



STANDARD-SETTING PROJECT

RAW MATERIALS SOURCING IN APPAREL

UPDATES TO THE SASB APPAREL, ACCESSORIES & FOOTWEAR STANDARD

Issued: May 12, 2022

Effective date: July 1, 2022

Prepared by the SASB Standards Board

Notice of Updates to the SASB Apparel, Accessories & Footwear Standard

In May 2022, the SASB Standards Board voted to issue updates to the Raw Materials Sourcing disclosure topic and metrics in the Apparel, Accessories & Footwear Standard. The updated Standard (Version 2022-05) supersedes the previous Standard (Version 2018-10).

Effective Date

Version 2022-05 of the SASB Apparel, Accessories & Footwear Standard is effective for all entities for annual periods beginning on or after July 1, 2022. Early adoption is permitted for all entities. If an entity applies the updates for an annual period beginning before the effective date, it shall disclose that fact.

If an entity chooses to not use the effective version of a Standard, it shall disclose the omission(s), as well as the rationale for the omission(s), consistent with guidance provided in the SASB Standards Application Guidance, Version 2018-10.



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Overview

This document was produced as part of the Raw Materials Sourcing in Apparel standard-setting project, overseen by the SASB Standards Board (the Board). It contains the following sections:

- Basis for Conclusions on Updates to the Apparel, Accessories & Footwear Standard
- Updates to the Apparel, Accessories & Footwear Standard
- Redline Version of Updates to the Apparel, Accessories & Footwear Standard

The Basis for Conclusions summarizes the considerations of the Board to arrive at the updates to the Standard, including how the updates were guided by the SASB [Conceptual Framework](#).

The [Raw Materials Sourcing in Apparel project page](#) on the Value Reporting Foundation website contains further information on the standard-setting project.



Basis for Conclusions on Updates to the Apparel, Accessories & Footwear Standard

Introduction

- 1 The Basis for Conclusions describes updates to the Apparel, Accessories & Footwear Standard, including the considerations and rationale of the SASB Standards Board in developing and approving updates to the Standard.
- 2 The Basis for Conclusions is organized as follows:
 - a) Summary of updates to the Standard
 - b) How did the Board develop the updates to the Standard?
 - c) Why was the project added to the standard-setting agenda?
 - d) What is the basis for the Board’s proposed changes to the Standard?
 - e) Additional deliberations
 - f) Updates to the Standard
 - g) Effective date of the updates
 - h) Appendix

Summary of updates to the Standard

- 3 The Apparel, Accessories & Footwear Standard has been updated through the revision of the Raw Materials Sourcing disclosure topic and two corresponding metrics. The update aims to enhance decision-usefulness, primarily through improved comparability with a complete set of metrics. In addition, the update seeks to increase verifiability and alignment with existing industry practices.
- 4 The updated Apparel, Accessories & Footwear Standard contains the following changes to metrics corresponding to the Raw Materials Sourcing disclosure topic:
 - a) Revise metric **CG-AA-440a.1**. *Description of environmental and social risks associated with sourcing priority raw materials (“the qualitative metric”) to CG-AA-440a.3. (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion of business risks and/or opportunities associated with the environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities.*
 - b) Revise metric **CG-AA-440a.2**. *Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard (“the quantitative metric”) to CG-AA-440a.4. (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard.*
- 5 Even though the revised standard is not adding or eliminating the number of metrics associated with the Raw Materials Sourcing disclosure topic, the revised standard includes two new metric codes: metric CG-AA-440a.1 has been updated to CG-AA-440a.3, and metric CG-AA-440a.2 has been updated to CG-AA-440a.4. Using new metric codes in these two cases will support data

firms, users, preparers, and other relevant stakeholders in tracking information in light of the updated formatting and data points requested in the revised standard.

6 The updates also include minor revisions to the Raw Materials Sourcing topic summary to clarify the disclosure topic scope.

7 The sections below discuss the Board’s deliberations to arrive at the updates to the Standard. A redline version of the updates to the metrics and topic summary is provided for reference on pages 32-39.

How did the Board develop the updated Standards?

- 8 As a general practice, the Board and technical staff actively monitor topics identified in each industry standard by assessing corporate disclosures and the effectiveness of the relevant Standards at capturing performance on the issues in a decision-useful manner. The technical staff also monitors industry developments and solicits input from market participants and subject matter experts on the need for standard setting.
- 9 Since this project was added to the agenda in February 2020, the technical staff has conducted research and engaged in consultations with companies, investors, and subject matter experts, including the [SASB Standards Advisory Group](#), to support development of the updated Standard. The technical staff contacted more than 55 stakeholders and had in-depth discussions with 30 market participants (nine investors, 13 companies, and eight subject matter experts). Companies consulted represented non-listed and listed small, medium, and large market capitalizations, as well as various product segments (e.g., luxury, footwear, accessories, etc.). Contributing investors represented a diverse range of institutions, experiences, and perspectives, including fundamental equity analysts, stewardship specialists, and engagement specialists, as well as environmental, social, and governance (ESG) specialists. In addition to companies and investors, other relevant organizations and subject matter experts provided feedback, including industry associations, non-governmental organizations (NGOs), and consultants. The contributors to the technical staff’s work also represented various regions across the world, including Asia, Europe, Latin America, and North America. Stakeholder consultations centered on questions posed in a [project briefing document](#).
- 10 In May 2021, the Board approved the release of an exposure draft for a 90-day public comment period which began on June 3, 2021 and closed on September 2, 2021. The Board received 13 comments letters: two from companies, three from investors, and eight from other interested parties. All public comment letters can be found on the [project webpage](#).
- 11 The Board and technical staff reviewed feedback provided during the public comment period, and the technical staff conducted additional research and consultations to better understand the feedback provided. These additional inputs were considered in the total mix of information

received through the life of the project. The Board further deliberated the public comment letters and additional input in the December 2021 and March 2022 public Board meetings.

- 12 Additional information related to the [standard-setting process](#) that the Board follows to maintain and update the SASB Standards can be found on the SASB website, in the [Rules of Procedure](#), and/or in the [Conceptual Framework](#). Additional project-specific information can be found on the [Raw Materials Sourcing in Apparel project page](#) on the SASB website.

Why was the project added to the standard-setting agenda?

- 13 Companies in the Apparel, Accessories & Footwear industry (“apparel industry”) increasingly recognize that there are opportunities to mitigate environmental and social impacts and risks at the raw materials production phase of the apparel value chain. The Raw Materials Sourcing disclosure topic and associated metrics in the Apparel, Accessories & Footwear Standard measure how companies manage environmental and social risks associated with sourcing raw materials.
- 14 As companies in the industry have prepared disclosures on this topic, they have provided feedback to technical staff on several elements of the associated metrics:
- a) **Definition of “priority raw materials”:** The definition of “priority raw materials” in metric CG-AA-440a.1¹ is not aligned with a widely used industry definition, and the current definition does not sufficiently account for materials used in small quantities that still may represent critical sourcing risks and opportunities to companies.
 - b) **Calculation guidance for measuring materials:** Companies expressed concerns with the ability to produce comparable and verifiable disclosures with a lack of calculation guidance in metric CG-AA-440a.2.² There is no guidance on if, or how, companies should account for materials lost or wasted throughout production; nor does it specify how companies should calculate the weight of certified materials in finished products.
 - c) **Referenced third-party certifications and standards:** Companies noted that some of the third-party standards referenced in current metric CG-AA-440a.2 are not compatible with the standard’s guidance to use the weight of materials to calculate the percentage of certified raw materials.
- 15 In response to this market feedback, the Board approved a standard-setting project in February 2020 to further clarify and improve the Raw Materials Sourcing disclosure topic and associated metrics.

¹ **CG-AA-440a.1.** Description of environmental and social risks associated with sourcing priority raw materials.

² **CG-AA-440a.2.** Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.

What is the basis for the updated Standard?

- 16 The updates aim to enhance the completeness, comparability, alignment, and verifiability of the two corresponding metrics in the Raw Materials Sourcing disclosure topic. The two metrics complement each other and are intended to provide complete information to understand and interpret performance on the disclosure topic.
- 17 Through market feedback and research, the Board recognized that Version 2018-10 of the Standard used different definitions and approaches across the qualitative and quantitative metrics, which could limit the comparability and decision-usefulness of the resulting data. The following section summarizes the Board’s considerations that informed the updates on both metrics and specifically addresses the project focus areas related to market input on clarifying the definition of “priority raw materials,” calculation guidance, and referenced third-party standards.

Clarifying the scope of the Raw Materials Sourcing disclosure topic

- 18 Market input suggested that companies and investors often interpreted the Raw Materials Sourcing disclosure topic to encompass both (a) the external environmental and social factors that affect a company’s ability to reliably source raw materials and (b) the environmental and social externalities created by raw material suppliers through their operational activities. However, the latter (environmental and social externalities created *as a result* of supply chain operations) are not intended to be captured by the Raw Materials Sourcing disclosure topic but rather are the focus of two separate disclosures topics on supply chain management.³
- 19 The updated Raw Materials Sourcing disclosure topic aims to clarify its focus on how environmental and social factors (such as climate change, water scarcity, land use, resource scarcity, and regional conflict in the supply chain) impact the ability of companies in the industry to source key raw materials such as cotton, leather, wool, and precious metals. The Raw Materials Sourcing disclosure topic scope includes apparel company performance impacts from weather events, such as in 2010 when global cotton prices tripled from \$0.78 to more than \$2.27 per pound as a result of weather-related supply constraints in China and Pakistan.⁴ In contrast, environmental impacts such as water pollution resulting from a discharge of chemicals during wet processing⁵ are captured by a separate disclosure topic: Environmental Impacts in the Supply Chain.

Focus on priority raw materials

- 20 While companies in the apparel industry rely on a wide range of materials as inputs for finished products, a subset of materials usually makes up the bulk of a company’s materials use. Companies recognize that proactive management of these key priority raw materials within their supply chains can mitigate business risks around materials shortages, supply disruptions, price

³ Environmental Impacts in the Supply Chain and Labor Conditions in the Supply Chain.

⁴ Edward Faubert, “After Roller-Coaster 2010 & 2011, Cotton’s Newfound Surplus Weighs on Prices,” ETF.com, last modified April 26, 2012, <https://www.etf.com/sections/features-and-news/3665-after-roller-coaster-2010-a-2011-cottons-newfound-surplus-weighs-on-prices?nopaging=1>.

⁵ According to the Global Organic Textile Standard, wet processing is the processing stage at which textile substrate is treated with colorants and/or chemicals. See more at <https://global-standard.org/certification-and-labelling/who-needs-to-be-certified/wet-processing>.

volatility, and reputational risks, and can ultimately enhance their ability to reliably source materials. For example, Swedish apparel brand H & M Hennes & Mauritz AB includes the following discussion on raw material sourcing in its 2020 annual report:

*Cotton is currently the H&M group’s biggest and most important raw material. Higher temperatures and water shortages will most likely affect the ability to grow cotton in many of the world’s cotton-growing regions. Long-term, the company believes that this will affect the availability and price of cotton. Price increases in other raw materials can also be expected.*⁶

21 In Version 2018-10 of the Standard, metric CG-AA-440.1⁷ focused on environmental and social risks associated with *priority* raw materials, while metric CG-AA-440a.2⁸ asked for disclosure broadly for *all* raw materials that are third-party certified. Investors suggested that the consistent usage of “priority raw materials” across metrics would improve focus on the most salient materials rather than all raw materials, thereby improving the decision-usefulness of disclosures. The updates include revising metric CG-AA-440a.2 to align with CG-AA-440a.1 and focus on priority raw materials:

CG-AA-440a.2:	<i>Percentage of <u>raw materials</u> third-party certified to an environmental and/or social sustainability standard, by standard</i>
Updated CG-AA-440a.4:	<i>(1) Amount of <u>priority raw materials</u> purchased, by material, and (2) amount of each <u>priority raw material</u> that is certified to a third-party environmental and/or social standard, by standard</i>

22 In Version 2018-10 of the Standard, metric CG-AA-440a.1 defined “priority raw materials” in accordance with US financial reporting guidance on business descriptions as materials used in final products that generate more than 10 percent of consolidated revenue.⁹ Market feedback from companies indicated that the definition should be made more globally applicable. Specifically, companies and investors frequently contrasted this definition of “priority raw materials” to the definition developed by the Textile Exchange, a global nonprofit organization with 425 members that aims to establish best practices and fair business models for the apparel supply chain, from farm to retail.¹⁰ The Textile Exchange defines a company’s priority materials based on the volume of raw material it uses and the relative sustainability risks and opportunities related to each raw material.¹¹

⁶ Hennes & Mauritz AB, *H&M Group Annual Report 2019*, 2020, p. 49, accessed April 9, 2021, https://hmgroupp.com/wp-content/uploads/2020/10/HM_Annual-Report-2019.pdf.

⁷ **CG-AA-440a.1.** *Description of environmental and social risks associated with sourcing priority raw materials.*

⁸ **CG-AA-440a.2.** *Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.*

⁹ According to metric CG-AA-440a.1, “priority raw materials are defined as those that are essential to the entity’s principal products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, consistent with 17 CFR 229.101.”

¹⁰ Textile Exchange, last modified 2020, <https://textileexchange.org>.

¹¹ Textile Exchange, *Materials Terminology Guide*, 2020, pp. 7–8, <https://textileexchange.org/wp-content/uploads/2021/05/Materials-Terminology-Guide.pdf>. Accessed on 4 April 2022.

- 23 Market feedback also raised a concern that the guidance in CG-AA-440a.1 may be incomplete, as it would likely exclude materials used in smaller quantities that pose significant risks and opportunities to the entity. The Textile Exchange’s definition, by factoring in risks and opportunities as additional criteria to materials’ volume, allows companies to account for materials that may be used in smaller quantities but that may present critical risks and opportunities, potentially leading to a more complete and representationally faithful list of a company’s priority raw materials.
- 24 Most of the investors consulted preferred the Textile Exchange’s definition and recommended that the Board revise this definition to focus on materials that represent the most salient risks as well as those used in the largest quantities. In addition, many companies within the industry already report using the Textile Exchange’s definition via its Corporate Fiber & Materials Benchmark program, suggesting that alignment with this widely used program may improve cost-effectiveness for companies implementing the Standard.¹² During the public comment period, the Board sought market feedback on the proposed change to align the definition of “priority raw materials” with that of the Textile Exchange; all respondents to the question (see Question 1 in Appendix Item 2) agreed that it improved alignment with common industry standards and guidance.
- 25 Thus, the consensus expressed from both companies and investors provided the Board with confidence to align the Standard’s “priority raw materials” definition with the Textile Exchange’s. The updated definition also eliminates reference to US financial reporting guidance, providing a more global definition already in use by companies across Europe, Asia, and North America.

Disclosures by material

- 26 Research and consultations surfaced a consistent theme of the breadth of materials used in the apparel industry and, equally, the drastic variations of the environmental and social factors that are likely to impact particular materials. Examples include cotton and other plant-based materials such as jute, synthetic fibers (e.g., polyester and polyamide), manufactured cellulose, and animal fibers and materials such as wool, down, silk, and leather. Production of such materials can be heavily impacted by environmental and social factors such as climate change, water scarcity and quality issues, deforestation, poor working conditions, human rights abuses, animal welfare, and land use issues. The environmental or social factors of highest concern are dictated in large part by the type of material; for example, social factors such as animal welfare may pose a critical threat to sourcing leather but do not apply to natural fibers such as cotton.
- 27 The updates adjust the structure of each metric to produce disclosures that are organized by priority raw material type. A suggested table format on how to organize the disclosure for each metric is also included in the updates (see the Updates to the Apparel, Accessories & Footwear Standard on pages 25-30) to improve the comparability and decision-usefulness of the resulting disclosure.

¹² In 2019, 173 companies, including subsidiaries, participated in the Corporate Fiber & Materials Benchmark.

- The updates to the qualitative metric (CG-AA-440a.1) are structured for companies to discuss for each company-identified priority raw material the respective (a) environmental and/or social factor(s) most likely to threaten sourcing, (b) business risks and/or opportunities associated with the environmental and social factors, and (c) management strategies for addressing business risks and opportunities.
- The updates to the quantitative metric (CG-AA-440a.2) are structured similarly for entities to disclose for each company-identified priority raw material the (a) amount of purchased material and (b) amount of that material that is certified to a third-party environmental and/or social certification or standard.

- 28 The Board sought market input on this update during the public comment period (see Question 2 in Appendix Item 2). Of those that responded to this question, most supported the proposed revision to structure the metric by priority raw material, including all companies, two of the three investors, and four of six subject matters experts. Specifically, companies stated that the proposed revision would result in more detailed information and allow companies to better analyze and manage risks where they have the greatest influence. Investors also stated that the proposed revision would improve the usefulness of the data by focusing on more granular information. One investor also stated that the proposed approach improved alignment with how they account for input-related costs and other factors affecting a company's production.
- 29 Another common theme among almost all public comments submitted by subject matter experts, and echoed by one company and one investor, was the importance of identifying the sourcing region. The comments included multiple recommendations to include enhanced guidance on sourcing region, with respondents suggesting that environmental (water, biodiversity, and climate), social (social and labor laws), and governance (corruption) risks vary by country or region in almost all cases. To address such comments, the Board revised metric **CG-AA-440a.1** to include disclosure on the management strategies employed to address business risks and/or opportunities associated with sourcing, and it identified traceability to raw materials suppliers, as well as a list of countries from which the entities source priority raw materials from, as possible strategies.

Relative amount of each priority raw material

- 30 Investors also emphasized that metric **CG-AA-440a.2**¹³ had limited usefulness without additional context on each priority raw material's relative share to total priority raw materials. As an example, disclosures would indicate only that 50 percent of cotton is certified to a third-party certification/standard. The disclosure did not provide visibility into whether cotton makes up a majority or a small share of all priority raw materials for the company. Furthermore, when considered in conjunction with disclosures from metric **CG-AA-440a.1**,¹⁴ it is challenging to

¹³ **CG-AA-440a.2.** Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.

¹⁴ **CG-AA-440a.1.** Description of environmental and social risks associated with sourcing priority raw materials.

understand the relative magnitude of the identified environmental and social factors, associated business risks, and appropriateness of implemented management strategies.

31 The updates to the quantitative metric include an additional data point on the amount purchased of each priority raw material to provide the broader context and improve the completeness of the resulting disclosure. This disclosure has been considered before by the Board, but research at the time indicated the industry was not yet monitoring and collecting this data, posing challenges to the cost-effectiveness of compiling such information. More recent market feedback and industry disclosures indicate a different industry landscape where such disclosures are aligned with industry practices and unlikely to significantly increase the costs associated with preparing such disclosures. Additionally, the Board recognized that not all materials are measured using weight; the proposed changes include guidance and flexibility to provide data in an alternative, more appropriate unit of measure for the material, such as surface area.

32 Finally, the quantitative metric has been updated from percentage of materials to absolute amount of materials. The Board believes that this change will not affect the underlying data required for disclosure, and thereby will not impact the preparation costs for disclosure. Equally, the update still enables users to calculate the percentage of certified materials from the absolute value data points, while providing further flexibility to perform additional analyses.

Measuring raw materials

33 The quantitative metric (**CG-AA-440a.2**) provided guidance to “calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.” Companies reiterated the complexity associated with calculating the weight of certified priority raw materials in *finished products* as well as the lack of guidance for accounting for materials wastage during the production cycle.

34 This feedback led to research and deliberations on whether measuring certified materials found in finished products is the most useful way to capture performance related to the Raw Materials Sourcing disclosure topic, which is focused on the early production and sourcing stage of raw materials. The metric has been updated from the amount of certified materials found in finished products to the amount of certified priority raw materials *purchased*. The Board believes the amount purchased is a more representationally faithful measurement of a company’s sourcing decisions than the weight of certified materials found in finished products. The Board sought market input on these proposed updates during the public comment period (see Question 3 in Appendix Item 2). Almost all respondents agreed that the proposed revisions improved comparability, completeness, and usefulness of disclosures.

35 Finally, the scope of the SASB Apparel, Accessories & Footwear industry includes companies involved in manufacturing, branding, design, and retail. Therefore, calculation guidance should meet the needs of a diverse set of companies that operate within and across the value chain and

result in comparable disclosures. In particular, for companies that purchase finished goods and are largely removed from the process of purchasing initial materials, the updates regarding the measurement of the amount of certified priority raw materials purchased is accompanied by guidance for deriving the initial amount of certified raw materials purchased to produce finished products. Companies cited the Textile Exchange’s *Fiber Uptake Calculations & Reporting Best Practices Guide*¹⁵ and *Fiber Conversion Methodology*¹⁶ as useful and widely used tools for facilitating such calculations. These resources identify a standardized methodology for measuring certified materials in finished products and accounting for wastage throughout the production cycle.

Referenced third-party certifications and standards

36 Through the course of the project, companies provided specific feedback on the third-party certifications/standards referenced in metric **CG-AA-440a.2**.¹⁷ Some indicated that the guidance provided included references to third-party certifications/standards that pertain to certification of finished products and manufacturing processes, rather than to certification of processes to produce raw materials. Others commented on the metric’s reference to third-party certifications/standards that utilize a mass balance system,¹⁸ such as the Better Cotton Initiative’s, and expressed concerns that mass balance system certification/standards are not directly measuring a company’s purchased raw materials.

37 In assessing the market feedback, the Board considered two possible options to address the market input received throughout the project. The two options are described below:

<p>Option 1: Provide a list of potential certifications for use</p>	<p>Provide a list of third-party certifications and standards that companies may use to certify priority raw materials. The list of third-party certifications and standards may consist of those that (1) are actively in use by companies within the industry and (2) address environmental and social factors likely to impede sourcing of raw materials. Solicit market input to construct the list of certifications. The list would not be intended to be a comprehensive list, nor prescriptive.</p>
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¹⁵ Textile Exchange, *Fiber Uptake Calculations & Reporting Best Practices Guide*, 2019, https://textileexchange.org/wp-content/uploads/2019/06/CFMB_2019_Fiber-Uptake-Calculations-Guide.pdf.

¹⁶ Textile Exchange, *2019 Fiber Conversion Methodology*, August 2019, https://textileexchange.org/wp-content/uploads/2019/09/CFMB_2019_Fiber-Conversion-Methodology.pdf.

¹⁷ **CG-AA-440a.2.** *Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard.*

¹⁸ A mass balance system accounts for materials entering and leaving a system and is often used when exact amounts are difficult to measure. For example, the Better Cotton Initiative (BCI) uses a mass balance system to facilitate the production and uptake of Better Cotton. According to the [BCI website](#), a mass balance system “encourages supply chain actors to buy and use more Better Cotton in a cost efficient manner, as it does not require complexities that result in costly physical segregation along the supply chain.” Renewable energy credits are a common example of the mass balance function; when renewable energy credits are purchased, the renewable energy is added and pulled from the power grid, contributing to greener energy. However, the renewable energy sent to the grid may not directly power the purchaser’s operations.

<p>Option 2: Provide a set of principles for use when selecting third-party certifications</p>	<p>Provide a set of principles or criteria that companies can use to identify credible certifications/standards. Companies can then discuss how such principles are reflected in the certifications/standards they use. For example, an illustrative set of principles may include the following:</p> <ul style="list-style-type: none"> • Managed by a third party, is active, and in use; • Explicitly intended to be used for one or more raw materials that the entity has determined are among its priority raw materials; • Explicitly relates to environmental or social factors that may threaten the entity’s sourcing of raw materials and/or supply chain, including, but not limited to, the availability or pricing of such materials; and/or • Used by the entity for the purposes of managing its business risks associated with sourcing raw materials, including, but not limited to, access to and availability of priority raw materials, price volatility, regulatory compliance, brand value, and reputation.
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38 The Board identified advantages and disadvantages with each option. For example, Option 1 may have guided companies to a clear list of third-party certifications/standards. However, the market might interpret the specific set of certifications/standards as the Board’s preference for particular certifications/standards, which is not the Board’s intent. Furthermore, Option 1 also requires ongoing maintenance of the list to ensure that the certifications/standards referenced in the Standard are up to date.

39 Option 2 would likely require less maintenance and present more objective guidance. However, input gathered through consultation and public comments suggested that neither investors nor companies had coalesced around a common set of principles or criteria for determining the credibility and performance of certifications.

40 During the public comment period, the Board asked respondents to comment on the two approaches and to identify the principles that respondents might consider when evaluating the credibility and/or selection of third-party certifications/standards (see Question 4 in Appendix Item 2). The input received was split between the two approaches, and there was a lack of consensus regarding a possible set of principles discussed in Option 2. Despite the lack of clear consensus, the input conveyed two key themes: 1) investors are unlikely to understand the credibility and nuance of each unique certification/standard, and 2) companies rely on diverse

certifications/standards to manage the environmental and/or social factors that threaten their ability to source materials—there is no “one size fits all” certification/standard. Therefore, a variety of certifications should be considered, and additional disclosure, such as a rationale for selecting a specific certification/standard, would improve the usefulness of disclosure.

41 Therefore, the Board determined to maintain and update the list of third-party certifications/standards to include those that are actively used by companies and focus on raw materials (Option 1). In addition, the updated list retains references to certifications/standards that use a mass balance approach, recognizing it as an exception to the metric that is otherwise oriented around certifications/standards that directly certify a company’s purchased physical materials. Several companies and investors endorsed the use of mass balance systems, emphasizing how the systems-based approach can still help companies cost-effectively increase the amount of sustainable materials they consume and manage key environmental and social factors that may threaten sourcing.

42 Additionally, to address input emphasizing the usefulness of company rationale on certification/standard selection, the updated Standard includes a discussion of the entity’s views on how sourcing certified priority raw materials helps manage impacts on its business; its rationale for selecting specific third-party certifications/standards over others; and its strategy to secure access to priority raw materials certified to specific standards and any associated quantitative targets.

43 Finally, in addition to the updated list, the updated Standard clarifies the usage of the term “third-party” in metric CG-AA-440a.2. The intended reference is to certifications/standards that are developed and reviewed by an organization independent from the entity (certified to a third-party certification/standard. It is not intended to indicate a requirement of an independent audit or assurance on certifications/standards (not third-party certified certifications/standards) as the Board acknowledges that independent audit and assurance requirements vary substantially based on the specifics of each third-party certification. The Board recognizes from consultations that purchasing materials that are certified to a third-party certification/standard is not the only strategy used by companies to manage environmental and social factors that impact raw materials sourcing. As a result, the updated Standard also provides for optional disclosure on purchased priority raw materials that are not certified to a third-party environmental and/or social standard but contribute to the entity’s strategy to secure reliable sourcing.

Additional deliberations

44 The Board considered the following issues that arose through research and consultation that are outside the original project scope. There are no updates to the Standard based on the deliberations discussed below.

Adding packaging to the scope of the Raw Materials Sourcing disclosure topic

- 45 During consultations, a company recommended expanding the scope of the disclosure topic to also include raw materials used for packaging (e.g., paperboard or corrugated fiberboard). Technical staff investigated the decision-usefulness of expanding the scope of the disclosure topic to include packaging and found that investors are primarily interested in environmental impacts associated with packaging disposal rather than in the environmental and social factors that may threaten a company's ability to source raw materials necessary for packaging production.¹⁹ For example, As You Sow's Plastic Solutions Investor Alliance is made up of 25 institutional investors representing \$1 trillion in assets under management (AUM) and is aimed at engaging publicly traded companies on the threats posed by plastic pollution, but it does not mention raw material production.²⁰ Furthermore, research from the Principles for Responsible Investment (PRI) identifies numerous policies aimed at plastic recycling and waste globally; however, no policies or regulations are directly targeted at the primary production of plastics.²¹
- 46 Despite the lack of policies and regulations focused on raw materials for plastics production, PRI suggests that companies that produce raw materials for plastics (such as oil and gas companies) may be impacted indirectly by policies aimed at boosting plastic recycling and reducing fossil fuel dependence and greenhouse gas emissions.²² Such policies, and subsequent indirect impacts, could present threats to a company's sourcing strategy for raw materials used in packaging. Additionally, some companies within the industry, such as shoe manufacturers, are heavily reliant on corrugated cardboard, which is in great demand as consumers increasingly order goods online that often arrive in cardboard packaging. Recently, cardboard production has been impacted by record-high wood prices and is increasingly threatened by climate change, which can prompt bug infestations and destructive wildfires through rising temperatures. For example, in 2019–2020 Australia saw 130,000 hectares of plantation burned;²³ shortly after the Australia wildfires, California lost 60,000 hectares of commercial forests to wildfires.²⁴
- 47 The Board sought additional input on this decision during the public comment period (see Question 5 in Appendix Item 2). Several respondents provided input on this issue during the public comment period. However, the responses were split, and the Board did not receive any new information that surfaced solutions aside from what was produced in the exposure draft. Therefore, the Board determined to maintain the scope of the Raw Materials Sourcing disclosure

¹⁹ SASB General Issue Category (G.I.C.) includes a Product Design & Lifecycle Management category that addresses an industry's incorporation of ESG considerations in characteristics of products, including the management of lifecycle impacts related to packaging. The Raw Materials Sourcing disclosure topic is mapped to the Materials Sourcing & Efficiency G.I.C., which addresses issues related to the resilience of materials supply chains to impacts of external environmental and social factors.

²⁰ Plastic Solutions Investor Alliance, "Investor Declaration on Plastic Pollution," As You Sow, last modified March 11, 2021, <https://www.asyousow.org/our-work/waste/ocean-plastics/declaration-on-plastic-pollution-citing-plastic-pollution>.

²¹ Gemma James, *The Plastics Landscape: Regulations, Policies and Influencers*, Principles for Responsible Investment, 2019, accessed April 9, 2021, <https://www.unpri.org/download?ac=9630>.

²² James, *The Plastics Landscape*, p. 4.

²³ Linden Whittle, "Effects of Bushfires and COVID-19 on the Forestry and Wood Processing Sectors," Department of Agriculture, Water, and the Environment, Australian Government, last modified January 13, 2021, <https://www.agriculture.gov.au/abares/products/insights/effects-of-bushfires-and-covid19-forestry-wood-processing-sectors>.

²⁴ Alice Uribe, "Wildfires Leave Forestry Companies Struggling for Insurance," *Wall Street Journal*, February 26, 2021, <https://www.wsj.com/articles/wildfires-leave-forestry-companies-struggling-for-insurance-11614344401>.

topic and concluded that evidence suggests investors are primarily interested in environmental impacts associated with packaging disposal, which is not the focus of the Raw Materials Sourcing disclosure topic.

Industry scope considerations

- 48 The scope of the Apparel, Accessories & Footwear industry includes companies across the value chain involved in design, manufacturing, wholesaling, and/or retailing, representing a variety of business operations. The Board and technical staff recognized that the diversity in business models (e.g., retail versus manufacturing) could pose complexities in constructing a complete set of useful metrics. While a company's position along the value chain may impact how it identifies, assesses, and manages risks and opportunities associated with sustainability issues, most companies in this industry recognize reliable access to raw materials as a critical issue, regardless of where they fall along the value chain. This is supported by corporate disclosures on materials sourcing produced by diverse companies such as retailers and vertically integrated apparel manufacturers.
- 49 Below are excerpts from financial filings or annual reports of companies reflecting different operations within the industry scope. The excerpts demonstrate that while these companies are diverse in their operations, they identify environmental and/or social factors that impact sourcing raw materials and present critical business risks:
- **Hanesbrands** (US-headquartered, vertically integrated apparel company performing R&D and design functions while also operating 39 manufacturing facilities across Asia, Central America, and the Caribbean Basin): *“Our business is susceptible to risks associated with climate change, including through disruption to our supply chain, potentially impacting the production and distribution of our products and availability and pricing of raw materials. . . . Cotton is the primary raw material used in manufacturing many of our products. While we do not own yarn operations, we are still exposed to fluctuations in the cost of cotton. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large -scale yarn suppliers and may result in the need to implement future price increases in order to maintain our margins. Decreases in cotton prices can lead to lower margins for inventory and products produced from cotton we have already purchased, particularly if there is downward price pressure as a result of consumer demand, competition or other factors. . . . Key highlights of our 2030 global sustainability goals include . . . moving to 100% recycled polyester and sustainably sourced cotton.”*²⁵
 - **Fast Retailing** (Japan-headquartered apparel company with global operations in R&D, design, merchandising, development, procurement of materials, and omnichannel retail, and that oversees an outsourced production network of approximately 415 partner factories):²⁶

²⁵ Hanesbrands, Form 10-K, for the fiscal year ended January 2, 2021 (filed as of February 12, 2021), pp. 8, 12, 29, Edgar, US Securities and Exchange Commission, accessed April 16, 2021, <https://www.sec.gov/ix?doc=/Archives/edgar/data/1359841/000135984121000085/hbi-20210102.htm>.

²⁶ Fast Retailing, “Partner Factory List,” accessed May 16, 2021, <https://www.fastretailing.com/eng/sustainability/labor/list.html>.

“Disasters, climate change, and other factors may cause escalating prices or difficulty in procuring the raw materials (such as cotton, cashmere, down, etc.) used in the products sold by the Group’s businesses. If these risks materialize, the Group’s product supply systems and performance may be adversely affected. . . . We have entered into procurement agreements with multiple suppliers so that we are able to source reasonably priced raw materials, without having to rely on a specific supplier for a specific raw material.”²⁷

- **Guess?, Inc.** (US-headquartered apparel and footwear designer that sources finished products from approximately 200 suppliers): *“The raw materials used to manufacture our merchandise are subject to availability constraints and price volatility caused by high demand for fabrics, currency fluctuations, crop yields, weather patterns, climate change, supply conditions, government regulations (including tariffs), labor conditions, energy costs, transportation or freight costs, economic climate, public health crises, market speculation and other unpredictable factors. Negative trends in any of these conditions or our inability to appropriately project fabric requirements could increase costs and negatively impact profitability.”²⁸*

50 The Board believes that the issues captured under the Raw Materials Sourcing disclosure topic are actionable for most companies along the value chain and that the updates will facilitate representationally faithful and comparable disclosures across the industry. This includes, for example, companies that are largely removed from the process of directly purchasing priority raw materials. As noted in paragraph 35, the revision to metric CG-AA-440a.2 to measure the amount of certified priority raw materials purchased is accompanied by guidance so that these companies can estimate the amount of certified raw materials purchased from their suppliers that is utilized to produce their finished products.

51 The Board asked respondents to comment on its conclusion (see Question 6 in Appendix Item 2) and received supportive comments from all but one respondent. One investor indicated that it was “not clear how the proposed revisions increased the usefulness to investors” but went on to note that “the disclosures of raw materials purchased would help distinguish companies in the design or retail segments from companies in the manufacturing and wholesaling segments, but it is still largely up to the company to provide a description of how their business is impacted by raw material risks.” The Board believes that the Standards Application Guidance reinforces this comment through the guidance on narrative description.²⁹

²⁷ Fast Retailing, *Annual Report 2020, 2021*, accessed April 9, 2021, https://www.fastretailing.com/eng/ir/library/pdf/ar2020_en.pdf.

²⁸ Guess?, Inc., Form 10-K, for the fiscal year ended January 30, 2021 (filed as of April 9, 2021), p. 15, Edgar, US Securities and Exchange Commission, accessed April 16, 2021, <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000912463/000091246321000020/ges-20210130.htm>.

²⁹ SASB Standards Application Guidance contains the following guidance on narrative description: “When disclosing information related to a disclosure topic identified by the standards, entities should consider including a narrative description of material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. Such a description may provide context to quantitative information.” <https://www.sasb.org/wp-content/uploads/2018/11/SASB-Standards-Application-Guidance-2018-10.pdf>

Updates to the Standard

- 52 After considering the research and analysis done by the technical staff, market feedback received through consultations conducted between 2020 and 2022, and the public comments received on the exposure draft during the public comment period ending on September 3, 2021, the Board approved the updates to the Apparel, Accessories & Footwear Standard. The Board conducted its final deliberations on this matter at the public Standards Board meeting held on March 2, 2022, and proceeded to ballot the vote, which concluded on May 2, 2022, with the unanimous approval by all 11 Board members.

Effective date of the updates

- 53 The updates to the Standard outlined above are reflected in Version 2022-05 of the SASB Apparel, Accessories & Footwear Standard, issued on May 12, 2022. Version 2022-05 supersedes Version 2018-10 of the Standard.
- 54 All entities shall apply Version 2022-05 of the Standard for reports covering annual periods beginning on or after July 1, 2022. Early adoption is permitted for all entities. If an entity applies the updates for an annual period beginning before the effective date, it shall disclose that fact.
- 55 The Board concluded that the expected costs of implementation are reasonable based on the input received during the consultation and public comment period. While the updates include an additional sub-metric to metric CG-AA-440a.4, companies in consultations provided specific feedback that the additional disclosure would not significantly alter the cost of preparation. Aside from this update, the Board believes the updates do not significantly alter or broaden the scope of disclosure.
- 56 The Board believes that the effective date for implementation is reasonable in light of the information already being collected and reported by companies in the sector and according to corporate input gathered through the course of the project.
- 57 The Board acknowledges that companies that have implemented processes to disclose in accordance with a Standard, or are in the process of implementing a Standard, will likely incur additional costs to address the updated version.
- 58 If an entity chooses to not use the effective version of a Standard, it shall disclose the omission(s), as well as the rationale for the omission(s), consistent with guidance provided in the SASB Standards Application Guidance, Version 2018-10.

Appendix

Appendix Item 1

Textile Exchange’s Definition of a “Priority Material” (excerpt)³⁰

For the purposes of benchmarking, Textile Exchange defines a priority/non-priority material by the scale, risk, and opportunity it represents to the company.

- *Scale: The “fiber” represents a percentage of volumetric use beyond a threshold of 10 percent of overall fiber use, e.g., cotton, polyester, manufactured cellulosic fibers, nylon, and wool. Or, in the case of “non-fiber” materials (e.g., leather, down), it represents 10 percent of the final product range (i.e., by “count of products” with “major components” of non-fiber materials, e.g., down or leather).*
- *Risk: The raw material represents a “material” risk to the company. Risks associated with a minority (low volume) raw material include sourcing from environmentally and/or socioeconomically high-risk sourcing regions, animal welfare risk, reputation risk, etc.*
- *Opportunity: The module should also be selected if the company has seized the opportunity to advance the sustainability of the raw material even if the material is below the volumetric use threshold or is not considered a risk.*
 - I. *Requirements: The three parameters (above) determine whether a material (fiber or non-fiber) is a priority and must be completed for a Material Change Index (MCI) score and placement in the Material Change Index (MCI).*
 - II. *Risk: Materiality assessments help a company identify its most “material” issues. The process of identifying/assessing these issues (including risks and opportunities associated with fiber/materials use) involves reaching out to internal and external stakeholders to get their input.*
 - III. *Exceptions: The company may decide not to complete a module, even if the material used is above the volume threshold and is recognized as a key risk. For example, if the company is in the process of decommissioning the use of the said material (e.g., based on the company's risk and opportunity assessment) and the transition is not yet complete.*
 - IV. *Evidence: The company is to disclose its priority/non-priority materials with supporting evidence such as uptake documentation, risk assessment, etc. A company’s completed Material Balance Sheet and accompanying Metadata Form is sufficient proof of volumetric uptake.*
 - V. *Materiality: For the definition of materiality, we look to the Sustainability Accounting Standards Board (SASB) and their standard-setting process: Information is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value. The Integrated Reporting Initiative <IR>*

³⁰ Textile Exchange, *Materials Terminology Guide*, 2020, pp. 7–8, <https://textileexchange.org/wp-content/uploads/2021/05/Materials-Terminology-Guide.pdf>.

*states that: The process of determining materiality is entity specific and based on industry and other factors, as well as multistakeholder perspectives.*³¹

31 The Textile Exchange’s definition of “priority material” includes discussion on “Materiality,” and references a SASB definition that is outdated and no longer in use.

Appendix Item 2

Questions for Respondents, Public Comment Period (June 3–September 2, 2021)

Question 1: Does the proposed change to the “priority raw materials” definition in the qualitative metric (CG-AA-440a.1) improve (1) alignment with common industry practices and guidance, (2) cost of implementation for companies, and (3) usefulness of disclosures?

Question 2: Do you agree with the rationale to structure metrics by priority raw material (e.g., cotton, leather, etc.) versus by another component such as sourcing region or environmental/social factor (e.g., water scarcity, animal welfare, etc.)?

Question 3: Do the proposed changes to the quantitative metric (CG-AA-440a.2) improve the comparability, completeness, and usefulness of disclosures?

Question 4: The Board considered two approaches to revise the list of certifications/standards included in metric CG-AA-440a.2. Do you have a preference between the two approaches, and if so, why? What principles would you consider when evaluating the credibility and/or selection of third-party certifications/standards?

Question 5: Do you agree with the Board’s conclusion to not expand the scope of the Raw Materials Sourcing disclosure topic to include materials used for packaging?

Question 6: Do the proposed changes improve the usefulness of disclosures for companies identified in the industry scope (companies involved in design, manufacturing, wholesaling, and/or retailing)?

Clean Version of Updates to the Apparel, Accessories & Footwear Standard

The following is a copy of the updated Apparel, Accessories & Footwear Standard. This includes the following:

- (a) Table of sustainability disclosure topics and accounting metrics
- (b) Disclosure topic summaries
- (c) Accounting metrics and technical protocols

The updated Version 2022-05 of the Apparel, Accessories & Footwear Standard is available for download at <https://www.sasb.org/standards/download/>.

Sustainability Disclosure Table and Accounting Metrics

TOPIC	ACCOUNTING METRIC	CATEGORY	UNIT OF MEASURE	CODE
Management of Chemicals in Products	Discussion of processes to maintain compliance with restricted substances regulations	Discussion and Analysis	n/a	CG-AA-250a.1
	Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products	Discussion and Analysis	n/a	CG-AA-250a.2
Environmental Impacts in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreements	Quantitative	Percentage (%)	CG-AA-430a.1
	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment	Quantitative	Percentage (%)	CG-AA-430a.2
Labor Conditions in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor	Quantitative	Percentage (%)	CG-AA-430b.1
	Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits	Quantitative	Rate	CG-AA-430b.2
	Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	Discussion and Analysis	n/a	CG-AA-430b.3
Raw Materials Sourcing	(1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities	Discussion and Analysis	n/a	CG-AA-440a.3
	(1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard	Quantitative	Metric tons (t)	CG-AA-440a.4

Raw Materials Sourcing

Topic Summary

Companies in this industry rely on numerous raw materials as key inputs for finished goods. Traditionally, these have consisted of materials such as cotton, leather, wool, rubber, and precious minerals and metals. Environmental and social factors such as climate change, land use, resource scarcity, and conflict in regions where the industry's supply chain operates are increasingly shaping the industry's ability to reliably source materials. In turn, these factors can impact business risks such as materials shortages, supply disruptions, price volatility, and reputational risks. Companies can manage these risks through engaging with suppliers, enhancing visibility into the supply chain, using certification standards, and/or sourcing innovative alternative materials such as reclaimed secondary feedstocks. Companies that proactively manage this topic are likely to reduce their exposure to price volatility and potential supply disruptions while improving their brand reputation and developing new market opportunities. Failure to do so can lead to reduced margins, constrained revenue growth, and/or a higher cost of capital.

Accounting Metrics

CG-AA-440a.3. (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities.

1 The entity shall disclose its priority raw materials purchased for finished goods.

1.1 The entity shall identify priority raw materials using the definition of "priority materials" outlined in the "Priority Material" section of the Textile Exchange's *Materials Terminology Guide*.

1.2 Priority raw materials may include synthetic fibers, natural fibers, manufactured 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, viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

1.3 The entity shall identify priority raw materials using the categorization scheme presented in the "Materials Portfolio" section of the Textile Exchange's *Materials Terminology Guide*.

1.4 The scope of disclosure shall include priority raw materials present in finished goods and exclude raw materials used in packaging and manufacturing.

1.5 Priority raw materials include materials purchased by the entity or its suppliers for the purposes of producing the entity's finished goods.

1.6 If the entity is vertically integrated across the value chain and does not purchase its priority raw materials from a third-party supplier, it shall identify its priority raw materials as those sourced from its owned operations and used in the production of its finished goods.

2 For each priority raw material, the entity shall identify the key environmental and/or social factors that are most likely to threaten its ability to source or purchase each material.

2.1 Environmental factors include, but are not limited to:

- 2.1.1 Climate change impacts (e.g., extreme weather events and/or water stress);
- 2.1.2 Regulation on greenhouse gases (GHG);
- 2.1.3 Environmental regulations for suppliers;
- 2.1.4 Land use practices; and
- 2.1.5 Production methods that result in water pollution, soil degradation, deforestation, and/or loss of biodiversity.

2.2 Social factors include, but are not limited to:

- 2.2.1 Suppliers' animal welfare, labor, and human rights practices;
- 2.2.2 Materials sourcing from regions of conflict; and
- 2.2.3 Regulations on labor practices and/or human rights.

3 For each priority raw material, the entity shall discuss the business risks and opportunities associated with environmental and/or social factors.

3.1 Business risks and opportunities include, but are not limited to:

- 3.1.1 Access to, and availability of, the priority raw material;
- 3.1.2 Ability to trace the priority raw material;
- 3.1.3 Price volatility of the priority raw material;
- 3.1.4 Regulatory compliance issues associated with the priority raw material;
- 3.1.5 Customer demand for products containing the priority raw material; and
- 3.1.6 The entity's brand value and reputation.

4 For each priority raw material, the entity shall discuss its management strategy for addressing business risks and opportunities associated with environmental and/or social factors most likely to threaten its ability to source priority raw materials.

4.1 Relevant strategies may include, but are not limited to:

- 4.1.1 Enhancing supply chain visibility and traceability to raw materials suppliers through due diligence practices, research into traceability or use of traceability systems, technology, supplier screening, supplier audits or certifications, and/or a list of countries from which the entity sources each priority raw material;

- 4.1.2 Supporting raw material suppliers through supplier training or engagement programs, and/or introducing regenerative agricultural practices;
- 4.1.3 Partnering with industry groups or nongovernmental organizations to address environmental and/or social factors in supplier regions; and
- 4.1.4 Investing in the design phase and/or in research and development to identify substitutable and/or alternative materials that are less impacted by environmental and social factors.

4.2 If the entity identifies cotton as one of its priority raw materials, 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.

4.2.1 The entity may 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.

4.3 The entity shall disclose any relevant performance measures or targets it uses to assess the effectiveness of its management approach, as well as its progress against such targets.

4.4 Disclosure corresponds to the Sustainable Apparel Coalition’s Higg Brand & Retail Module.

5 The entity may use the following table format to organize disclosure.

Priority Raw Material (name)	Environmental and/or Social Factors	Discussion of Business Risks and/or Opportunities	Management Strategy

CG-AA-440a.4. (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard.

1 For each priority raw material, the entity shall disclose the amount of materials purchased, in metric tons, during the reporting period.

1.1 The entity shall identify priority raw materials using the definition of “priority materials” outlined in the “Priority Material” section of the Textile Exchange’s *Materials Terminology Guide*.

1.2 Priority raw materials may include synthetic fibers, natural fibers, manufactured 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, viscose,

polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

1.3 The entity shall identify priority raw materials using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s *Materials Terminology Guide*.

1.4 If the entity purchases finished goods rather than unprocessed raw materials, it shall calculate the initial amount, in metric tons, of priority raw materials required for production.

1.4.1 The entity shall account for material loss and wastage throughout production and should reference the Textile Exchange’s *Fiber Uptake Calculations & Reporting Best Practices Guide* and *Fiber Conversion Methodology*.

1.5 If the entity does not measure the weight of a material, it shall provide an alternative measurement, such as surface area.

1.6 The purchased amount of each priority raw material shall reflect the material in its original state and should not be presented with further data manipulation, such as reporting it as “dry weight,” consistent with guidance for Global Reporting Initiative (GRI) *Disclosure 301-1 Materials used by weight or volume*.

1.7 If estimation is required, the entity shall report the methods used.

1.8 The scope of disclosure shall include priority raw materials present in finished goods and exclude raw materials used in packaging and manufacturing.

1.9 Priority raw materials include materials purchased by the entity or its suppliers for the purposes of producing the entity’s finished goods.

1.10 If the entity is vertically integrated across the value chain and does not purchase its priority raw materials from a third-party supplier, it shall identify its priority raw materials as those sourced from its owned operations and used in the production of its finished goods.

2 For each priority raw material, the entity shall disclose the amount, in metric tons, purchased that is certified to a third-party environmental and/or social standard, by standard.

2.1 Third-party environmental and/or social standards are defined as standards that are developed by a third party and address environmental and/or social factors that are likely to threaten a company’s ability to reliably source its priority raw materials.

2.2 Third-party environmental and social standards include, but are not limited to:

2.2.1 Textile Exchange’s Recycled Claim Standard (RCS), Global Recycled Standard (GRS), Organic Content Standard (OCS), Responsible Down Standard (RDS), Responsible Wool Standard (RWS), and Responsible Mohair Standard (RMS);

2.2.2 Global Organic Textile Standard (GOTS);

2.2.3 Cotton Made in Africa (CmiA);

2.2.4 Fair Trade Certified;

- 2.2.5 Organic Fair Trade;
- 2.2.6 Leather Working Group (LWG);
- 2.2.7 Forest Stewardship Council (FSC) Certification;
- 2.2.8 Programme for the Endorsement of Forest Certification (PEFC); and
- 2.2.9 Better Cotton Initiative.

2.3 The scope of certified priority raw materials includes materials derived from a process that is certified to a third-party environmental and/or social standard.

2.4 The entity may disclose priority raw materials that are not certified to a third-party environmental and/or social standard but that contribute to the entity’s strategy to secure reliable sourcing.

2.4.1 Materials may include, but are not limited to, reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

2.4.2 Materials may include those certified to a standard/certification developed by the entity.

3 For each priority raw material, the entity shall discuss:

- 3.1 Why it has chosen the specified third-party certification(s)/standard(s);
- 3.2 How the certified materials contribute to managing the entity’s business risks and opportunities; and
- 3.3 Any quantitative targets it has set for certified priority raw materials.

4 The entity may use the following table format to organize disclosure.

Priority Raw Material (Name)	Amount Purchased (Metric Tons)	Amount Certified, By Standard	
		Certification/Standard & Associated Discussion (Technical Protocol #3–3.3)	Amount Certified

Redline Version of Updates to the Apparel, Accessories & Footwear Standard

The following is a redline version of the updates to the Apparel, Accessories & Footwear Standard. The redline includes the following:

- (a) Table of sustainability disclosure topics and accounting metrics
- (b) Disclosure topic summaries
- (c) Accounting metrics and technical protocols

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	Discussion of processes to assess and manage risks and/or hazards associated with chemicals in products	Discussion and Analysis	n/a	CG-AA-250a.2
Environmental Impacts in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreements	Quantitative	Percentage (%)	CG-AA-430a.1
	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment	Quantitative	Percentage (%)	CG-AA-430a.2
Labor Conditions in the Supply Chain	Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) percentage of total audits conducted by a third-party auditor	Quantitative	Percentage (%)	CG-AA-430b.1
	Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits	Quantitative	Rate	CG-AA-430b.2
	Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain	Discussion and Analysis	n/a	CG-AA-430b.3
Raw Materials Sourcing	(1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities Descriptions of environmental and social risks associated with sourcing priority raw materials	Discussion and Analysis	n/a	CG-AA-440a. 3 ¹
	(1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard Percentage of raw materials third-party certified to an environmental and/or social sustainability standard	Quantitative	Metric tons (t) Percentage by weight (%)	CG-AA-440a. 4 ²

Raw Materials Sourcing

Topic Summary

The Apparel, Accessories & Footwear Companies in this industry ~~rely~~ rely on numerous raw materials as key inputs for finished ~~goods~~ products, including. Traditionally, these have consisted of materials such as cotton, leather, wool, rubber, and precious minerals and metals. Sustainability impacts related to ~~Environmental and social factors such as~~ climate change, land use, resource scarcity, and conflict in regions where the industry's supply chain operates are increasingly shaping the industry's ability to ~~reliably~~ source materials. ~~The ability of companies to manage potential~~ In turn, these factors can impact ~~business risks such as~~ materials shortages, supply disruptions, price volatility, and reputational risks ~~is made more difficult by the fact that they source materials from geographically diverse regions.~~ Companies can manage these risks through ~~supply chains that often lack transparency.~~ Failure to ~~effectively manage this issue can lead to reduced margins, constrained revenue growth, and/or higher costs or capital.~~ The types of risk associated with sourcing different materials can require different ~~solutions, including~~ engaging with suppliers, enhancing ~~transparency~~ visibility into the supply chain, using certification standards, and/or ~~using~~ sourcing innovative alternative materials, ~~such as reclaimed secondary feedstocks.~~ Companies that ~~are most proactive~~ proactively manage this topic are likely to reduce their exposure to price volatility and potential supply disruptions, while improving their brand reputation and developing new market opportunities. ~~Failure to do so can lead to reduced margins, constrained revenue growth, and/or a higher cost of capital.~~

Accounting Metrics

CG-AA-440a.31-Description. (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with sourcing priority raw materials environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities.

1 The entity shall ~~discuss~~ disclose its ~~strategic approach to managing environmental and social risks that arise from sourcing priority raw~~ priority raw materials (disclosure corresponds to the Sustainable Apparel Coalition's Higg Brand & Retail Module (BRM)).

~~1.1 Priority raw materials are defined as those that are essential to the entity's principal~~ purchased for finished- ~~goods~~ products, where principal products are those that accounted for 10 percent or more of consolidated revenue in any of the last three fiscal years, consistent with 17 CFR 229.101.

~~2 Disclosure shall include the methodology of how the~~ 1.1 The entity ~~identified~~ shall identify priority raw materials using the definition of "priority materials" outlined in the "Priority Material" section of the Textile Exchange's *Materials Terminology Guide-Fiber & Materials Portfolio Guide*.

~~3 Raw~~1.2 Priority raw materials may include synthetic fibers and fabrics, natural fibers and fabrics, manufactured man-made 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, viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

~~3.1 Cotton, rayon, polyester, acrylic, spandex, nylon, rubber, leather, wool, flax, silk, hemp, and down~~

~~41.3~~ The entity shall ~~disclose the~~identify priority raw materials ~~that comprise its~~using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s Materials Terminology Guide~~Fiber & Materials Portfolio Guide.~~

~~1.4~~ The scope of disclosure shall include priority raw materials present in finished goods~~products regardless of whether~~ and exclude raw materials used in packaging and manufacturing.

~~1.5~~ Priority raw materials include materials purchased by the entity ~~purchased the materials directly~~ or its suppliers ~~purchased the materials~~ for the purposes of producing the entity’s finished goods.

~~1.6~~ If the entity is vertically integrated across the value chain and does not purchase its priority raw materials from a third-party supplier, it shall identify its priority raw materials as those sourced from its owned operations and used in the production of its finished goods.

~~52~~ For each priority raw material, the entity shall identify the key environmental and/or social factors that are most likely to threaten its ability to source or purchase each material.

~~2.1~~ Environmental ~~supply chain risks~~factors include, but are not limited to:

~~52.1.1~~ Climate change impacts (e.g., ~~changing temperatures~~extreme weather events and/or water stress)~~on natural fiber crop production that may affect their price and availability~~);

~~5.2 Legislation~~2.1.2 Regulation on greenhouse gases (GHG)~~affecting the price of petroleum which may affect the price of petroleum-derived raw materials~~);

~~52.1.3~~ ~~Tightening environmental~~Environmental regulations for suppliers ~~that could affect the cost or availability of raw materials they supply~~;

~~62.1.4~~ Land use practices; and

2.1.5 Production methods that result in water pollution, soil degradation, deforestation, and/or loss of biodiversity.

~~5.4~~ ~~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~~

~~5.5~~ ~~Improper land use practices within the supply chain that may affect the yield of natural fiber raw materials~~

~~5.6 Other environmental factors that may have an impact on the entity's ability to source raw materials for its products~~

~~2.2 Social supply chain risks factors~~ include, but are not limited to:

~~6.2.1 Suppliers' animal welfare, labor, and human rights practices that may affect the entity's reputation;~~

~~6.2 Sourcing materials. 2.2 Materials sourcing from regions of conflict which may affect;~~
~~and~~

~~2.2.3 Regulations on labor practices and/or human rights.~~

3 For each priority raw material, the price entity shall discuss the business risks and opportunities associated with environmental and/or social factors.

3.1 Business risks and opportunities include, but are not limited to:

3.1.1 Access to, and availability of, the priority raw material;

3.1.2 Ability to trace the priority raw material;

3.1.3 Price volatility of the priority raw material;

3.1.4~~5~~ Regulatory compliance issues associated with the priority raw material;

3.1.5 Customer demand for products containing the priority raw material; and

3.1.6 The entity's brand value and reputation.

4 For each priority raw material, the entity shall discuss its management strategy for addressing business risks and opportunities associated with environmental and/or social factors most likely to threaten its ability to source priority raw materials.

4.1 Relevant strategies may include, but are not limited to:

4.1.1 Enhancing supply chain visibility and traceability to raw materials suppliers through due diligence practices, research into traceability or use of traceability systems, technology, supplier screening, supplier audits or certifications, and/or a list of countries from which the entity sources each priority raw material;

4.1.2 Supporting raw material suppliers through supplier training or engagement programs, and/or introducing regenerative agricultural practices;

4.1.3 Partnering with industry groups or nongovernmental organizations to address environmental and/or social factors in supplier regions; and

4.1.4 Investing in the design phase and/or in research and development to identify substitutable and/or alternative materials that are less impacted by environmental and social factors.

~~8.1 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.~~

4.2 If the entity identifies cotton as one of its priority raw materials, 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.

74.2.1 The entity may 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.

84.3 The entity shall ~~discuss~~disclose any relevant performance measures or targets it uses to assess the effectiveness of its management approach to managing risks associated with the, as well as its progress against such targets.

4.4 Disclosure corresponds to the Sustainable Apparel Coalition’s Higg Brand & Retail Module.

5 The entity may use ~~of the~~ the following table format to organize disclosure.

<u>Priority Raw Material (name)</u>	<u>Environmental and/or Social Factors</u>	<u>Discussion of Business Risks and/or Opportunities</u>	<u>Management Strategy</u>
		-	
		-	
		-	

CG-AA-440a.42. (1) Amount of priority raw materials purchased, by material, and (2) amount of each priority raw material that is certified to a third-party environmental and/or social standard, by standard. ~~Percentage of raw materials third-party certified to an environmental and/or social sustainability standard, by standard~~

1 For each priority raw material, the entity shall disclose the amount of materials purchased, in its metric tons, during the reporting period.

1.1 The entity shall identify priority raw materials using the definition of “priority materials” outlined in the “Priority Material” section of the Textile Exchange’s Materials Terminology Fiber & Materials Portfolio Guide.

1.2 Priority raw materials may include synthetic fibers, natural fibers, ~~manufactured~~man-made 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, viscose, polyester, acrylic, spandex, nylon, rubber, foam, leather, wool, cashmere, mohair, flax, silk, hemp, and down.

1.3 The entity shall identify priority raw materials using the categorization scheme presented in the “Materials Portfolio” section of the Textile Exchange’s *Materials Terminology Guide-Fiber & Materials Portfolio Guide*.

1.4 If the entity purchases finished goods rather than unprocessed raw materials, it shall calculate the initial amount, in metric tons, of priority raw materials required for production.

1.4.1 The entity shall account for material loss and wastage throughout production and should reference the Textile Exchange’s *Fiber Uptake Calculations & Reporting Best Practices Guide* and *Fiber Conversion Methodology*.

1.5 If the entity does not measure the weight of a material, it shall provide an alternative measurement, such as surface area.

1.6 The purchased amount of each priority raw material shall reflect the material in its original state and **should not** ~~to~~ be presented with further data manipulation, such as reporting it as “dry weight,” consistent with guidance for *Global Reporting Initiative (GRI) GRI’s Disclosure 301-1 Materials used by weight or volume*.

1.7 If estimation is required, the entity shall report the methods used.

1.8 The scope of disclosure shall include priority raw materials present in finished ~~goods~~ ~~products~~ and exclude raw materials used in packaging and manufacturing.

1.9 Priority raw materials include materials purchased by the entity or its suppliers for the purposes of producing the entity’s finished goods.

1.10 If the entity is vertically integrated across the value chain and does not purchase its priority raw materials from a third-party supplier, it shall identify its priority raw materials as those sourced from its owned operations and used in the production of its finished goods.

2 For each priority raw material, the entity shall disclose the amount, in metric tons, purchased that is certified to a third-party environmental and/or social standard, by standard.

1 The entity shall disclose the percentage of raw materials that are third-party certified to an environmental or social sustainability standard.

1.1 Environmental and social sustainability 2.1 Third-party standards are defined as standards that are developed by a third party and address environmental and/or social factors that are likely to threaten a company’s ability to reliably source its priority raw materials.

2.2 Third-party environmental and social impacts that result from the primary sourcing of raw materials, such as standards for organic or recycled content, animal welfare, and/or fair labor, include, but are not limited to:

1.2 Environmental and social sustainability standards include, but are not limited to:

1.2.1 Outdoor Industry Association’s Content Claim Standard (CCS)

~~1.2.22.2.1 Textile Exchange’s Recycled Claim Standard, (RCS), Global Recycled Standard, (GRS), Organic Cotton Content Standard, and (OCS), Responsible Down Standard (RDS), Responsible Wool Standard (RWS), and Responsible Mohair Standard (RMS);~~

~~1.2.2.2 Global Organic Textile Standard (GOTS);~~

~~2.2.3 Cotton Made in Africa (CmiA);~~

~~2.2.4 Fair Trade Certified Organic;~~

~~1.2.4 Control Union Global 2.2.5 Organic Textile Standard Fair Trade;~~

~~1.2.5 2.2.6 Leather Working Group (LWG);~~

~~2.2.7 Forest Stewardship Council (FSC) Certification;~~

~~2.2.8 Programme for the Endorsement of Forest Certification (PEFC); and~~

~~2.2.9 Better Cotton Initiative.~~

~~1.2.6 Forestry Stewardship Council certification (for lyocell and rubber)~~

~~1.2.7 Rainforest Alliance leather products~~

~~1.2.8 Global Organic Textile Standard~~

~~1.2.9 STeP by OEKO-TEX®~~

~~1.2.10 OEKO-TEX® Standard 100~~

~~1.2.11 ECO PASSPORT~~

~~1.2.12 Cradle to Cradle~~

~~1.2.13 Bluesign~~

~~1.3 The entity shall calculate the percentage as the weight of raw materials third-party certified to an environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.~~

~~1.3.1 The scope of raw materials third-party certified to an environmental and/or social standard includes raw materials derived using a process third-party certified to an environmental and/or social standard.~~

~~1.3.2 The scope of disclosure includes third-party certifications that are based on environmental best practices, social best practices, or both.~~

~~2 The entity shall disclose the percentage of raw materials third-party certified to an environmental or social sustainability standard, by standard.~~

~~2.1 The entity shall calculate the percentage as the weight of raw materials that are certified to each respective third-party environmental and/or social standard divided by the total weight of raw materials that compose the entity’s finished products.~~

2.3 The scope of certified priority raw materials includes materials derived from a process that is certified to a third-party environmental and/or social standard.

2.4 The entity may disclose priority raw materials that are not certified to a third-party environmental and/or social standard, but that contribute to the entity’s strategy to secure reliable sourcing.

2.4.1 Materials may include, but are not limited to, reclaimed cotton and wool, mechanically or chemically recycled polyester, nylon, and lyocell.

2.4.2 Materials may include those certified to a standard/certification developed by the entity.

3 For each priority raw material, the entity shall discuss:

3.1 Why it has chosen the specified third-party certification(s)/standard(s);

3.2 How the certified materials contribute to managing the entity’s business risks and opportunities; and

3.3 Any quantitative targets it has set for certified priority raw materials.

4 The entity may use the following table format to organize disclosure.

<u>Priority Raw Material (Name)</u>	<u>Amount Purchased (Metric Tons)</u>	<u>Amount Certified, By Standard</u>	
		<u>Certification/Standard & Associated Discussion (Technical Protocol #3–3.3)</u>	<u>Amount Certified</u>
	-		
	-		
	-		
	-		