Improving Performance Through Standardized Sustainability Accounting

Nicolai Lundy – Director of Education & Partnerships
Levi Stewart, CPA – Sector Analyst, Consumer Staples

April 7, 2017

© SASB
The Accounting Profession 100 Years Ago

Federal recognition
1924

FASB
1973

SEC
1934

PCAOB
2002

© SASB 4/8/2017
The Rise of Intangible Assets

Components of S&P 500 Market Value

Intangible Assets  Tangible Assets

Source: Ocean Tomo
The Growing Importance of Sustainability to Institutional Investors

U.S. Professional Management of Sustainability-Aware Investment Strategies

Adapted from US SIF Foundation
Investors Lack Confidence in the Quality of Sustainability Data

How confident are you in the quality of ESG information in the market?

CORPORATES: 100%

INVESTORS: 29%

Companies Are Bombarded With Requests for Sustainability Data

650 requests sent to GENERAL ELECTRIC

81% of the S&P 500 Issue Sustainability (CSR) Reports

All Sustainability Information

Company Stakeholders
Not All Sustainability Information is Material to Investors
From the Past 100 Years to the Next 100

Federal recognition
1924

FASB
1973

SASB
2011

1934
SEC

2002
PCAOB
## Strong Leadership Supporting SASB

**Michael R. Bloomberg – Chair**  
Philanthropist, Founder of Bloomberg LP, and the 108th Mayor of New York City

**Mary Schapiro – Vice Chair**  
Promontory Advisory Board Vice Chair  
Former Chairman – SEC

<table>
<thead>
<tr>
<th>Name</th>
<th>Position and Organization</th>
</tr>
</thead>
</table>
| Alan Beller               | Senior Counsel  
Cleary Gottlieb Steen & Hamilton                                                           |
| Audrey Choi               | CEO – Institute for Sustainable Investing, Morgan Stanley                                   |
| Jack Ehnes                | CEO – CalSTRS                                                                             |
| Steven O. Gunders, CPA, MBA | Partner  
Deloitte & Touche LLP (Retired)                                                            |
| Robert Haggerty           | Head of Americas Equity Research  
Bank of America Merrill Lynch                                                                 |
| Robert H. Herz            | Former Chairman – FASB                                                                    |
| Robert Hirth, Jr.         | Chairman – Committee of Sponsoring Organizations of the Treadway Commission (COSO)        |
| Shawn Lytle               | President  
Delaware Management Holdings, Inc.                                                         |
| Ken Mehlman               | Member & Global Head of Public Affairs  
KKR                                                                                                |
| Clara Miller              | President – The F.B. Heron Foundation                                                      |
| Catherine Odelbo, MBA     | Executive Vice President Corporate Strategy and Partnerships – Morningstar Inc.            |
| Kevin Parker              | CEO – Sustainable Insight Capital Management                                                |
| Arnie Pinkston, JD        | General Counsel  
Allergan (Retired)                                                                        |
| Curtis Ravenel            | Global Head, Sustainable Business and Finance – Bloomberg LP                               |
| Jean Rogers, PhD, PE      | Chief Executive Officer & Founder SASB (Ex-officio)                                       |
| Robert K. Steel           | Partner & CEO  
Perella Weinberg Partners                                                                |
| Laura Tyson, PhD          | Director, Institute for Business and Social Impact  
Berkeley Haas School of Business                                                            |
| Elisse Walter, JD         | Former Chairman – SEC                                                                        |
| Edward D. White, JD       | Managing Partner – Fahr LLC                                                                   |
Broad Support from Leading Investors

$20T Assets Under Management
SASB Standards Are Designed to Complement FASB/U.S. GAAP
The Core Objectives for SASB Sustainability Accounting Standards

Objectives
- Material
- Decision-Useful
- Cost-Effective

InFormation
- Standardized

Criteria for Topic Selection
- Potential to affect value creation
- Of interest to investors
- Reflective of stakeholder consensus
- Relevant across an industry
- Actionable by companies

Principles for Metric Selection
- Fair representation
- Useful
- Applicable
- Comparable
- Complete
- Verifiable
- Aligned
- Neutral
- Distributive

Fundamental Tenets of SASB’s Approach
- Evidence-Based
- Industry-Specific
- Market-Informed

Approach
A Market-Driven Approach to Address Investors & Issuers Needs

Issuers

- A minimum set of disclosure topics
- Cost-effective disclosures
- Ability to benchmark performance and set targets
- Satisfy requirements of Regulation S-K in U.S. and Directive 2014/95/EU in Europe

Investors

- Standardized, publicly available information
- Comparable data for benchmarking
- Reliable information in a trusted channel subject to internal controls
- Metrics guide corporate engagements
Rigorous Process Drives SASB Standards

Industry Research

Industry Working Groups

Evidence Vetting
  Standards Council

Public Comment

Final Revisions

Provisional Standard

Standards maintenance

Ongoing
Robust Standards Designed to Provide Decision-Useful Information

Table 1. Material Sustainability Topics & Accounting Metrics

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse Gas</td>
<td>Gross global Scope 1 emissions; percentage covered under a regulatory program,</td>
</tr>
<tr>
<td>Emissions</td>
<td>percentage by hydrocarbon resource</td>
</tr>
<tr>
<td></td>
<td>Amount of gross global Scope 1 emissions from: (1) combustion, (2) flared</td>
</tr>
<tr>
<td></td>
<td>hydrocarbons, (3) process emissions, (4) directly vented releases, and (5)</td>
</tr>
<tr>
<td></td>
<td>fugitive emissions/leaks</td>
</tr>
<tr>
<td>Air Quality</td>
<td>Description of long-term and short-term strategy or plan to manage Scope 1</td>
</tr>
<tr>
<td></td>
<td>emissions, emissions reduction targets, and an analysis of performance against</td>
</tr>
<tr>
<td></td>
<td>those targets</td>
</tr>
<tr>
<td>Water Management</td>
<td>Total fresh water withdrawn, percentage recycled, percentage in regions with</td>
</tr>
<tr>
<td></td>
<td>High or Extremely High Baseline Water Stress</td>
</tr>
<tr>
<td></td>
<td>Volume of produced water and flowback generated; percentage (1) discharged, (2)</td>
</tr>
<tr>
<td></td>
<td>injected, (3) recycled; hydrocarbon content in discharged water</td>
</tr>
</tbody>
</table>

Reserves Valuation & Capital Expenditures

Description

Estimates suggest that E&P companies are unlikely to be able to extract a significant proportion of their probable oil and gas reserves if GHG emissions are to be controlled to limit global temperature increases to below 2 degrees Celsius. Companies with more carbon-intensive reserves and production and higher GHG emissions are likely to face greater risks. Regulatory limits on GHG emissions, together with improved competing energy technologies, could lower or reduce the growth in global demand, and therefore revenue, for gas products. Extraction costs could increase with regulations that put a price on GHG emissions, which could affect the net present value of oil and gas reserves. Regulatory actions that are more stringent or those focusing on industries with high emissions, could impair asset values substantially in the near term. Stewardship of capital resources and production decisions that take into account new capital-related climate change mitigation actions can help prevent current asset impairments and enhance creditworthiness.

Accounting Metrics

NR0101-22. Sensitivity of hydrocarbon reserve levels to future price projection scenarios: price on carbon emissions

.122 The registrant shall conduct an analysis of its reserves to determine how several future scenarios of carbon prices may influence its determination of whether the reserves are proved or probable.
Sustainability Topics and Financial Impact

Disclosure Topic Examples
- Health & Nutrition
- Energy & Fleet Fuel Management
- Environmental & Social Impacts of the Ingredient Supply Chain
- Food Safety

Drivers of Impact
- Customer demand
- Regulations & resource scarcity
- Unanticipated operational disruptions
- Reputation

Financial Impact
- REVENUE
- COST
- COST OF CAPITAL
- ASSETS & LIABILITIES

Disclosure Topic Examples:
- Health & Nutrition: Customer demand
- Energy & Fleet Fuel Management: Regulations & resource scarcity
- Environmental & Social Impacts of the Ingredient Supply Chain: Unanticipated operational disruptions
- Food Safety: Reputation

Financial Impact:
- REVENUE
- COST
- COST OF CAPITAL
- ASSETS & LIABILITIES
Need for Consistent & Comparable Data

SASB METRIC: Health & Nutrition - Revenue from products labeled and/or marketed to promote health and nutrition attributes

DISCLOSURE OF COMPANY A

<table>
<thead>
<tr>
<th>Percent of cereals with 10g or less of sugar per 30g serving</th>
<th>Percent of cereals with 150mg or less of sodium per 30g serving</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 77%</td>
<td>2007 63%</td>
</tr>
<tr>
<td>2014 84%</td>
<td>2014 82%</td>
</tr>
<tr>
<td>2015 87%</td>
<td>2015 84%</td>
</tr>
<tr>
<td>2020 goal 90%</td>
<td>2020 goal 85%</td>
</tr>
</tbody>
</table>

DISCLOSURE OF MAJOR COMPETITOR

Drivers of nutritional improvements
U.S. retail products FY05-FY15

- 3% Fiber
- 4% Health/nutrition claim
- 4% Protein
- 4% Vitamins/minerals
- 21% Trans fat
- 9% Whole grain
- 9% Calories/portion control
- 20% Sugar
- 25% Sodium

Decreasing nutrients of concern: 77%
Increasing positive nutrients: 23%

*Healthy/nutrition claim includes gluten-free and heart health claims.
## Water Management & Food Safety Performance

### Company Name & Ticker

<table>
<thead>
<tr>
<th>Company Name &amp; Ticker</th>
<th>Total Water Consumed (Th m$^3$)</th>
<th>% in Stressed Regions</th>
<th>Food Recalled (Th metric tons)</th>
<th>Audit Conformance Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crispy Chips Inc. (CC)</td>
<td>4,855</td>
<td>20%</td>
<td>1.3</td>
<td>96%</td>
</tr>
<tr>
<td>Wow Foods Co. (WFC)</td>
<td>3,217</td>
<td>10%</td>
<td>5.8</td>
<td>63%</td>
</tr>
<tr>
<td>Century Ingred. (CI)</td>
<td>52,809</td>
<td>22%</td>
<td>9.3</td>
<td>78%</td>
</tr>
<tr>
<td>Mouthful Brands (MB)</td>
<td>5,062</td>
<td>31%</td>
<td>.4</td>
<td>99%</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>16,485.7</td>
<td>21%</td>
<td>4.2</td>
<td>84%</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>4,958.5</td>
<td>21%</td>
<td>3.6</td>
<td>87%</td>
</tr>
</tbody>
</table>
Benefits of Industry Benchmarking

**SASB metric:** (1) Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress
Ongoing Standards Development Process

Provisional Standards

Stakeholder consultation

Proposed changes

Standards maintenance

Public comment

Updates to Standards

Codified Standards
The Evolution of SASB Standards – Product of Market Participation

Industry Consultation + Analyst Consultation + SASB Research = SASB Standard Removed
General Questions for Consultation

Example general questions for all industries:
• Add a disclosure topic
• Remove a disclosure topic?
• Anticipated implementation costs?
Integrate Sustainability Accounting Into Your Work

Develop assignments (start small)

• Compare CSR reports and 10-Ks
• Evaluate how performance on SASB metrics can impact book value, growth projections and/or cost of capital

Conduct research

• Correlation between performance on SASB topics and accounting performance or stock performance?

Present at conferences

• SASB has helpful resources (publications, FSA Credential, research)
Questions?

Contact Us

Levi Stewart, CPA – levi.stewart@sasb.org
Nicolai Lundy – nicolai.lundy@sasb.org
SASB’s Investor Advisory Group – Representing $20T AUM
Current State of Disclosure on SASB Topics in the Form 10-K
Opportunity to transform disclosure from boilerplate to performance-based

State of Disclosure in Annual SEC Filings

- Health Care
- Financials
- Technology & Communications
- Non-Renewable Resources
- Transportation
- Services
- Resource Transformation
- Consumption I
- Consumption II
- Renewable Resources & Alternative Energy
- Infrastructure

Source: SASB analysis performed between May and August 2016 using the latest annual SEC Filings (i.e. Form 10-Ks and 20-Fs) for the top companies, by revenue, per SICS industry (maximum of 10 companies).
Current State of Disclosure on SASB Topics in the Form 10-K
Many companies already identify topics as likely to be material

- **69 percent** of companies are already addressing at least three-quarters of the disclosure topics SASB identified in their industry
- **38 percent** are already providing disclosure on *all* disclosure topics
- However, more than **50 percent** sustainability-related disclosures in SEC filings use boilerplate language
Evaluation of the Materiality of Sustainability Issues in Each Industry
SASB’s research and prioritization starts with a broad set of sustainability issues

Environment
- GHG emissions
- Air quality
- Energy management
- Fuel management
- Water and wastewater management
- Waste and hazardous materials management
- Biodiversity impacts

Social capital
- Human rights and community relations
- Access and affordability
- Customer welfare
- Data security and customer privacy
- Fair disclosure and labeling
- Fair marketing and advertising

Human capital
- Labor relations
- Fair labor practices
- Diversity and inclusion
- Employee health, safety, and wellbeing
- Compensation and benefits
- Recruitment, development, and retention

Business model and innovation
- Lifecycle impacts of products and services
- Environmental and social impacts on assets and operations
- Product packaging
- Product quality and safety

Leadership and governance
- Systemic risk management
- Accident and safety management
- Business ethics and transparency of payments
- Competitive behavior
- Regulatory capture and political influence
- Materials sourcing
- Supply chain management
Balanced Participation
SASB’s standards-setting process is inclusive and informed by industry expertise

SASB INDUSTRY WORKING GROUPS REFLECT BROAD-BASED INTEREST

IWG Participation

- 31% Corporate Professionals
- 31% Investors
- 37% Public Interest & Intermediaries

$11.0T MARKET CAPITALIZATION

$23.4T ASSETS UNDER MANAGEMENT

>2,800 PARTICIPANTS