CONCEPTUAL FRAMEWORK

OF THE SUSTAINABILITY ACCOUNTING STANDARDS BOARD

October 2013

Contents

Introduction

This Conceptual Framework sets out the basic concepts and definitions behind SASB's sustainability accounting standards (the SASB Standards) and serves as additional guidance for the adoption of the standards by corporations and the use of material sustainability information by investors.

ABOUT SASB

The Sustainability Accounting Standards Board (SASB) provides sustainability accounting standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability issues for the benefit of investors and the public. SASB standards are designed for disclosure in mandatory filings to the Securities and Exchange Commission (SEC), such as the Form 10-K and 20-F. SASB is an independent 501(c)3 non-profit organization and is accredited to set standards by the American National Standards Institute (ANSI).

Objectives of Sustainability Accounting and Disclosure

PURPOSE OF SUSTAINABILITY ACCOUNTING AND DISCLOSURE

The purpose of sustainability accounting is to evaluate the environmental, social and governance performance of companies through an account of their management of various forms of non-financial capital associated with sustainability– environmental, human and social – and corporate governance issues, which they rely upon for sustained, long-term value creation[1].

Ultimately, the goal of sustainability accounting and disclosure is to inform development of an integrated business strategy for corporate management and assess sustainability risks and opportunities inherent to investment decisions.

Sustainability accounting and disclosure is intended as a complement to financial accounting, such that financial information and sustainability information can be evaluated side by side and provide a complete view of a corporation's performance and value creation, both financial and non-financial, and across all forms of capital.

RELATIONSHIP WITH FINANCIAL ACCOUNTING

Financial accounting is concerned with the conceptualization of capital flows, its concrete expression in numbers, as well as budgeting, monitoring, and reporting to the capital markets.[2] The Financial Accounting Standards Board (FASB) and U.S. Generally Accepted Accounting Principles (US GAAP) provide a framework for quantifying and reporting, *in financial terms*, the assets, liabilities, and owners' equity ("capital") of the reporting entity. This "capital" is the difference between the measured and reported assets and the measured and reported liabilities.

Financial accounting already addresses some elements of non-financial and sustainability performance. Assets include monetary assets, physical assets (which may include natural assets), and certain intangible assets (some of which may relate to human and social capital). Liabilities include financial liabilities and operating liabilities, some which may relate to environmental or social capitals.

[1] See Section 2 for SASB's definition of Sustainability
[2] International Accounting Standards Board (IASB) (transnational financial standards setting body)

However, accounting for non-financial assets or performance in financial terms has inherent limitations in the absence of robust markets or proper valuation techniques. Therefore, while environmental and social capitals can be conceptually understood and accounted for in terms of assets and liabilities, they cannot be accurately or adequately “priced,” either historically or marked to market, which is necessary for a proper financial accounting treatment.

In addition, unlike financial capital, non-financial capitals associated with sustainability cannot always be reduced to a single fungible unit of measure, like a currency, that can be aggregated and accounted for as assets or liabilities.

Therefore SASB’s approach to sustainability accounting consists in defining metrics or indicators – both qualitative and quantitative – that express a fair representation or “account for” company performance on material[3] sustainability topics, and ensure that reasonable investors has access to the "total mix" of information in their decision making process. Such areas include:

- Attention to management of critical capitals;
- Vulnerability to depletion or misuse of these capitals;
- Scenario-planning regarding alternative resources;
- Risks associated with mismanagement of certain environmental or social issues; and
- Opportunities associated with global or industry sustainability challenges.

Over time, SASB believes that accounting for sustainability performance will give the reasonable investor better access to the ‘total mix’ of information, whether by allowing markets to better “price” certain externalities or by adequately consider other forms of capital and their effect on financial valuation.

USERS OF SUSTAINABILITY ACCOUNTING STANDARDS

The SASB Standards are intended for companies that engage in public offerings of securities registered under the Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act)[4], for use in periodic and current reports that they are required to file with the SEC, including the annual reports on Forms 10-K (Form 20-F for foreign issuers), quarterly reports on Form 10-Q, and current reports on Form 8-K (SEC filings).

Foreign companies—to the extent that they offer their securities to the public, or their securities are traded on a U.S. domestic securities exchange, in the United States—may be subject to disclosure requirements under the Securities Act and Exchange Act (specific disclosure requirements for US and foreign companies under the Securities Act and Exchange Act are highlighted in Appendix I).

SASB standards are also applicable to public disclosure of material sustainability information by other types of corporations, including privately-held corporations and foreign corporations publicly listed in other jurisdictions. However, such disclosures are not meant for the protection of US retail investors, and therefore the purpose and disclosure guidance associated with such disclosures are different.

[3] See Section 2 for a definition of materiality.

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

BENEFICIARY OF SUSTAINABILITY ACCOUNTING STANDARDS

The Reasonable Investor

US Securities laws seek to protect investors by requiring publicly-listed companies and companies that make public offerings of their securities to provide annual and other periodic performance disclosure that would be necessary for a 'reasonable investor' to make informed investment decisions (see definition of Materiality in Section 2 below).

Similarly, the primary beneficiary and target audience for the SASB standards is the "reasonable investor," understood as an investor who invests primarily for economic reasons with a variety of investment horizons—from short-term to long-term—and investment strategies – from income generation to asset valuation.

Specific Considerations for Institutional Investors -- Fiduciary Duty and Portfolio Risks

While the SASB Standards are designed for hypothetical individual investors, many individual investors delegate their investment decisions to professional money or asset managers (institutional investors).

Institutional investors in the United States owe certain fiduciary duties to their clients, most notably the duty of care and a duty of loyalty. These duties are embodied in the so-called "prudent investor rule," which is based on modern portfolio theory and includes, among other things, a requirement to diversify investment portfolios unless it is prudent not to do so.[5] While the link between the modern portfolio theory and fiduciary duty has been called into question, fiduciary duty requires institutional investors to consider sustainability issues that are relevant and material, and to consider their impact at the portfolio level.[6]

The complex nature of sustainability risk and the prevalence of environmental and social externalities creates risks and opportunities that are unique to diversified investment portfolios (portfolio risk) of institutional investors (universal owners) who are invested in a cross section of the economy.[7] However, rules for disclosure requirements traditionally apply to companies or "issuers" rather than an industry, and therefore do not properly address sustainability risks in modern, diversified investment portfolios.

SASB addresses portfolio risk by seeking consistent and comparable disclosure on sustainability performance and externalities at the sector and industry levels, enabling an analysis of sustainability factors that that create risks and opportunities across investment portfolios.

HOW INVESTORS USE ESG DATA IN FINANCIAL ANALYSIS

In 2012, $3.74 trillion or 11.3 percent of all US-domiciled assets under management were reported to incorporate sustainable and responsible investment strategies, a 22% increase since 2009. [8]

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[5] The Uniform Prudent Investor Act (UPIA), adopted in 1992 by the American Law Institute's Third Restatement of the Law of Trusts ("Restatement of Trust 3d"), and adopted in 44 US states and the District of Columbia, reflects a "modern portfolio theory" and "total return" approach to the exercise of fiduciary investment discretion. Under § 227. General Standard of Prudent Investment, the UPIA states that, "In making and implementing investment decisions, the trustee has a duty to diversity the investments of the trust unless, under the circumstances, it is prudent not to do so."

[6] References: http://www.unepfi.org/fileadmin/documents/freshfields_legal_resp_20051123.pdf; http://www.unepfi.org/fileadmin/documents/fiduciaryII.pdf.

[7] "Universal ownership" is a term coined by Bob Monks and Nell Minow in *Corporate Governance* in 1995 to describe an institutional investor owning such a wide range of asset classes distributed among economic sectors that the organization effectively owns a slice of the broad economy. ("Universal Ownership: Exploring Opportunities and Challenges," Saint Mary's College of California, Center for the Study of Fiduciary Capitalism, April 2006).

[8] Sustainable and Responsible Investing Trends in the United States, US SIF, 2012.

A study[9] on the role of environmental, social and governance (ESG) factors in fundamental equity analysis concluded that ESG issues may present new risks and opportunities but they are assessed through standard models of business performance and valuation. Specifically the study finds that investors use ESG information in the following ways:

- **Economic analysis**: To understand industry trends and externalities likely to affect the economic outlook and therefore, value creation and capital formation.
- **Industry analysis:** To understand factors driving competitiveness and the potential for sustained value creation in an industry, as well as externalities from an industry likely to affect other industries (and therefore portfolio risks).
- **Company strategy:** To understand management quality and corporate strategy, and evaluate a company's ability to respond to emerging trends.
- **Valuation:** To adjust traditional valuation parameters and assumptions, including cash flow and weighted average cost of capital (WACC), to reflect performance on material sustainability issues.

The current lack of understanding of the materiality of sustainability issues for industries or companies has made it challenging for investors to effectively use ESG information. In addition, obtaining ESG data that is of sufficient quality and is decision-useful can require a substantial amount of time and expense.

SASB's mission – to mainstream the disclosure of material sustainability information in the Form 10-K and other SEC filings – will provide investors with access to sustainability information that is necessary to make informed investment decisions with reasonable effort and minimal expense.

SASB standards and other products support investors in their efforts to assess ESG factors in traditional securities analysis through the following:

- **Fundamental Analysis.** The availability of financial fundamentals alongside sustainability fundamentals provides the data needed to adjust equity and debt valuation models, as well as evaluate management quality for individual securities selection.
- **Comparison and benchmarking:** The data that will result from 13,000 publicly traded companies disclosing standard sustainability accounting metrics will enable investors to perform peer-to-peer comparisons on critical dimensions of ESG performance and establish industry benchmarks for material ESG factors against which issuers can be compared.
- **Portfolio management:** SASB's Sustainable Industry Classification System (SICS) groups industries with similar sustainability impacts. The SASB Standards identify material sustainability topics that are specific to each of the SICS industries. Together, SICS and the identification of material sustainability topics at the industry-level will enable investors to see under- or over-exposure to certain types of ESG risks and opportunities, depending on their sector allocation, and adjust their exposure accordingly.

[9] "How Investors are Addressing Environmental, Social and Governance Factors in Fundamental Equity Valuation," United Nations-supported Principles for Responsible Investment (PRI), February 2013. Online: http://www.unpri.org/viewer/?file=wp-content/uploads/Integrated_Analysis_2013.pdf

Key Definitions and Characteristics of Sustainability Accounting and Disclosure

SUSTAINABILITY

The concept of sustainability or sustainable development was defined in the Brundtland Report[10] (Our Common Future) as, "… development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

As it relates to corporate activities, and for the purpose of the SASB Standards, sustainability refers to *environmental*, *social* and *governance* (ESG) dimensions of a company's operation and performance. More specifically, sustainability includes both the management of a corporation's environmental and social impacts, as well as the management of environmental and social capitals necessary to create long-term value. It also includes the impact of environmental and social factors on innovation, business models, and corporate governance. Therefore, SASB's sustainability topics are organized under five broad sustainability dimensions consistent with the original ESG nomenclature:

- **Environment**. This dimension includes corporate impact on the environment, either through the use of non-renewable natural resources as input to the factors of production (e.g., water, minerals, ecosystems and biodiversity) or through environmental externalities or other harmful releases in the environment, such as air and water pollution, waste disposal and greenhouse gas (GHG) emissions.[11]

- **Social Capital (or dependencies).** This dimension relates to the perceived role of business in society – or the expectation of business contribution to society in return for its social license to operate. It addresses the management of relationships with key outside stakeholders, such as customers, local communities, the public, and the government. It includes issues around access to products and services, affordability, responsible business practices in marketing, and customer privacy.

- **Human Capital**. This dimension addresses the management of a company's human resources (employees and individual contractors), as a key asset to delivering long-term value. It includes factors that affect the productivity of employees, such as employee engagement, diversity, and incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. It also addresses the management of labor relations in industries that rely on economies of scale and compete on the price of products and services, or in industries with legacy pension liabilities associated with vast workforces. Lastly, it includes the management of the health and safety of employees and the ability to create a safety culture for companies that operate in dangerous working environments.

- **Business model and innovation**. This dimension addresses the impact of environmental and social factors on innovation and business models. It addresses the integration of environmental and social factors in the value creation process of companies, including resource efficiency and other innovation in the production process,

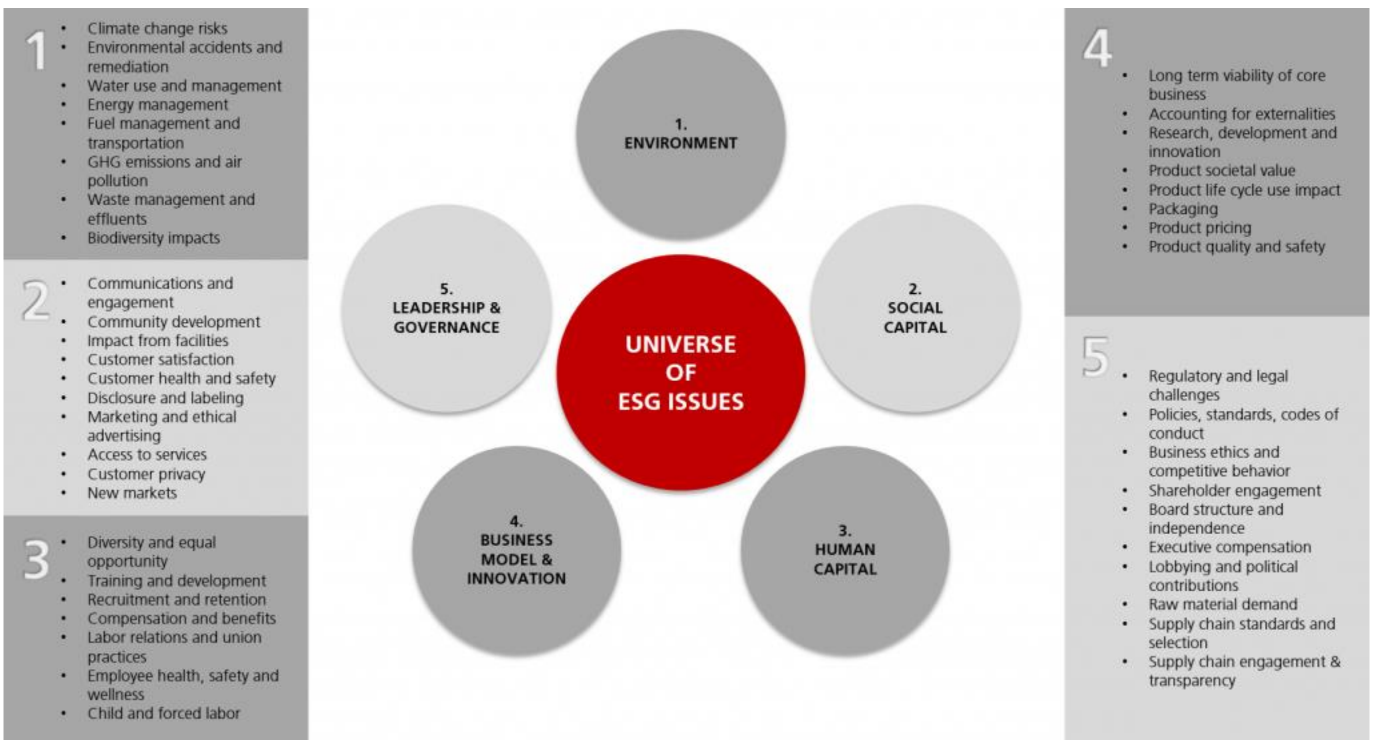
[10] World Commission on Environment and Development (WCED). Our common future. Oxford: Oxford University Press, 1987 p. 43.
[11] This dimension is related conceptually to the concept of Natural Capital.

as well as product innovation and looking at efficiency and responsibility in the design, use-phase, and disposal of products. It also includes management of environmental and social impacts on tangible and financial assets – either a company's own or those it manages as the fiduciary for others.

- **Leadership and Governance.** This dimension involves the management of issues that are inherent to the business model or common practice in the industry, and that are in potential conflict with the interest of broader stakeholder groups (government, community, customers, and employees), and therefore create a potential liability or worse, a limitation or removal of license to operate. This includes regulatory compliance, lobbying, and political contributions. It also includes risk management, safety management, supply chain and resource management, conflict of interest, anti-competitive behavior, and corruption and bribery. It also includes risk of business complicity with human rights violations.

In the standards development process, SASB identifies sustainability topics from an initial set of 43 generic sustainability issues (see Figure 1 below) organized under these five broad sustainability dimensions.

Figure 1: SASB Universe of Sustainability Issues



MATERIALITY

SASB Standards provide disclosure guidance and accounting standards for a minimum set of sustainability issues or topics that have a significant impact on most, if not all, companies in an industry and which—depending on the specific operating context—are likely to be material to a company within that industry. Each company is ultimately responsible for determining which information is material, and which such company is therefore required to include its Form 10-K or 20-F and other periodic SEC filings.

In identifying sustainability topics that are likely to be material for companies in a specific industry, SASB follows the definition of materiality adopted by U.S. Securities laws and case law. According to the U.S. Supreme Court, an item is material if there is, "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of the information made available."[12]

Regulation S-K, which sets the specific disclosure requirements associated with Form 10-K and other SEC filings, requires that companies describe known trends, demands, and uncertainties that have material impacts on financial results in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K.

Specifically, among other things, Regulation S-K, 17 CFR 229.303(a)(3)(Item 303) requires a description of, "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed."

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

According to case law and SEC guidance, when determining whether a trend, demand, commitment, event, or uncertainty should be disclosed, management should use a two-part assessment based on probability and magnitude:

- A reasonable likelihood that the known trend, demand, commitment, event or uncertainty will occur.
- A reasonable likelihood that the occurrence will have a material effect on the registrant's financial condition or results of operations.

This approach is consistent with FASB's approach to entity-specific materiality determination. In its Concept Statement, FASB states that:

> *"Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information of a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude or both of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation."*[13]

INDUSTRY FOCUS

Analyzing the materiality of sustainability issues requires an understanding of the specific impact of business on society and the environment, as well as the impact of sustainability issues on business. Such analysis can be aggregated at the industry level, because companies that provide similar products and

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[12] TSC Indus. v. Northway, Inc., 426 U.S. 438, 449 (1976).
[13] See http://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156317989

services tend to have similar business models, use resources in similar ways, and therefore tend to have similar impacts on society and the environment.

SASB is developing sustainability accounting standards at the industry level, focusing on intractable issues that are closely tied to resource use and business models, and other factors at play in the industry that can result in unsustainable outcomes.

While industry analysis has limitations in addressing the specific operating context of companies, SASB recognizes that the ultimate determination of materiality is the responsibility of management. As discussed above, analysis of the impact of sustainability topics at the industry-level is meant to provide guidance for disclosure on sustainability topics that are likely to be material at the company-level.

Another challenge of SASB's industry focus is that traditional industry classification systems do not always group together industries with common sustainability characteristics, making the determination of common sustainability issues difficult. In addition, traditional classification systems establish hierarchies and layers of industries based on revenue and other economic variables, providing less visibility – and less investment opportunity – for industries with a greater sustainability impact (either positive or negative), but smaller economic footprints.

To address this shortcoming, SASB developed the Sustainable Industry Classification System (SICS), which builds on traditional classification systems (e.g., SIC, GICS and BICS) and categorizes 10 sectors and 88 industries in accordance with their resource intensity and sustainability impact as well as their sustainability innovation potential. SICS classification of individual companies can be accessed on www.sasb.org using company tickers.

DECISION-USEFULNESS

A comprehensive, industry-specific sustainability accounting standard developed through a rigorous, evidence-based process will provide investors and companies with decision-useful, comparable information on material issues that can potentially affect short- and long-term value creation.

For those issues likely to be material for companies in an industry, SASB identifies industry-specific sustainability accounting metrics to account for company performance on the issue. Accounting metrics address sustainability impacts as well as opportunities for innovation. Taken together, they characterize a company's positioning with respect to sustainability issues and the potential for long-term value creation.

Public disclosure using SASB's sustainability accounting standards will enable:

- All US publicly listed companies to engage in cost-effective sustainability disclosure;
- Peer-to-peer company comparison by investors;
- Focused efforts by companies to improve performance on material issues;
- A comprehensive view of material sustainability risks and opportunities for investors;
- Public access to sustainability data free of charge via the Form 10-K, 20-F, and the SEC EDGAR database

COST-BENEFIT ANALYSIS

Cost-benefit is an essential element of the SASB Standards. As legal precedents have shown, the SEC must put a renewed focus on cost-benefit analysis as a key litmus test for expanded disclosure requirements[14].

[14] See http://www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf

Cost benefit is taken into account during the standards development process when identifying accounting metrics for material sustainability issues. In developing such metrics, SASB will default to the minimum information that is still decision-useful (i.e., it presents a relative view of performance by which peers can be compared), rather than a complete accounting that may be necessary for public policy- or government target-settings. SASB is concerned with differentiating performance between issuers and industries, not with providing a scientifically-accurate, and complete accounting, for regulatory purposes.

The SASB will perform a cost-benefit analysis of the Standards using the basic elements of a good regulatory economic analysis outlined in the SEC's Current Guidance on Economic Analysis in SEC Rulemakings[15]:

- A statement of the need for the proposed action;
- the definition of a baseline against which to measure the likely economic consequences of the proposed regulation;
- the identification of alternative regulatory approaches; and
- an evaluation of the benefits and costs—both quantitative and qualitative—of the proposed action and the main alternatives identified by the analysis.

As part of this analysis, consideration will be given to the fact that companies are already required, by law, to disclose material sustainability information and that they already disclose a large amount of sustainability information in various forms, including SEC filings, annual reports and sustainability reports. In addition, to the extent that disclosure of SASB information represents an incremental cost, it is a cost of legal compliance. In that context, the SASB Standards represent a more cost effective way for companies to communicate with investors on material sustainability information.

On the cost-side, SASB will consider an array of considerations including: costs to companies for gathering, reporting, and auditing information, and its inclusion in Form 10-k and other SEC filings; and the costs of associated internal controls and training.

On the benefit side, SASB will consider the cost savings to companies of more streamlined industry-specific disclosure and more effective communication with investors on material issues, as well as performance improvements on ESG issues that translate into operational and financial performance and increased attractiveness to the capital markets. Benefits to investors will also be considered, including readily-available, decision-useful information that enables peer-to-peer company comparison of sustainability performance, a holistic analysis of financial and sustainability performance, and an assessment of sustainability risks and opportunities in diversified portfolios. Lastly, broader benefits to society will be considered, including improved market stability and more sustainable development.

SASB PRINCIPLES AND CRITERIA

SASB's standards development process is evidence-based, facilitates broad participation and objectively considers all stakeholder views. This process follows ANSI best practices and is subject to oversight from an external Standards Council and the SASB Board of Directors. SASB's principles guide all internal decisions and interactions with external stakeholders who are involved in setting industry standards. The principles are used in conjunction with the key definitions and characteristics of sustainability accounting (defined in Section 2 above) to inform final selection of topics, for which standards are developed within an industry. SASB also employs criteria for rigorously evaluating the quality of the accounting metrics that

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[15] SEC Staff of the Rulewriting Divisions and Offices, Memorandum re: Current Guidance on Economic Analysis in SEC Rulemakings ("Staff Memo on Economic Analysis") (available at http://www.sec.gov/divisions/riskfin/rsfi_guidance_econ_analy_secrulemaking.pdf)

are proposed for use in describing corporate performance on an issue. Finally, SASB employs basic tenets regarding updates and communications with respect to the standards.

When considering topics for which to develop accounting standards, SASB considers the following basic principles:

- **Applicability to investors.** SASB considers evidence where the issue is likely to be material and the disclosure is decision-useful to investors of all types.
- **Relevance across an industry.** SASB addresses issues that are systemic and/or endemic to the industry, and therefore are likely to apply to most, if not all, companies within an industry.
- **Potential to affect value creation.** SASB strives to ascertain, through extensive research and debate within the SASB industry working groups, the link between performance on each issue with long-term value creation, traditional corporate valuation, and/or risk mitigation**.**
- **Benefits exceeding the perceived costs.** SASB strives to determine that disclosure on a proposed issue fills a significant need on the part of investors and that the perceived costs it imposes, compared with possible alternatives, are justified in relation to the overall expected benefits.
- **Actionable by companies.** SASB assesses if performance on the issue is measurable by, attributable to, and within, the control or influence of companies.
- **Reflective of the views of stakeholders.** SASB actively solicits input and carefully weighs all stakeholder views in considering issues and developing standards. When needed, SASB acts as the final determinant of issues and bases such determination on research, industry consultation, public input, SASB's judgment and careful deliberation about the usefulness, materiality, and appropriateness for disclosure of the information in the Form 10-K.

At the level of accounting metrics, SASB employs criteria to ensure that the particular metrics adopted will produce the highest quality decision-useful information for corporate management and investors. The accounting metrics are evaluated for the following qualities:

- **Relevant:** The proposed metric adequately describes performance related to the material issue, or is a proxy for performance;
- **Useful:** The metric will provide decision-useful information to companies and investors;
- **Applicable:** The metric is applicable to most companies in the industry;
- **Cost-effective:** The data are already collected by most companies or can be collected in a timely manner and at a reasonable cost;
- **Comparable:** The data allow for peer-to-peer benchmarking within the industry;
- **Complete:** Individually, or as a set, the metrics provide enough information to understand and interpret performance associated with the material issue;
- **Directional:** The metric provides clarity about whether an increase/decrease in the numerical value signals improved/worsened performance;
- **Auditable:** The data underlying this metric can be verified and/or attested to by auditors.
- **Neutral**: The data must report performance as faithfully as possible, emphasizing objective measurement rather than value judgments.

Methodology for Assessing the Materiality of Sustainability Issues

As discussed in Section 2, SASB provides disclosure guidance and accounting standards for a minimum set of sustainability issues or topics that have a significant impact on most, if not all, companies in an industry and which—depending on the specific operating context—are likely to be material to a company within that industry. In this section, we describe SASB's evidence-based determination of topics that are likely to be material in a specific industry and the sustainability characteristics of industries that helps to understand the specific impact of sustainability issues. We also describe the difference between industry level (SASB's focus) and entity-level determination of materiality (reporting companies' responsibility). Lastly we describe SASB's approach to systemic sustainability issues.

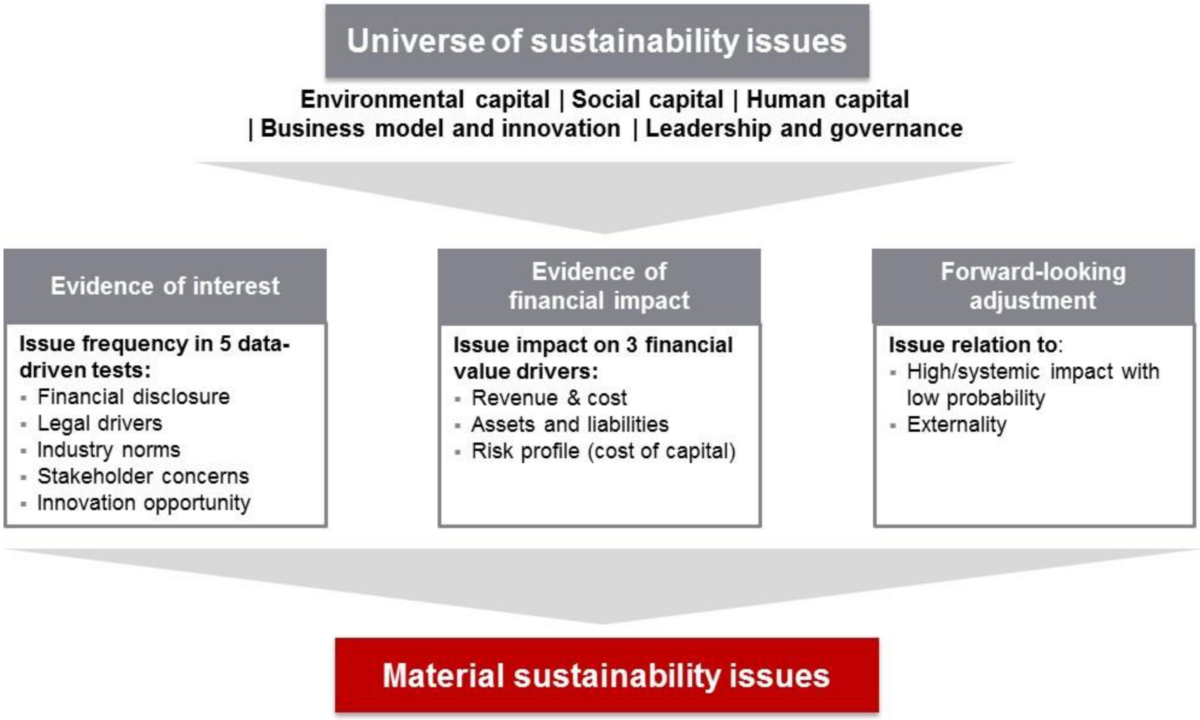
EVIDENCE-BASED DETERMINATION OF MATERIALITY

The determination of materiality is challenging for non-financial issues and – in part because rules of thumb and financial thresholds are not applicable – other types of tests to determine the materiality that must be used.

To address this challenge, SASB has designed an evidence-based approach to determine the materiality of sustainability issues, looking at evidence of interest and evidence of economic impact, the two types of evidence that the SEC consistently seeks as a basis for rulemaking. In analyzing materiality, SASB looks for the presence of both kinds of evidence, starting with the identification of issues that might be of interest to the reasonable investor, followed by an assessment of their potential for economic impact. The method also allows for a forward-looking adjustment when current evidence suggests a broad range of scenarios associated with potential risk, uncertainty in potential economic impact, variability in investor interest, and/or the potential for systemic disruption. This is usually associated with externalities or issues that have long time horizons such as climate change, resource constraints and population growth that would not be captured by a strict analysis of interest and economic impact, but could present significant investor risk over time.

This method enables a relative prioritization of sustainability issues relevant to investors and suitable for inclusion in companies' SEC filings – it is not an absolute determination of materiality. The prioritization process based on an assessment of materiality allows for an understanding of which issues are most important to address in standards setting. It also ensures that the Standards are kept to a minimum set that is likely to be material.

Figure 2: SASB's Evidence-based Method to Determining Material Issues



Evidence of Interest

SASB assesses the materiality of sustainability issues by looking at evidence of interest from the perspective of a hypothetical "reasonable" investor, who, consistent with Supreme Court precedent, would be likely to view an omission of any such issue, "as having significantly altered the 'total mix' of information made available."[16]

Sustainability issues are of interest to an investor because mega-trends like climate change, resource constraints, population growth, and civil unrest affect the ability of corporations to sustain creation of financial value. Economic growth cannot be sustained if the underlying forms of environmental and social capital upon which it depends are depleted. Investors need information they can benchmark to act with confidence and discern which companies will outperform in a world with more regulations, different cost structures, finite resources, and new opportunities presented by global sustainability challenges.

Evidence of investor interest is therefore assessed along five dimensions:

[16] *See* TSC Indus. v. Northway, Inc., 426 U.S. 438, 449 (1976).

- **Financial disclosure**: Issues that may have a financial impact or may pose a risk to the industry in the short-, medium-, or long-term.
- **Legal drivers**: Issues that are being shaped by emerging or evolving government policy and regulation (e.g., carbon emissions regulation).
- **Industry norms**: Issues that companies in specific industries tend to report on and recognize as important drivers in their line of business.
- **Stakeholder concerns**: Issues that are of high importance to stakeholders, including communities, NGOs and the general public, or reflect social and consumer trends, and which rise to the level of interest to investors when they have economic implications.
- **Innovation opportunity**: Competitive advantage created from potential innovative solutions that benefit the environment, customers, and other stakeholders.[17]

Evidence of interest is initially assessed by data-driven tests around these five dimensions, counting for occurrence keywords associated with sustainability issues in tens of thousands of source documents in the Bloomberg Professional service database including Form 10-Ks, legal news, CSR reports, shareholder resolutions, media reports and innovation-related news. These documents are proxies for what is, or should be, of interest to investors, alongside the dimensions identified above.

A data-driven test for evidence of interest is complemented by qualitative research, as well as a systematic survey of investors, companies, and intermediaries during the SASB Industry Working Group (IWG) process.

SASB actively monitors the composition of the investors whose interest is assessed to ensure that it is representative of the concept of 'reasonable investor', for example, in the review of shareholder resolution or composition of IWGs.

Evidence of Financial Impact

Once sustainability issues have been prioritized from the lens of a 'reasonable investor', SASB assesses the actual or potential impact of sustainability issues on the financial performance of companies. SASB asks the question, "Does management or mismanagement of the issue of concern have the potential to affect the valuation of a company, or to create economic externalities?"

Sustainability issues can create direct financial impacts on companies, for example due to dwindling natural resources, physical impacts caused by damaged ecosystems (e.g. extreme weather events, flooding due to erosion), damage to social systems (e.g. corruption and tax avoidance), or lower workforce productivity due to mishandling of labor relations. In addition, financial impact can result from increasing pressure of society, regulators, consumers, and long-term investors' to reduce negative impacts of companies on the environment and society, potentially impacting their operating performance, financial condition, or valuation.

SASB conducts extensive research to identify evidence of financial impact associated with sustainability issues, and relies on robust and diverse sources of evidence that support different types of financial impacts. In doing so, SASB identifies specific channels of impacts, mainly revenues and costs, assets and liabilities, and risk profile or cost of capital.

In terms of revenue, market share or pricing power can be impacted by performance of competing products and services on relevant sustainability issues. Costs can be impacted by operational efficiency (energy, labor), sustainability-related regulation, or through the impact of sustainability issues on the availability or price of raw material or other input for production.

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[17] Lydenberg, Steve, Jean Rogers and David Wood. *From Transparency to Performance, Industry-Based Sustainability Reporting on Key Issues*. Boston: The Initiative for Responsible Investment at Harvard, 2010.

Sustainability issues can affect both tangible assets and intangibles assets. For example, climate change can affect the value of mortgaged properties in coastal areas, and labor and social issues can have an impact on brand value and customer reputation. Financial assets can be affected, for example through the financial performance of investment portfolios exposed to climate change. Liabilities can also be impacted by weather-related events for insurance companies (e.g., insurance), while litigation and regulatory actions related to sustainability issues can create contingent liabilities.

Lastly, financial conditions can be impacted by sustainability factors through the increased cost of capital or limited access to capital, reflecting emerging sustainability risks, and allocation of capital towards more sustainable industries.

Financial impact of sustainability issues can be either actual or potential, and also positive or negative. Actual impacts, for example, might materialize in the form of existing regulation and known changes in consumer demand. Potential impacts, on the other hand, are latent due to pending regulation on sustainability topics, threats of competition from products or services that embed sustainability factors, or increased investor interest in non-financial performance.

When assessing the materiality of sustainability issues with a *potential* financial impact, SASB follows the two-part test of probability and magnitude that US courts and the SEC have established to determining whether trends, demands, commitments, events, or uncertainties should be disclosed in the MD&A Section of Form 10-k:

- A reasonable likelihood that the known trend, demand, commitment, event or uncertainty will occur, and
- A reasonable likelihood that the occurrence will have a material effect on the registrant's financial condition or results of operations

Forward-looking Adjustment

Certain forward-looking sustainability issues with potentially significant impact on companies can fall outside the definition of materiality if, in spite of scientific evidence, the economic or financial impact on companies is not fully evaluated or may not yet have captured investors' interest. For example, certain environmental and social factors are externalities that may become internalized though regulation or other mechanisms, while others can materialize as high-impact, low-probability events.

- **Externalities**. Negative environmental and social externalities, by definition, do not currently affect the financial returns of companies that contribute to generate them but they can, over time, become internalized, either through social and political pressure or through market mechanisms. Externalities also create portfolio-level risks for institutional investors who are invested in a cross section of the economy.
- **High/systemic impact with low probability**. Disclosure on sustainability issues with potentially high or systemic impact but low probability can be important for investor protection, even if they fall outside of the strict definition of materiality for trends and uncertainty because the probability of occurrence is less than reasonably likely (see definition of materiality in Section 2).

In each case, SASB takes into account the forward-looking element as incremental evidence (or adjustment) for the ultimate determination of topics that are likely to be material for companies in a specific industry. The analysis focuses on the probability and magnitude tests used in the Evidence of Financial Impact (see section above), and is based on a similarly robust and diverse sources of evidence. SASB does not recommend an issue for disclosure nor engage in standards setting solely on the basis of a forward-looking adjustment.

Sustainability issues with forward-looking impact but insufficient evidence on investor interest or financial impact are treated as ***emerging issues*** (not recommended for disclosure) unless, and until, there is sufficient likelihood that the risk will materialize and have a systemic impact.

SUSTAINABILITY CHARACTERISTICS OF INDUSTRIES

As discussed in Section 2, analyzing the materiality of sustainability issues can be aggregated at the industry level because companies that provide similar products and services tend to have similar business models, use resources in similar ways, and therefore tend to have similar impacts on society and the environment.

In researching material issues at the industry-level, SASB looks at the characteristics of industries according to three broad dimensions that drive the nature and impact of sustainability issues:

- Extensive license to operate
- Use of common capitals
- High costs on society and negative environmental externalities

Industries with Strong License to Operate

Material sustainability issues arise in industries that benefit from an extensive license to operate. These licenses are often the result of:

- **Public-private partnerships**: Industries benefit from a strong license to operate where a public-like service is delegated to the private sector, with captive demand and monopolistic tendencies. This includes privatization of public utilities (water and electricity), private operation of healthcare delivery and de-mutualized stock exchanges.
- **Use of public goods:** Strong license to operate can also result from a license to use public goods, such as the right to install cables in the ground, use the wireless spectrum for telecom and cable companies, or to drill and extract non-renewable resources for the oil and gas and extractive industries.
- **Intangible benefits:** Certain industries benefit from strong license through other, more intangible benefits that society grants to the private sector. For example, the software, social media and telecom industries benefit from a strong license to operate because their business models benefit from strong network effects and natural monopolies. Pharmaceutical and biotech companies benefit from strong intellectual property protection to spur innovation that can enhance public health. In financials, the banking industry benefits from Federal deposit insurance, and the insurance and asset management industries benefit from quasi-mandatory schemes for insurance (e.g., auto insurance) and retirement services (tax deductibility of 401(k)).

When society grants a strong license to operate, there is an expectation that the industry will deliver, in return, a benefit to society. Therefore, companies in these industries have expectations of performance and return beyond their investors' financial return on investment, and more broadly to provide a social return on investment. For the biotech and pharmaceutical industries, this translates into a balance of society's interest between: (a) IP protection to ensure that sufficient investment goes into R&D for new treatment; and (b) providing incentives (or regulations) to alleviate the side effects of IP-based exclusivity and provide medicine and treatment to all who need it.

Serving society's interest, or managing social issues that are inherent to a business model, therefore becomes a key value driver for companies that benefit from a strong license to operate. Significant economic and financial impact—therefore material—results from the likelihood that companies will have to undertake new activities or lines of business to justify their license to operate (through actual or looming regulation or government monitoring), their ability to make socially impactful activities profitable and the cost of regulation for those who fail to address social issues.

Use of Common Capitals

Material sustainability issues arise in industries that rely on common capitals as a source of value creation, beyond financial or manufactured capital. Such common capitals are an essential source of value creation for companies and yet they are not owned nor controlled by these companies.

Common capitals, as used in this Framework, include natural capital (defined as nature's input to the factor of production, such as water, ecosystems, and biodiversity) and human capital (employees' skills and experience and their motivations to innovate).[18]

Industries that make substantial use of common capitals are dependent on the availability and quality of those capitals for their long-term performance, even from a purely financial perspective. In addition, specific strategic considerations are necessary for the management of capitals that are not owned or controlled by companies.

High Costs on Society and Negative Environmental Externalities

Material sustainability issues arise in industries that create high external sustainability impacts, either through imposing high costs on society or creating large environmental externalities.

Industries can have a high external impact on society when they significantly affect the economic development of a community, through employment or other economic opportunities. Social externalities can also result from outsourcing and offshoring decisions, which can affect labor supply and demand and potentially impose social cost on both the home and host country. Industries with high incidence of corrupt practices can also have a high cost on society and the economy.

Many material sustainability issues arise in industries that produce large environmental externalities, in the form of a large environmental footprint (use of energy, water, and ecosystem services), high level of pollution (ongoing or accidental), or significant greenhouse gas emissions. Material sustainability issues also arise in industries that are subject to environmental externalities – such as climate change – created by other industries. This is related to, but different from, the concept of natural capital, which relates to nature's input to the factors of production, and is treated here as a form of common capital. In addition, companies that are subject to environmental externalities created in other industries can incur a more direct and immediate operational and financial impact.

Negative environmental and social externalities, by definition, generally do not currently affect the financial returns of companies that generate them. However, over time, large externalities are likely to become internalized, either through social and political pressure or through market mechanisms, making these companies and industries less profitable and competitive.

For example, as public perception of climate change continues to evolve, the environmental cost of emissions is likely to be internalized though regulatory or voluntary schemes to put a price on carbon. Similarly, the social impact associated with offshoring may lead to tariffs and incentives for home-based operations. Companies that rely on corrupt practices are likely to become targets of public outcry and may face the risk of losing their license to operate.

In addition, externalities can impact a company's financial performance through regulatory fines and legal penalties, as well as customer and employee engagement, affecting profits and intangible assets.

Lastly, as discussed in other sections of this Framework, externalities create risks and opportunities that are unique to diversified investment portfolios (portfolio risk) of large investors (universal owners) who are invested in a cross section of the economy. Such investors have an incentive to limit externalities created by companies in their own portfolio, when they affect other companies in the same portfolio.

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[18] This definition is consistent with the Draft Integrated Reporting Framework of the international Integrated Reporting Council.

SYSTEMIC SUSTAINABILITY ISSUES

Certain prominent sustainability issues, such as climate change, water, human capital, and political contribution, generate great interest from the public, government agencies, or investors who need to understand the aggregate effect of business on a specific issue in order to determine activist actions, government programs, investment strategy, or portfolio allocation.

Through its industry focus, SASB systematically assesses the materiality of these issues, understanding how these issues specifically and uniquely impact, or are impacted by, business in all 10 sectors and 88 industries for which it develops standards.

However, SASB will not, as a matter of principle, systematically include certain sustainability issues in the disclosure standard for all industries. Instead, SASB will systematically assess the materiality of these issues, understanding how they specifically and uniquely impact, or are impacted, by business in all 10 sectors and 88 industries for which it develops standards. Ultimately, SASB will ensure that any systemic sustainability issue included in the standard meets the definition of materiality in Section 2.

This approach balances the broad investor and societal interest for disclosure on systemic sustainability issues with the creation of sustainability standards limited to issues that are material in their specific industry.

SASB follows a rigorous process to assess the specific impact of systemic sustainability issues for each of the 88 industries, including:

- Defining the types of impact of systemic sustainability issues on companies' economic or financial performance (e.g., for climate change, the likelihood of pricing of GHG emissions or costs associated with adaptation)
- Based on the type of impact, defining characteristics of industries affected by the issue (e.g., large direct emitters for GHG emissions or operations easily disrupted by weather event for adaptation)
- Determining whether and how systemic sustainability issues materially impact a particular industry (e.g., in the Technology & Communication sector, GHG emissions (SF6) for the semiconductors industry; adaptation for the telecommunications industry; and carbon-intensive investments for financials industries)

To ensure internal consistency, cross-cutting sustainability issues will be treated with a consistent (but not necessarily uniform) approach. While the SASB will not be constrained to utilize a common performance indicator at the expense of a more suitable industry-specific indicator, consistent treatment of similar issues and similar accounting metrics will be encouraged wherever possible.

Structure of Sustainability Accounting Standards

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

DISCLOSURE GUIDANCE

SASB's disclosure guidance identifies sustainability topics at an industry level which —depending on the specific operating context of a company — may be material to a company within that industry. Each company is ultimately responsible for determining which information is material, and which such company is therefore required to include in its Form 10-K or 20-F and other periodic SEC filings. Therefore, ***SASB***

Standards are intended as guidance for companies in performing their own determination of materiality.

SASB Standards should be used for companies' primary industry as identified in the Sustainability Industry Classification System (SICS™). To the extent that companies generates significant revenue from multiple industries, SASB Standards for these other industries should also be used.

ACCOUNTING METRICS

SASB's accounting standards provide companies with standardized metrics to account for performance on industry-level sustainability topics. When making disclosure on sustainability topics, companies adopting SASB's accounting standards will help to ensure that disclosure is standardized and therefore useful, relevant, comparable, and auditable.

SASB recommends that each company consider using these sustainability accounting metrics when disclosing their performance with respect to each of the sustainability topics it has identified as material.

Sustainability accounting metrics should be accompanied by a narrative description of any material factors necessary to ensure completeness, accuracy, and comparability of the data reported, where not addressed by the specific accounting metrics, including strategy, competitive positioning, degree of control, performance, and trends over time.

For each sustainability accounting metric, technical protocols provide guidance on definitions, scope, accounting guidance, compilation, and presentation to make sure that companies' account of performance on material issues is consistent, comparable, and auditable.

INTERPRETATIONS

SASB will periodically issue documents called "interpretations" to address questions related to sustainability standards that remain after standards development. SASB will consider issuing an interpretation if there is sufficient interest from stakeholders in an unresolved issue in a sector that has otherwise completed its standards setting process.

TECHNICAL BULLETINS

SASB will issue technical bulletins as needed to deal with current topics that are external to the standards-setting process. For example, technical bulletins will be issued in response to issues or questions raised by stakeholders with regard to the use of standards. While intended to provide additional guidance or clarification, they will not impact the fundamental substance of SASB's sustainability accounting standards.

Implementation

STANDARDS DEVELOPMENT

SASB follows an exhaustive process of evidential data gathering and analysis, in-depth industry research, and engagement and collaboration with a broad range of industry stakeholders.

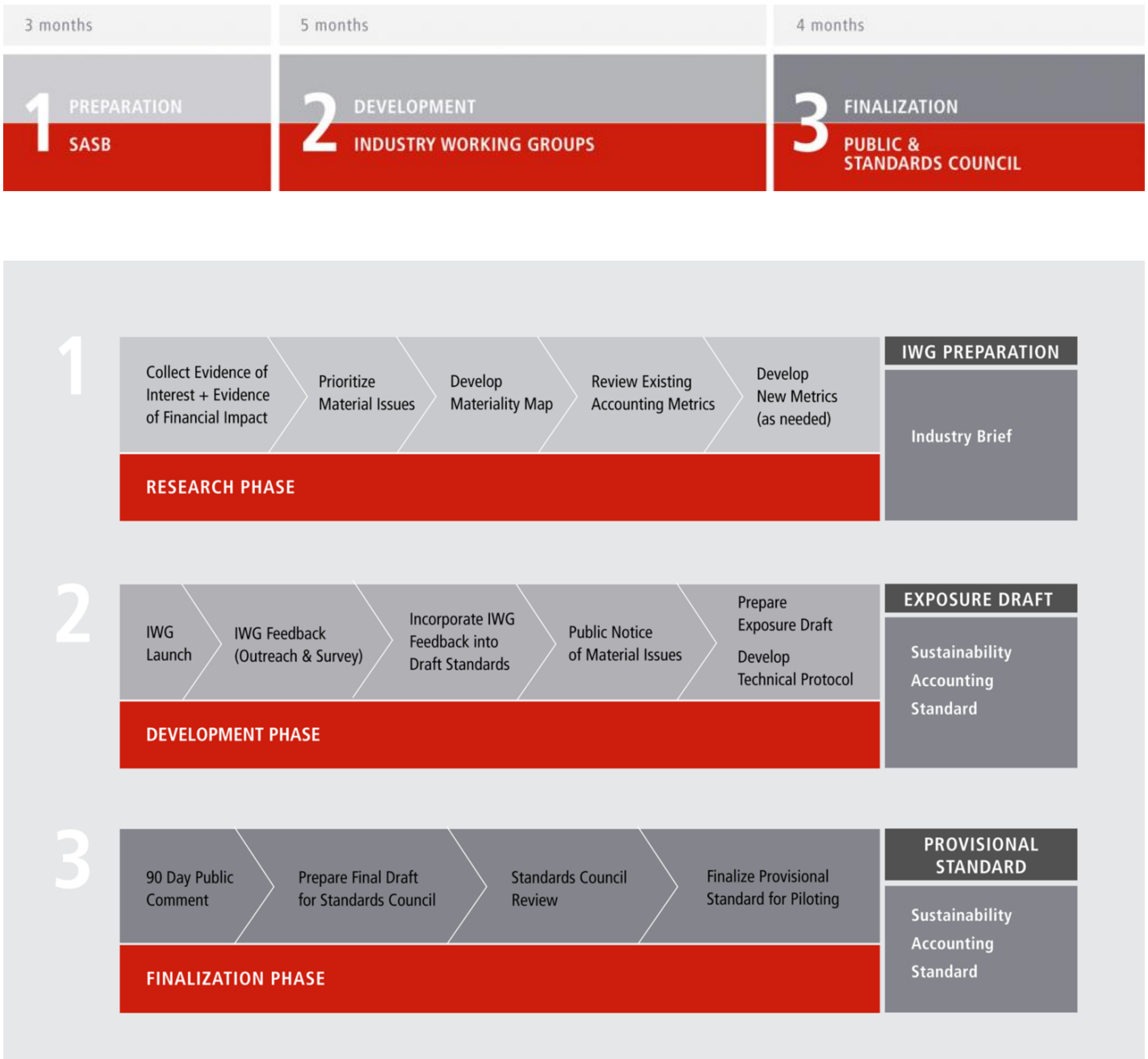
SASB's standards development process begins with a three month in-house research phase to identify material sustainability issues and related accounting metrics. In this phase, SASB's research team examines two types of evidence, evidence of interest and evidence of financial impact, in order to determine a minimum set of material issues for each industry. Evidence of interest is gathered by searching tens of thousands of industry-related documents — Form 10-Ks, shareholder resolutions, CSR reports, media and SEC comment letters — for key words related to 42 general sustainability issues. This provides a “heat map” that indicates interest in certain issues by investors and other stakeholders. Evidence of financial impact is gathered by examining sell-side research, investor call transcripts, third party case studies, anecdotal evidence, and news articles. After identifying a minimum set of material issues for an industry, for which there is solid evidence of both investor impact and economic impact, SASB identifies and documents existing metrics and practices used to account for performance on each material issue. When possible, SASB harvests existing metrics and management disclosure formats. When high-quality metrics and management disclosures are not available, SASB constructs new ones. The result of Phase 1 is an Industry Brief that outlines the proposed set of disclosure items (material issues) and potential accounting metrics for each industry.

In the second phase, SASB convenes an industry working group (IWG) to provide feedback on the disclosure items and accounting metrics identified in the initial research phase. IWGs are comprised of balanced representation from corporations, market participants (investors and analysts), and intermediaries. Primary IWG feedback is collected via an online survey. After the online survey concludes, SASB’s research team conducts outreach to IWG members to gain additional insight. IWG feedback informs an initial set of sustainability issues which are shared via a public notice. As the last step of this phase, SASB prepares an Exposure Draft Standard with accounting metrics and technical protocols for each of the material sustainability issues.

In the third phase, SASB releases the Exposure Draft Standard for a 90-day public comment period. At this time, any member of the public can download the Exposure Draft Standard from SASB’s website and provide feedback via a letter. At the conclusion of the public comment period, SASB incorporates feedback received into the standard. The Standards Council then reviews the standard to ensure consistency, completeness, and accuracy. With the Standard’s Council final review, the Provisional Draft Standard is considered complete. The Provisional Draft Sustainability Accounting Standard is then published and available to the public. SASB standards are considered provisional until the full set of standards (for 80+ industries) are reviewed by an external ratification body, such as the American National Standards Institute (ANSI).

SASB is accredited to set standards by ANSI, a US non-profit that oversees and facilitates the creation of voluntary consensus standards. Accreditation by ANSI signifies that SASB’s procedures to develop SASB sustainability accounting standards meet the Institute’s essential requirements for openness, balance, consensus and due process. As an ANSI-accredited standards-setting organization, SASB follows an open, orderly process that permits timely, thorough, and open study of sustainability accounting issues.

Figure 3: SASB Standards Development Process



When developing and updating standards, SASB upholds the following principles:

- **Stakeholder focused:** SASB maintains a focus on the stakeholders for whom the standards are intended: corporations and their investors. These two stakeholder groups represent fully 2/3 of the industry working groups, with all other stakeholders (accountants, consultants, NGOs, academics, and NGOs) making up the remaining 1/3.

- **Balanced, open and transparent process:** SASB welcomes participation by all qualified members of working groups (i.e., with demonstrated industry experience, as long as balance among stakeholder groups is maintained). SASB follows ANSI best practices in multi-stakeholder standards setting.
- **Judicious use of updates:** SASB judiciously manages standards improvements, balancing the desire to minimize disruption of accounting and reporting with the need to improve usefulness of information. SASB balances the desire for comprehensive improvements against the need for simpler and more cost-effective incremental improvements.
- **Clear, transparent and timely communications**: SASB endeavors at all times to keep the public informed of important developments about SASB's operations, activities, working groups standards-setting process, and timelines for public comment.
- **Open and honest assessment of the "real world" application of the standards:** SASB will interpret, amend, or replace standards in a timely fashion if such action is warranted.

INCLUSION OF SUSTAINABILITY ACCOUNTING STANDARDS IN THE FORM 10-K

Management's Discussion and Analysis

Disclosure on sustainability topics that are deemed material at the company-level should be made as a complete set in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) section of Form 10-K, in a sub-section titled "Sustainability Accounting Standard Disclosures"[19]

Other Relevant Sections of Form 10-K

In addition to the MD&A section, companies should consider disclosing material sustainability information, as relevant, in other sections of Form 10-K, including:

- **Description of business** – Item 101 of Regulation S-K requires description of business of companies and their subsidiaries. Specifically Item 101(c)(1)(xii) expressly requires disclosure regarding certain costs of complying with environmental laws:

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

- **Legal proceedings** – Item 103 of Regulation S-K requires companies to briefly describe any material pending or contemplated legal proceedings. Instructions to Item 103 provide specific disclosure requirements for administrative or judicial proceedings arising from laws and regulation targeting discharge of materials into the environment or primary for the purpose of protecting the environment.
- **Risk factors** – Item 503(c) of Regulation S-K requires filing companies to provide a discussion of the most significant factors that make an investment in the registrant

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

speculative or risky, clearly stating the risk and specifying how a particular risk affects the particular filing company.

Beyond the specific disclosure requirement of Regulation S-K, Securities Act Rule 408 and Exchange Act Rule 12b-20 requires a registrant to disclose, in addition to the information expressly required by SEC regulation, “such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

AUDITING

For the purpose of auditing SASB Standard disclosures and accounting, SASB encourages the use of AT Section 101 of the American Institute of Certified Public Accountants’ (AICPA) Statements on Standards for Attestation Engagements. This document provides examples of best practices in auditing to follow when conducting an “attestation engagement” for non-financial data. The Public Company Accounting Oversight Board (PCAOB) currently has also adopted this approach as their “interim” standard for attestation engagements.

Generally, AICPA sets the final rules for auditing of private companies, while the PCAOB (formed under Sarbanes-Oxley and supervised by the SEC) sets the final rules for auditing of publically traded companies.

ADOPTION

As previously noted, U.S. Federal securities law already requires publicly listed companies to disclose material information and the SEC has responsibility for enforcement of Federal securities laws. SASB creates disclosure guidance and accounting standards for material sustainability information, but it has no mandate for enforcement.

In addition, SASB is not concerned with performance, which is for the market to decide. SASB’s concern is with creating standards that enable peer-to-peer comparison between companies, which can be useful for investment decisions and allocation of capital.

UPDATING THE STANDARDS

SASB welcomes public input on potential issues for SASB’s research agenda, particularly those sustainability issues that may prove material for the submitter’s industry. This online solicitation and submission process can be found here:
http://www.sasb.org/engage/suggest-sustainability-issue.

SASB will periodically update its standards, as appropriate, using best practices following ANSI process, taking into consideration the impact of changing standards on reporting organization and their ability to provide year and year comparison.

SASB will set a schedule to address comments received over a period of time. Any part of the provisional standard is open for comment at any time, but SASB will only revise and document proposed actions at scheduled times.

Harmonization

SASB’S RELATIONSHIP TO ESG ISSUES OF SEC CONCERN

The SEC has taken up a number of sustainability issues independently or at the direction of the U.S. Congress, leading to new guidance on issues including climate change, regulation on conflict minerals, and requirements for companies to disclose to the SEC (but not the public) payments to foreign governments. In an effort to not avoid duplication, or worse contradiction, SASB with incorporate such guidance or requirements in its standards development process.

There are also ESG issues currently under SEC consideration. For example, the SEC is expected to be considering a petition to require publicly traded corporations to disclose to shareholders all of their political donations.

Whenever an issue is under consideration by the SEC, SASB will defer to the SEC's process and incorporate ultimate ruling in the standard, whether it results in dismissal of the issue, a line item mandate for disclosure or other interpretative guidance for companies. Because SASB's standards are meant to be comprehensive, SASB will indicate whether an issue or an accounting metric is being addressed by the SEC.

HARMONIZATION WITH OTHER REPORTING GUIDELINES AND FRAMEWORKS

To avoid duplication of efforts and minimize the burden on company reporting and to abide by ANSI accreditation rules, SASB looks to existing regulatory or voluntary disclosure schemes for already existing best-in-class metrics when developing its standardized accounting metrics, and develops new ones only when necessary.

In this effort, SASB seeks harmonization with global corporate transparency and accountability efforts, including the International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), the Global Initiative for Sustainability Ratings (GISR), the Carbon Disclosure Project (CDP) – for ease of use by all companies traded on US stock exchanges that choose to do more than disclose the minimum material issues as defined by SASB.

To ensure internal consistency, prominent sustainability issues will be treated with a consistent, but not necessarily uniform, approach. SASB's analysts will be prompted to recommend identical or similar performance indicators. While the SASB will not be constrained to utilize a common performance indicator at the expense of a more suitable industry-specific indicator, harmonization of reporting will be encouraged wherever possible. This important process of consistency and harmonization will also be aligned with existing disclosure standards, wherever applicable.

SASB AND INTEGRATED REPORTING

SASB's work of promoting disclosure of material sustainability issues in annual and other SEC filings of publicly listed companies in the United States is a practical implementation of the concept of integrated reporting in the context of US capital markets. Form 10-K, and other mandatory SEC filings for publicly listed companies, are meant to present a fair and comprehensive account of companies' performance and ability to create long-term value, including not only operational and financial results but also the management of financial, manufactured and intellectual capitals, governance information and, as complemented by SASB disclosure guidance and accounting standards, non-financial information (including Environmental, Social, and Human capitals).

Appendix I: SEC Disclosure Requirements

Form of SEC Disclosure Requirement	Timing of filing	Description
Securities Act Registration Statements **(Forms S-1, S-3, S-4, S-8, S-11, F-1, F-3, F-4, F-8, F-9, F-10 and F-80)**	To be filed prior to engaging in a public offering of securities	In general, all securities offered in the United States must be registered under the Securities Act or must qualify for an exemption from the registration requirements. Registration statements must include, among other information, a description of the company's properties and business, a description of the security to be offered for sale, information about the management of the company and financial statements certified by independent accountants.[20]
Annual Report (Form 10-K)	To be filed annually	The annual report on Form 10-K provides a comprehensive overview of the company's business and financial condition and includes audited financial statements.[21]
Quarterly Report (Form 10-Q)	To be filed quarterly	Form 10-Q includes unaudited financial statements and provides a continuing view of the company's financial position during the year.[22]
Current Report (Form 8-K)	To be filed on an ongoing, as-needed basis	Public companies must use Form 8-K to report certain material corporate events on a more current basis. Form 8-K is a "current report" companies must file with the SEC to announce major events that shareholders should know about.[23]
Foreign Annual Report (Form 20-F)	To be filed annually	The annual report on Form 20-F must be submitted by all "foreign private issuers" that have listed equity shares on exchanges in the United States. The content of Form 20-F is similar to that of Form 10-K.
Foreign Current Report (Form 6-K)	To be filed on an ongoing, as-needed basis	Foreign private issuers must disclose on Form 6-K the material information that the foreign private issuer: (i) makes or is required to make public pursuant to the law of its domicile, incorporation, or organization; (ii) files or is required to file with a stock exchange on which its securities are traded and which was made public by that exchange; or (iii) distributes or is required to distribute to its security holders.

[20] Reference: http://www.sec.gov/answers/regis33.htm
[21] Reference: http://www.sec.gov/answers/form10k.htm.
[22] Reference: http://www.sec.gov/answers/form10q.htm.
[23] Reference: http://www.sec.gov/answers/form8k.htm.

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