ Note to **CN0601-A**—Production shall be disclosed as the number of units produced by product category, where relevant product categories may include small appliances, major appliances, etc.

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	Number of recalls and total units recalled ¹¹	Quantitative	Number	CN0601-01
	Amount of legal and regulatory fines and settlements associated with product safety ¹²	Quantitative	U.S. Dollars (\$)	CN0601-02
Product Lifecycle Environmental Impacts	Percentage of eligible products certified to a U.S. EPA ENERGY STAR® standard	Quantitative	Percentage (%) by revenue	CN0601-03
	Percentage of eligible products certified to an Association of Home Appliance Manufacturers (AHAM) sustainability standard	Quantitative	Percentage (%) by revenue	CN0601-04
	Description of efforts to manage products' end-of-life impacts	Discussion and Analysis	n/a	CN0601-05

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 **CN0601-02**—Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

Product Safety

Description

Product safety is of utmost importance to appliance and tool manufacturers. When an appliance malfunctions, it can result in fires or other hazards that damage property and cause injury or even death. The potential for product malfunction and its sometimes-serious consequences opens up firms to risks related to litigation and negative consumer sentiment, which can affect brand value. Failure to report known product safety hazards to relevant authorities can result in civil penalties.

Accounting Metrics

CN0601-01. Number of recalls and total units recalled

- .01 The registrant shall disclose the total number of product recalls, where:
 - A recall is defined as an action to remove alleged, potentially, or known defective or hazardous products from the distribution chain and from the possession of consumers.
- .02 The registrant shall disclose the total number of units that were subject to product recalls.
- .03 The scope includes voluntary recalls initiated by the registrant and recalls requested by the Consumer Product Safety Commission (CPSC) or other relevant government agency.

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. Amount of legal and regulatory fines and settlements associated with product safety

.06 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).

.07 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 **CN0601-02**

.08 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.

.09 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. One key differentiating factor is the lower lifecycle impact of products, which is also associated with the lower cost of using appliances. 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 and water efficiency in appliances, which account for a significant proportion of a home's energy and water use, as well as designing for and facilitating safe end-of-life disposal and recycling.

Accounting Metrics

CN0601-03. Percentage of eligible products certified to a U.S. EPA ENERGY STAR® standard

- .10 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.
- .11 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.

CN0601-04. Percentage of eligible products certified to an Association of Home Appliance Manufacturers (AHAM) sustainability standard

- .12 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)).
- Additions to the scope of AHAM sustainability standards and/or eligible products addressed therein constitute additions to the scope of this disclosure.

.13 AHAM sustainability standards are available [here](#).

CN0601-05. Description of efforts to manage products' end-of-life impacts

- .14 The registrant shall describe its efforts to manage the end-of-life impacts of its products, including those related to safe and proper disposal or recycling of constituent chemicals and other product components, including but not limited to toxic heavy metals (e.g., mercury, cadmium, etc.), rigid polymers, refrigerants, and other metals (e.g., steel and aluminum).
- .15 The registrant shall describe the scope of its efforts including to which product categories, business segments, and/or operating regions they relate.
- .16 The registrant shall discuss how it incorporates end-of-life considerations into the design of its product such as:
- Use of materials that are easily and commonly recyclable in existing recycling infrastructure.
 - Eliminating or minimizing the use of hazardous materials or materials that may otherwise pose environmental harm upon disposal (e.g., refrigerants with ozone depleting potential and/or global warming potential).
 - Designing products for disassembly (i.e., designing products so they can be easily, rapidly, and cost-effectively disassembled with commonly available tools).
 - Proper labeling of products and their component materials to facilitate disassembly and recycling.
- .17 The registrant shall discuss its participation in extended producer responsibility (EPR) initiatives, including the following aspects:
- Whether the registrant directly conducts product take-back, recovery, and recycling or if the registrant supports infrastructure for product recovery and recycling through joint ventures, partnerships with retailers and others, or by funding research into recycling technologies.
 - Whether the initiative is voluntary or mandatory (e.g., in order to maintain compliance with European Community directive 2012/19/EU on waste electrical and electronic equipment (WEEE) or the Japan home appliance recycling law).
 - Relevant performance measures or targets for the initiative such as the total amount of material recovered and the total amount of material recycled.

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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®

September 2015
Provisional Standard

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 78 industries in 10 sectors.

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INTRODUCTION

Purpose & Structure

This document contains the SASB Sustainability Accounting Standard (SASB Standard) for the Building Products & Furnishings industry.

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- *Relevance*—Criteria should be relevant to the subject matter.

Industry Description

The Building Products & Furnishings industry comprises companies involved in the design and manufacturing of home improvement products, home and office furnishings, and structural wood building materials. The industry’s products include flooring, ceiling tiles, home and office furniture and fixtures, wood trusses, plywood, paneling, and lumber. Companies typically sell their products through distribution channels to retail stores or through independent or company-owned dealerships. The industry is global.

¹ http://pcaobus.org/Standards/Attestation/Pages/AT101.aspx#at_101_fn7

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1. Industry-Level Sustainability Topics

For the Building Products & Furnishings industry, SASB has identified the following sustainability disclosure topics:

- Energy Management in Manufacturing
- Management of Chemicals in Products
- Product Lifecycle Environmental Impacts
- Wood Sourcing

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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}

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⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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- **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 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-20⁶—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

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.”

Securities Exchange Act of 1934 (the Exchange Act),⁷ for use in SEC filings, including, without limitation, annual reports on Form 10-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.).

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.

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
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

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

¹⁰ Note to **CN0603-A**—Production shall be disclosed in typical units tracked by the registrant such as number of units, weight, square feet, etc.

¹¹ Note to **CN0603-B**—The scope shall be limited to total area under roof, including manufacturing and administrative functions.

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 Management in Manufacturing	Total energy consumed, percentage grid electricity, percentage renewable energy	Quantitative	Gigajoules (GJ), Percentage (%)	CN0603-01
Management of Chemicals in Products	Description of processes to assess and manage risks and/or hazards associated with chemicals in products	Discussion and Analysis	n/a	CN0603-02
	Percentage of applicable products meeting volatile organic compound (VOC) emissions and content standards	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
	Weight of end-of-life material recovered, percentage of recovered materials that are recycled	Quantitative	Metric tons (t), Percentage (%) by weight	CN0603-05
Wood Sourcing	Total wood fiber purchased, (1) percentage from third-party certified forestlands, by standard, and (2) percentage meeting other fiber sourcing standards, by standard	Quantitative	Metric tons (t), Percentage (%) by weight	CN0603-06

Energy Management in Manufacturing

Description

The Building Products & Furnishings industry relies heavily on its use of energy for value creation in manufacturing processes. Purchased electricity represents the largest share of energy consumption across the industry, while companies may also utilize fossil fuel energy on site. The price of conventional grid electricity and volatility of fossil fuel prices may increase as a result of evolving climate change regulations and new incentives for energy efficiency and renewable energy, among other factors, while alternative energy sources become cost-competitive. Decisions regarding energy sourcing and type, as well as the use of alternative energy, can create trade-offs related to the energy supply's cost and reliability for operations. As the industry operates on relatively narrow profit margins, reductions in energy consumption may have a significant influence on financial performance. The manner in which a company manages energy efficiency, its reliance on different types of energy and the associated sustainability risks, and its ability to access alternative energy sources is likely to impact financial performance.

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 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).

¹² SASB recognizes that RECs reflect the environmental attributes of renewable energy that have been introduced to the grid.

Management of Chemicals in Products

Description

Building products and furnishings may contain substances that have the potential to harm human health, including volatile organic compounds and potential reproductive toxins, carcinogens, and endocrine disruptors. In general, these substances are found in products at low concentrations, if at all, and therefore do not pose a health concern. Nonetheless, the industry is exposed to potentially significant regulatory and reputational risk as a result of the use of substances of concern. Actual or perceived human health risks create the potential for future regulation around product chemical content and possible reputational impacts for companies, which can significantly affect demand for products. Increasing consumer concern over chemical use is driving the industry's voluntary efforts to eliminate such chemicals from products and use alternative materials. The continued adoption of building certification standards such as LEED are driving demand for products with reduced chemical content. Companies that effectively manage harmful chemicals in their products may enjoy a competitive advantage over the long term through higher demand, reduced regulatory risk, and improved brand reputation.

Accounting Metrics

CN0603-02. Description of processes to assess and manage risks and/or hazards associated with chemicals in products

- .08 The registrant shall describe the business and operational processes it employs to assess and manage potential risks and hazards associated with the use of materials, chemicals, and substances (hereafter "chemicals").
- The scope of disclosure shall focus on chemicals that may be detected at certain levels in the registrant's finished products
 - The registrant may choose to discuss its management of chemicals used during manufacturing and production of its products or that are associated with the production of raw materials or components of its products, but which are not present in finished products.
- .09 The registrant shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:
- A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human-health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and dosages (amounts) of a substance it takes to cause an adverse effect.¹³
 - A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure

¹³Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

(i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.¹⁴

- Other approaches may include the usage of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.

.10 The registrant shall describe the operational processes it employs for chemicals management, where:

- Relevant operational processes that typify hazard-based approaches include the limitation or exclusion of chemicals in a finished product because their use is prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in the registrant's products (e.g., use of a restricted substances list (RSL) for chemicals that are banned where the registrant operates and/or for chemicals that the registrant has chosen to limit or eliminate).
- Relevant operational processes that typify risk-based management include evaluating chemical hazard data, conducting assessment of exposure pathways, and identifying potential corresponding health risks through the use of screening methods and chemical risk framework tools, such as the World Health Organization (WHO) [Human Health Risk Assessment Toolkit: Chemical Hazards](#) and the International Council of Chemical Associations (ICCA) [Guidance on Chemical Risk Assessment](#).
- Additional frameworks for hazard- and risk-based chemical assessments include those compiled by the Organisation for Economic Co-operation and Development (OECD), available [here](#).

.11 The registrant shall discuss its approach to chemicals management in the context of each stage in its products' lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.

.12 The registrant shall describe how it prioritizes chemicals for reduction and/or elimination from its products, and how it works to incorporate alternative chemicals into product formulation and design, including through materials substitution assessments.

- Examples of assessment tools and methods include, but are not limited to, GreenScreen® For Safer Chemicals and U.S. EPA Design for the Environment (DfE) [Alternatives Assessments](#).

.13 The registrant shall disclose if it pursues testing and/or third-party certification to verify the chemical content of its finished products, including which certifications it holds and which products the certifications apply to.

- The scope of disclosure excludes discussion of mandatory product certifications.
- The scope of disclosure excludes product testing and certifications disclosed in CN0603-03.

¹⁴ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001, and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

- .14 Where chemicals management policies and practices differ significantly by business unit, product category, or geography, the registrant shall describe those differences.
- .15 The registrant may choose to identify chemicals found in its finished products that it is targeting for reduction, elimination, or assessment for reasons such as:
- There is incomplete and/or insufficient availability of toxicity information such that the registrant cannot determine if the chemical is safe for use;
 - Pending or anticipated regulations may limit or restrict the use of the chemical in the future;
 - There is potential for environmental, but not human health, harm that the registrant wishes to limit; and/or
 - In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the registrant as being “of concern” to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).
 - Specific chemicals to discuss may include, but are not limited to, those found on the Clean Production Action (CPA) Healthy Building Network Red List of Lists.
- .16 Where the registrant has identified specific chemicals for elimination or substitution, it should discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals.
- .17 The registrant should discuss its use of chemicals 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 volatile organic compound (VOC) emissions and content standards

- .18 The registrant shall disclose the percentage of its products (by revenue) for which volatile organic compound (VOC) emissions and content standards are applicable, and which qualify for the U.S. Green Building Council’s (USGBC) LEED v4 EQ credit for “Low Emitting Materials,” where:
- A product qualifies for EQ credit for “Low Emitting Materials” if it meets emissions and content requirements listed on the most recent version of the [Low-Emitting Materials Third Party Certification table](#) maintained by the USGBC.
 - This includes products that have been tested according to CDPH Standard Method v1.1, ANSI/BIFMA M7.1-2011, AgBB Method, EN 717-1:2004, or ISO 16000-6:2011.

- .19 A product is considered “applicable” if it falls into a 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.
- Freestanding furniture used in schools and offices and open-plan office furniture are also considered applicable products.

Product Lifecycle Environmental Impacts

Description

Depending on the specific building product or furnishing, significant environmental impacts can arise during raw material sourcing, transportation, manufacturing, use-phase, or end-of-life. Rising consumer and regulatory preference for less-impactful products has spawned the development of more sustainable products, broadly termed “green building materials.” In addition, product lifecycle certification has arisen as a tool for companies and their customers to assess and improve a product’s lifecycle impact. Certification programs typically address specific sustainability characteristics of a product category, and include the use of closed-loop materials that help minimize a product’s end-of-life environmental impacts and reduce the need for extracting or producing virgin materials. Through product innovation and design that facilitates end-of-life product recovery and the use of less-impactful materials, the adoption of product certification programs, and partnerships with customers, building products manufacturers can achieve improvements in lifecycle impacts, reduce regulatory risk, meet growing customer demand, and realize cost savings.

Accounting Metrics

CN0603-04. Discussion of efforts to manage product lifecycle impacts and meet demand for sustainable products

- .20 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, optimization of packaging, design for consolidated shipping, design of low-energy-consumption products, design for product take-back, and labeling for recycling, among others.
- .21 The registrant shall discuss factors that drive demand for its sustainable building and furnishings products, including green building certification programs, federal and state procurement criteria, demand from retailers, and/or retail consumer demand.
- .22 The registrant shall describe the scope of its efforts including to which product categories, business segments, and/or operating regions they relate.

- .23 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 [ISO14044](#) and EPD should be based on [ISO 14025](#).
- .24 The registrant should 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, but are not limited to, 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 SquaredSM: Tile and Installation Materials / ANSI A138.1-2011, ANSI/BIFMA e3 level[®]: Business Furniture, and the Cradle to Cradle CertifiedTM Products Standard.
 - Single-attribute standards include, but are not limited to, ENERGYSTAR[®], WaterSense, and recycled content certifications.
- .25 The registrant should discuss its extended producer responsibility (EPR) efforts, including the following aspects:
- How it incorporates end-of-life considerations into the design of its products, including using materials that are easily and commonly recyclable in existing recycling infrastructure, designing products for disassembly (i.e., designing products so they can be easily, rapidly, and cost-effectively disassembled with commonly available tools), and properly labeling products and their component materials to facilitate disassembly and recycling.

CN0603-05. Weight of end-of-life material recovered, percentage of recovered materials that are recycled

- .26 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 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.

.27 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.

.28 The registrant should disclose the following:

- Whether it directly conducts product take-back, recovery, and recycling or if it contracts with a third party the task of collection for the express purpose of reuse, recycling, or refurbishment.
- If it supports infrastructure for product recovery and recycling through joint ventures, partnerships, or by funding research into recycling technologies.
- Whether its product take-back, recovery, and recycling efforts are voluntary or mandatory (e.g., in order to maintain compliance with California Carpet Stewardship Law)
- Relevant performance measures or targets for its product take-back, recovery, and recycling efforts such as the total amount of material recovered and the total amount of material recycled.

Wood Sourcing

Description

The Building Products & Furnishings industry utilizes large amounts of wood sourced from forests worldwide. Unsustainable production and harvesting of timber can result in adverse environmental and social impacts, including biodiversity loss and harm to the livelihoods of forest-dependent communities. Companies may inadvertently source wood from areas that are susceptible to unsustainable forestry practices. Reports of illegal logging, environmental pollution, or adverse impacts on communities—whether warranted or not—can result in reputational repercussions that can damage a company’s brand value, affecting demand for their products. In addition, regulations that address the importation of illegally produced wood can result in penalties and further damage to brand value. To mitigate these risks, companies are increasingly adopting third-party certifications that verify that wood is grown and harvested in a sustainable manner. Obtaining wood sourcing certifications can also provide companies with a potential growth channel, as they can satisfy customer demand for certified products.

Accounting Metrics

CN0603-06. Total wood fiber purchased, (1) percentage from third-party certified forestlands, by standard, and (2) percentage meeting other fiber sourcing standards, by standard

- .29 The registrant shall disclose the total amount of wood fiber (in air dried metric tons) it purchased during the fiscal year, including wood-fiber-based raw materials, components, and semi-finished and finished goods.
 - If wood fiber comprises a portion of a material, component, or product, the registrant shall include this portion in its calculation.
- .30 The percentage shall be calculated as the total weight (in air dried metric tons) of wood-fiber-based raw materials that have been sourced from third-party certified forestlands divided by the total weight (in air dried metric tons) of wood-fiber-based raw materials purchased, where certified fiber includes that from forestlands certified to standards promulgated by the following organizations (or the equivalent):
 - Forest Stewardship Council (FSC) (i.e., FSC Forest Management and Chain of Custody certifications),
 - Sustainable Forest Initiative (SFI) (i.e., SFI Forest Management and Chain of Custody labels),
 - Programme for the Endorsement of Forest Certification (PEFC) (i.e., PEFC Certified).
- .31 The scope of wood-fiber-based 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.
- .32 For fiber that is certified to multiple schemes, the registrant shall not account for the weight more than once when calculating the total percentage of fiber certified to a third-party forest management standard.

- .33 The registrant shall disclose the percentage of wood fiber certified to each relevant certification (e.g., FSC Chain of Custody, SFI Chain of Custody (certified forest content), and PEFC Certified).
- The registrant shall indicate whether fiber is certified to multiple certification schemes and the respective certifications.
- .34 The registrant shall disclose the percentage of the total wood fiber purchased that meets other fiber sourcing standards, including:
- Responsible fiber sourcing standards (e.g., SFI Certified Fiber Sourcing Standard);
 - Controlled wood standards (e.g., FSC Controlled Wood Certification, PEFC Controlled Wood);
 - Recycled fiber standards that include post- and pre-consumer reclaimed material (e.g., PEFC Recycled Label, FSC Recycled Label); and
 - Any other due diligence standards that cover fiber sourcing requirements for fiber from non-certified forestlands.
- .35 For fiber that meets multiple fiber sourcing standards, the registrant shall not account for the weight more than once when calculating the total percentage of fiber that meets other fiber sourcing standards.
- .36 The registrant shall disclose the percentage of wood fiber that meets each relevant sourcing standard (e.g., FSC Controlled Wood, SFI Fiber Sourcing Standard, PEFC Recycled, etc.).
- The registrant shall indicate whether fiber meets multiple fiber sourcing standards and the respective standards.
- .37 The registrant shall discuss whether and how its sourcing standards for fiber from non-certified forestlands address the following environmental and social topics:
- Wood legality and compliance with the Lacey Act of 1990 (16 U.S.C. §§ 3371–3378);
 - Wood sourced from areas of protected conservation status or high biodiversity value;
 - Logging in or near areas of endangered species habitat;
 - Forestry management and harvesting practices of suppliers, including environmental impact assessments or forestry management plans; and
 - The use of genetically modified organisms (GMOs), pesticides, or other chemicals in forests.
- .38 The registrant may also choose to disclose the sources of its wood fiber (e.g., from corporate, private, or federally owned forestlands and whether fiber is grown domestically or internationally) and the potential risks associated with procuring fiber from these sources.

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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®

September 2015
Provisional Standard

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 78 industries in 10 sectors.

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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 - 32¹ and referenced in AT 701², 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 distinct segments that produce leisure products: companies that manufacture toys and games, and companies that manufacture sporting and athletic goods, such as bicycles, golf clubs, fitness equipment, and other similar products. Companies in this industry primarily sell their products to consumers through retail stores. The industry generates revenue globally, with primary markets in the U.S. and Europe. The level of manufacturing integration varies among and within segments of the industry; manufacturing is based primarily in Asia, with China accounting for a majority of production.

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:

- Chemical & Safety Hazards of Products
- Labor 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 SIC 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

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

⁴ C.F.R. 229.303(Item 303)(a)(3)(ii).

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, companies should consider making disclosure on sustainability topics in the MD&A, in a sub-section titled "**Sustainability Accounting Standards Disclosures.**"⁵

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.

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-20⁶—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 \(SICSTM\)](#). 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 Form 10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, current reports on Form 8-K,

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.

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
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

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

¹⁰ Note to **CN0604-B**—Number of manufacturing facilities shall include those owned and operated by the registrant as well as those directly contracted by the registrant. The percentage outsourced shall account for those manufacturing facilities directly contracted by the registrant.

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
Chemical & 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 processes to assess and manage risks and/or hazards associated with chemicals in products	Discussion and Analysis	n/a	CN0604-04
Labor Conditions in the Supply Chain	Number of facilities audited to a social responsibility code of conduct	Quantitative	Number	CN0604-05
	Direct suppliers' social responsibility audit compliance: (1) priority non-conformance rate and associated corrective action rate and (2) other non-conformances rate and associated corrective action rate	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.

Chemical & Safety Hazards of Products

Description

Consumers and regulators expect the Toys & Sporting Goods industry to ensure that its products are safe and do not cause harm. The presence of certain chemicals in products—which can be introduced by design or as a result of poor oversight over supply chains—can have chronic impacts on child development and health. Faulty or poorly designed products can also create choking, fire, or other hazards, which can result in injury or death. The Toys & Sporting Goods industry is subject to regulation over the safety of its products. The toys segment in particular is highly regulated in order to protect children, and evolving science on the safety of certain chemicals will likely lead to additional restrictions. As a result, companies in this industry must work at both the design and manufacturing phases to manage the use of certain chemicals while eliminating others to ensure that consumers are not exposed to risks associated with chemical safety. Failure to create products that are safe for consumers may provoke new regulatory oversight and affect a company's social license to operate. Furthermore, improper product safety testing or evaluation can lead to costly recalls, litigation, or reputational damage that can affect sales.

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.
 - A recall is defined as an action to remove alleged, potentially, or known defective or hazardous products from the distribution chain and from the possession of consumers.
- .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 (Standard Consumer Safety Specification for Toy Safety)
 - 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 processes to assess and manage risks and/or hazards associated with chemicals in products

- .12 The registrant shall describe the business and operational processes it employs to assess and manage potential risks and hazards associated with the use of materials, chemicals, and substances (hereafter “chemicals”).
- The scope of disclosure shall focus on chemicals that may be detected at certain levels in the registrant’s finished products

- The registrant may choose to discuss its management of chemicals used during manufacturing and production of its products or that are associated with the production of raw materials or components of its products, but which are not present in finished products.

.13 The registrant shall describe whether its approach to chemicals management is characterized by a hazard-based, risk-based, or other approach, where:

- A hazard-based approach to chemicals management is defined as the process of identifying and managing the usage of chemicals based on the inherent human-health and environmental toxicological characteristics of chemical ingredients, including specific exposure routes (e.g., oral, dermal, or inhalation) and dosages (amounts) of a substance it takes to cause an adverse effect.¹³
- A risk-based approach to chemicals management is defined as managing the usage of chemicals based on the integration of chemical hazard information with an assessment of chemical exposure (i.e., route, frequency, duration, and magnitude) to assess the probability and magnitude of harm to a given population(s) arising from exposure to a chemical, given attendant uncertainties.¹⁴
- Other approaches may include the usage of hazard-based and risk-based approaches depending on the chemical in question, product category, business segment, operating region, and/or intended product user.

.14 The registrant shall describe the operational processes it employs for chemicals management, where:

- Relevant operational processes that typify hazard-based approaches include the limitation or exclusion of chemicals in a finished product because their use is prohibited by a regulation or because they have known toxicity at levels at or below amounts detectable in the registrant's products (e.g., use of a restricted substances list (RSL) for chemicals that are banned where the registrant operates and/or for chemicals that the registrant has chosen to limit or eliminate).
- Relevant operational processes that typify risk-based management include evaluating chemical hazard data, conducting assessment of exposure pathways, and identifying potential corresponding health risks through the use of screening methods and chemical risk framework tools, such as the World Health Organization (WHO) [Human Health Risk Assessment Toolkit: Chemical Hazards](#) and the International Council of Chemical Associations (ICCA) [Guidance on Chemical Risk Assessment](#).
- Additional frameworks for hazard- and risk-based chemical assessments include those compiled by the Organisation for Economic Co-operation and Development (OECD), available [here](#).

¹³ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

¹⁴ Definition adapted from "[Environmental Health Criteria 222 | Biomarkers In Risk Assessment: Validity And Validation](#)," International Programme on Chemical Safety (IPCS), World Health Organization, 2001 and "Understanding Risk and Hazard When it Comes to Chemicals," American Chemistry Council, accessed August 21, 2015, <http://chemicalsafetyfacts.org/understanding-risk/>.

- .15 The registrant shall discuss its approach to chemicals management in the context of each stage in its products' lifecycles, such as product design and planning, materials and chemicals procurement, manufacturing, finished-goods testing, and product labeling and marketing.
- .16 The registrant shall describe how it prioritizes chemicals for reduction and/or elimination from its products, and how it works to incorporate alternative chemicals into product formulation and design, including through materials substitution assessments.
- Examples of assessment tools and methods include, but are not limited to, GreenScreen® For Safer Chemicals and U.S. EPA Design for the Environment (DfE) [Alternatives Assessments](#).
- .17 The registrant shall disclose if it pursues testing and/or third-party certification to verify the chemical content of its finished products, including which certifications it holds and which products the certifications apply to.
- The scope of disclosure excludes discussion of mandatory product certification such as ASTM Consumer Safety Specifications for Toy Safety (ASTM F 963-11).
- .18 Where chemicals management policies and practices differ significantly by business, unit, product category, or geography, the registrant shall describe those differences.
- .19 The registrant may choose to identify chemicals found in its finished products that it is targeting for reduction, elimination, or assessment for reasons such as:
- There is incomplete and/or insufficient availability of toxicity information such that the registrant cannot determine if the chemical is safe for use;
 - Pending or anticipated regulations may limit or restrict the use of the chemical in the future;
 - There is potential for environmental, but not human health, harm that the registrant wishes to limit; and/or
 - In response to shifts in market demand or expectations relating to the usage of a specific chemical, class of chemicals, or category of chemicals that may not be regulated but are recognized by the registrant as being "of concern" to consumers, customers, regulators, and/or others (e.g., non-governmental organizations, scientific researchers, etc.).
 - Specific chemicals to discuss may include, but are not limited to, those found on the Reporting List of Chemicals of High Concern to Children (CHCC) established by the State of Washington's Children's Safe Product Act (RCW 70.240.030).
- .20 Where the registrant has identified specific chemicals for elimination or substitution, it should discuss the timeline to achieve its goals, identify which products or product lines will be affected by the elimination or substitution, and provide an analysis of progress toward achieving its goals.

- .21 The registrant should discuss its use of chemicals 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.

Labor Conditions in the Supply Chain

Description

Fair treatment of workers and safe labor conditions in the industry's manufacturing supply chain are of growing concern for consumers, regulators, and companies. Labor issues include poor worker health and safety standards, unfair pay, long working hours, discrimination, and forced labor. The industry is exposed to these issues because of its reliance on third-party manufacturing in emerging markets, where labor standards, labor protection, and regulation enforcement can be weak, and violations are common across industries. Companies also contract with numerous suppliers, adding complexity and challenges with respect to transparency. A failure to manage labor conditions can result in supply disruptions, reputational damage, and increased regulation and enforcement in response to high-profile safety or labor incidents, strikes and work stoppages, and shifts in consumer demand. Toys and sporting goods companies are increasingly engaging with suppliers through audits, partnerships, and increased oversight, allowing them to preempt and react more quickly to labor issues. Companies that effectively manage this issue can protect brand value and reduce their cost of capital.

Accounting Metrics

CN0604-05. Number of facilities audited to a social responsibility code of conduct

- .22 The registrant shall disclose the number of facilities that have been audited to a social responsibility code of conduct during the fiscal year, where:
- 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.
 - 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.
 - 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.
- .23 Facilities audited as part of the [ICTI CARE Process \(ICP\)](#) program shall be considered to have been audited to a social responsibility code of conduct.
- ICTI audit requirements are outlined in Section 2 of the [ICTI CARE Audit Protocol Handbook](#) Audit Checklist.
- .24 The scope of facilities includes those owned and operated by the registrant as well as third-party vendors.

- .25 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. Direct suppliers' social responsibility audit compliance: (1) priority non-conformance rate and associated corrective action rate and (2) other non-conformances rate and associated corrective action rate

- .26 The registrant shall disclose the rate of its suppliers' non-conformance with external social responsibility audit standards or internally developed supplier code(s) of conduct and the rate at which those instances of non-conformance have been subject to corrective action.
- .27 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 responsibility audit standards, such as ICTI CARE, as well as internally developed supplier code(s) of conduct.
- .28 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.
- .29 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.
- .30 The registrant shall disclose the standards to which it has measured social 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.
- .31 Where relevant, the registrant may choose to disclose the number of contracts with suppliers that were terminated as result of non-conformances.

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