



Jean Rogers, PHD PE
Founder and Executive Director
Sustainability Accounting Standards Board
75 Broadway, Suite 202
San Francisco, CA
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26 July 2013

Dear Ms. Rogers:

Subject: **Conceptual Framework Public Consultation**

PwC welcomes the opportunity to comment on the Sustainability Accounting Standards Board (SASB)'s Conceptual Framework. This response represents the views of PricewaterhouseCoopers LLP.

The Conceptual Framework represents an important addition to the debate on the future of corporate reporting. Good corporate reporting is central to the effective functioning of the capital markets and we support voluntary initiatives that meaningfully contribute to this discussion. We believe, from our initial review, that the SASB's guidance will provide valuable insight to companies as they assess the materiality of information for inclusion in their corporate reporting.

While we are optimistic about the SASB's contribution, we found the comment period too short to provide comprehensive feedback on the Conceptual Framework. In order to meet your deadline of 27 July 2013, we are focusing our response on three thematic areas and are not providing detailed section-specific comments. Going forward, we encourage the SASB to extend its comment periods to facilitate a more robust dialogue around the Conceptual Framework and forthcoming standards.

The three thematic areas of our response are described below:

1. The SASB should ensure its efforts to align with financial reporting are consistent throughout the Conceptual Framework, particularly with regards to materiality.

Given the SASB's objective to be "a complement to financial accounting standards" (p. 1.3), we support the decision to apply the definition of materiality provided by the U.S. Supreme Court and to operate within the same guidelines governing financial reporting in the U.S.

However, the Conceptual Framework could better clarify the governing mechanism the SASB will employ to ensure the complementary relationship of its standards with financial reporting. This is especially true in four areas where the SASB's approach may deviate notably from traditional financial reporting:

- The SASB's emphasis on prescribing material non-financial topics at an industry level may lead to different outcomes than a company-specific process. Given that the FASB has recently consciously moved away from industry level standards, SASB's approach represents a diversion from that used in traditional financial reporting.



- The Conceptual Framework makes reference to 'highly material' topics (p. 5.4) and 'a high threshold' for materiality (p. 6.10). Financial reporting views materiality as a single threshold, rather than a graduated concept. The SASB's incorporation of differing degrees of materiality is inconsistent with the approach used in traditional financial reporting.
- The SASB recognizes that materiality should be established at a company level (p. 5.3) however the Conceptual Framework repeatedly incorporates prescriptive language such as "should" (p. 5.4 & 5.6). The SASB should clarify its intentions with regard to materiality and use consistent language throughout its Conceptual Framework. Specifically, the SASB should explicitly describe whether its industry-level accounting standards are:
 - intended to be guidance for companies in performing their own determination of materiality; or
 - are intended to be prescriptive in nature.

We recognize that companies are still working to evaluate material sustainability topics and we believe the SASB's industry-level approach will provide helpful guidance. However, we recommend the SASB avoid any attempt to prescribe or mandate corporate reporting based on industry level materiality analysis due to its inconsistency with the legal framework governing such reporting.

- The Conceptual Framework's definition of sustainability includes the argument that "the public deserve to be informed" (p. 2.1). This statement is inconsistent with traditional financial reporting which focuses on providing information that is material from the perspective of a reasonable investor, not the perspective of the public.

2. The SASB should ensure the Conceptual Framework provides a clear description of the standard setting process, intended outputs, and key concepts.

First, despite the fact that the Conceptual Framework provides a clear outline of the SASB's "three-pronged" approach to evaluating evidence of materiality, it could describe in more detail how the SASB intends to execute this approach. Specifically, the SASB should clarify:

- Evidence of Interest – How will the SASB ensure that the shareholder resolutions examined and investors surveyed represent the perspective of a 'reasonable investor'? Shareholder resolutions are frequently proposed by shareholders that the SASB would exclude as specialty focused (p. 1.9). And the 'broader range of stakeholders' (p. 3.59) may not always reflect the interest of a 'reasonable investor'.
- Evidence of Financial Impact – How will the SASB execute its research of financial impact (p. 3.64), including the sources of information it will rely on and the types of analysis it will use to validate the implications of non-financial topics on financial valuation results? The SASB should ensure it relies on robust and diverse sources of evidence beyond expert opinion to support its determination of financial impact.
- Forward-looking adjustment – The SASB's accounting standards will include material topics that are "forward-looking" in nature (p. 3.68) and do not yet materially impact the financial condition of a company. The SASB should clarify the process and intended outcome of its forward-looking adjustment effort (p. 3.72)? The SASB should also clarify what its 'evidence gathering approach' entails for forward-looking adjustments and describe the tests it will use to determine 'probability



of occurrence' and 'magnitude of impact' (p. 3.75). Additionally, we note that the FASB is currently developing a disclosure framework related to the board's decision process and an entity's decision process. As part of the board's decision process, the FASB is considering what items related to the future would be appropriate for consideration by the board in establishing disclosure requirements, as compared to forward-looking information that is not appropriate for the notes and may be disclosed elsewhere (e.g., MD&A). The SASB should ensure its process for gathering evidence of 'forward-looking adjustment' does not conflict with the FASB's tentative decisions related to its disclosure framework project.

Second, the SASB should more clearly describe the ultimate intended output of the Conceptual Framework. For instance, the framework currently describes various outputs, including: accounting standards (p. 1.3), disclosure guidance (p. 5.1), accounting metrics (p. 5.6), technical protocols (p. 5.8), interpretations (p. 5.9), technical bulletins (p. 5.10) and authoritative guidance (p. 6.8). It is not clear if these are all unique outputs, and if so, how they differ from each other. In addition, it is unclear if the SASB's existing exposure drafts (e.g. Health Care, Financials) are intended to be accounting standards or rather a list of metrics that will be incorporated into a future standard.

Third, the Conceptual Framework could be more consistent in its use of key concepts and terminology. Specifically, the SASB should clarify:

- Capitals – the SASB should be consistent and clear in how it uses the term “capitals.” For example, the framework’s introduction indicates the SASB is concerned with forms of capital beyond financial capital, and describes these as Natural, Human and Social capitals. However, in other areas of the framework it references Environmental and Social capitals (p. 2.1 & p. 2.8).
- Integrated reporting – the SASB expresses its intention to support integrated reporting (p. 4.3 & 7.1 & 7.5 & 7.6). The content of the Conceptual Framework, however, only focuses on a subset of the capitals outlined by the IIRC’s Integrated Reporting Framework (financial, manufactured, intellectual, human, social and relationship, and natural). The Conceptual Framework could better clarify the governing mechanism SASB will employ to ensure the complementary relationship of its standards with emerging developments with Integrated Reporting.
- Sustainability language –the SASB should define or avoid sustainability language that may not be consistently interpreted by a mainstream investor audience. This includes phrases such as “social and environmental performance” (p. 2.2), “performance on sustainability accounting” (p. 2.6), “misuse of capitals” (p. 2.9), and “unsustainable outcomes” (p. 3.17). Similarly, the SASB may consider framing non-financial items as “topics” rather than “issues” to avoid unintended negative connotations.
- Time-specific references – the SASB should take care to avoid relative references that will lose meaning with time such as “a recent report” (p. 1.17) or “Recent legal precedence” (p. 3.30).
- Pricing – the SASB’s discussion of “pricing” environmental and social capital (p. 2.8 & p. 2.10) and the relationship of US GAAP and Fair Value Accounting does not substantially contribute to the Conceptual Framework or provide substantial guidance to companies. Further, this discussion may expose the Conceptual Framework to criticism and resistance by mainstream companies and investors. Finally, the discussion of “pricing” implies the SASB’s accounting standards will seek to quantify the value of discrete social and environmental topics, rather than seeking to ensure reasonable investors have access to the “total mix” of information in their decision making



process. The SASB should either remove p. 2.8 - p. 2.10 to focus on its primary objective and avoid unnecessary criticism or provide compelling evidence to substantiate its assertion.

3. The SASB should continue to evaluate and improve its standard-setting process

Three key elements are critical for a standard setter to be successful: clear mission, transparent governance and thorough due process. Each of these elements should be applied by a standard setter to meet the key challenge faced by such an organization. The mission should be well-defined and explicitly lay out the different purposes for which standards are developed and the key stakeholders who will be served by the standards issued. From there, a strong governance structure and a formal and transparent process of issuing standards, from the agenda-setting phase to conclusion, should be established. Finally, a post-implementation review process is the last step to ensure the successful implementation of standards issued. Throughout the entire process, frequent interaction with key stakeholders, coupled with a public oversight mechanism, is crucial to ensure the success of the accounting standard setter.

We recognize the efforts and initiatives of the SASB to become the sustainability accounting standard setter. To ensure its success, we recommend that the SASB reviews its structure to ensure it sufficiently incorporates the three key elements above.

We noted several specific aspects of the SASB's standard-setting process that may require further evaluation and enhancement to ensure the SASB can meet its ultimate objective. These include:

- Expert opinion – The standard-setting process described in the Conceptual Framework relies heavily on the opinions of experts. We recommend the SASB consider how to structure the process so that it (a) solicits opinions from the right experts, (b) ensures those participants have sufficient expertise and information, and (c) incorporates diverse evidence beyond just expert opinions.
- Auditability – the SASB should ensure that the standard-setting process is sufficient to achieve the minimum criteria it outlines in p. 4.2. The SASB appropriately encourages the use of the attestation standard AT101 (p. 6.2) for assurance over disclosures relating to its accounting standards. To facilitate the use of AT101, the SASB should explicitly include an accounting standard review process that ensures standards, and associated technical protocols, meet the AICPA's definition of suitable criteria. The existing financial statement exposure drafts do not provide sufficient guidance on how to prepare disclosures to ensure competent persons using the same criteria would be able to obtain materially similar results.
- Cost-effectiveness – the SASB should consider the processes and tests it will use to evaluate the cost-effectiveness of its proposed standards (p. 4.7 & p. 4.8). We observe that the SASB's initial industry exposure drafts and associated briefs omit any discussion of cost-effectiveness.

If you would like to discuss any of these points in more detail, please contact Kathy Nieland (504) 558-8228.

Yours sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP