ABOUT SASB
AN INTRODUCTION FOR COMPANIES

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The Sustainability Accounting Standards Board (SASB) issues sustainability accounting standards that help public companies disclose material, comparable information to investors in SEC filings. SASB Standards are designed to be cost-effective for issuers and decision-useful for investors, giving both parties the ability to compare and benchmark performance.

Sustainability topics are not material for all companies, and when they are material, they manifest in unique ways and require industry-specific metrics. That's why SASB Standards—available in provisional form for 79 industries—identify the disclosure topics most likely to be material for companies in an industry, as well as associated metrics to describe performance.

Benefits of Using SASB Standards

- **Satisfy investor demands:** Today's mainstream investors acknowledge that sustainability factors can affect the financial performance of companies, and they want to consider sustainability disclosures when making investment decisions. However, there's a disconnect between companies and investors: according to one survey, while 100% of companies are confident in the quality of ESG information they report, only 29% of investors are satisfied in the quality of the ESG information they receive.[1] SASB helps companies provide investors with sustainability disclosure that is material, comparable, complete, and reliable.
- **Report in a more efficient manner:** Companies spend hundreds of hours responding to surveys, questionnaires, and shareholder resolutions. SASB Standards can mitigate "disclosure fatigue" by helping companies report information to investors in a more cost-effective way. Each industry Standard has an average of just five topics and 13 metrics per industry. Whenever possible, SASB references metrics already used by industry in other contexts, leveraging reporting from 200+ organizations, regulators, and others.
- **Strengthen competitiveness:** SASB Standards identify the small subset of sustainability issues that are most likely to have a financial impact on companies in an industry. Focusing on measuring and managing the most important sustainability issues helps companies mitigate risk and identify innovation opportunities. Companies enjoy significantly higher returns when they address material sustainability factors (like those identified by SASB), and significantly higher returns still when they efficiently concentrate on material sustainability factors compared to the minimization or exclusion of immaterial sustainability factors.[2]
- **Fulfill existing regulatory requirements:** Regulation S-K already requires the disclosure of material sustainability information to investors. What's been missing, until now, is a market standard that helps companies disclose sustainability information in a way that's decision-useful to investors. SASB Standards are designed to help companies comply with existing regulatory obligations, working within the framework of existing U.S. securities laws.

Answering Common Questions

My company already publishes a sustainability report—why can't investors use that to get the information they need?

Stand-alone sustainability reports are not designed for use by investors. While they can be general stakeholder communication tools, providing an extensive overview of sustainability topics to a broad set of stakeholders—ranging from employees and customers to vendors and community organizations—they are of limited utility for the purposes of investment decision-making. These reports often describe matters as "material" but use that term more loosely than is the case under the U.S. securities laws. Thus, the reports are typically filled with large amounts of immaterial information

1 PwC, Investors, corporates, and ESG: bridging the gap, October 2016, http://www.pwc.com/us/en/governance-insights-center/publications/assets/investors-corporates-and-esg-bridging-the-gap.pdf (accessed March 21, 2017)

2 Khan, Mozaffar and Serafeim, George and Yoon, Aaron S., Corporate Sustainability: First Evidence on Materiality (November 9, 2016). The Accounting Review, Vol. 91, No. 6, pp. 1697-1724.

which is not balanced, standardized, reliable, nor comparable for investors.

Do companies already disclose sustainability information in Form 10-K?

Because of existing SEC requirements, companies often now make sustainability disclosures in their public filings. Recent research by SASB[3] shows that 69% of companies are already addressing at least three-quarters of SASB disclosure topics for their industry, and 38% are already providing disclosure on all SASB disclosure topics for their industry. When companies address these issues in their Form 10-K or 20-F, it is a clear indication that they consider the risk to be material and the information to be relevant to investors. However, more than half of all sustainability-related disclosures analyzed for our own research use boilerplate language, which is inadequate for investment decision-making.

Are SASB-type disclosures required under existing law?

As the SEC has noted, certain sustainability information should be disclosed under existing SEC rules. In particular, Item 303 of Regulation S-K requires that companies describe known trends, events, and uncertainties that are reasonably likely to have material impacts on their financial condition or operating performance in the MD&A section of Form 10-K or 20-F. The MD&A requirement calls for companies "to provide investors and other users with material information that is necessary to [form] an understanding of the company's financial condition and operating performance, as well as its prospects for the future." Also, under Item 503(c) of S-K, companies are required to disclose risk factors—factors that may affect a company's business, operations, industry or financial position, or its future financial performance.

Is there a liability risk for companies making the SASB disclosures?

Existing boilerplate-type disclosures on sustainability topics may expose a company to greater liability risk than would disclosures called for by the industry-specific market standards developed by SASB. As a general matter, better and more complete disclosures, consistent with a well-developed set of standards, can protect companies from the risk of lawsuits brought either by shareholders or regulators.

If my company begins to make SASB disclosures, could we be criticized for not making these disclosures previously?

As the SEC has stated, sustainability disclosures are an "evolving" area. MD&A and related disclosures tend to change and evolve over time, based on investor interest, availability and usefulness of information, as well as access to relevant and meaningful disclosure or accounting standards, such as those developed by SASB. Those standards enable companies to provide the capital markets with material, decision-useful, trustworthy information in a cost-effective way. In general, SASB disclosures are more likely to be welcomed by investors and regulators rather than criticized as being included too late.

If my company reports the SASB metrics, is that data required to be audited under SEC rules?

No. However, the Standards are developed so that a company could have them audited or reviewed by an independent third party if it chose to do so. SASB takes no position on whether, or how, companies should obtain such assurance.

Is SASB trying to redefine materiality?

No. SASB Standards are the only sustainability standards developed in accordance with the definition of "materiality" defined by federal securities laws. SASB has identified disclosure topics that meet the materiality test set forth by the Supreme Court and used by the SEC in setting its standards – that is, information that would be important or would alter the "total mix" of information available to the reasonable investor. SASB identifies sustainability topics that are reasonably likely to be material for a specific industry and then develops corresponding metrics. Importantly, a company's management must determine whether a particular SASB Standard should be used to comply with the disclosure requirements of the federal securities laws.

Resources for Companies:

The Implementation Guide for Companies: A guide to incorporate SASB Standards into existing disclosure processes

The Annual State of Disclosure Report: A baseline of sustainability disclosure in SEC filings

SASB Navigator: An online tool to browse the standards, evidence, and disclosure data

3 *The State of Disclosure*. Report. 1st ed. San Francisco, CA: SASB, 2016.