Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

36th SESSION
30 October – 1 November 2019
Room XIX, Palais des Nations, Geneva

Wednesday, 30 October 2019
Morning Session

High-Level panel
Impact of sustainability and the 2030 Agenda on Sustainable Development on financial and non-financial enterprise reporting

Presented by

Madelyn Antoncic
Chief Executive Officer
Sustainability Accounting Standards Board, United States of America

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The Sustainability Accounting Standards Board

Madelyn Antoncic, PhD
CEO, SASB Foundation
An Evolving Risk Landscape
The global risk profile has shifted from economic to environmental & social challenges

Risk Management Has Evolved, Too
Risk management has adapted to changing markets over the last few decades

Where risk management once meant focusing on market risk, credit risk, and asset/liability mismatch risk, today it covers a much broader array of risks

- 1990s
  - Credit
  - Market
  - ALM

- 2000s
  - Operational
  - Model
  - Reputational
  - Business continuity
  - Cyber
  - OFAC Sanctions list
  - Money laundering

- Today

- Tomorrow
  - Climate Change
  - Catastrophe
  - Global supply chain disruption

- Climate Change
- Catastrophe
- Global supply chain disruption
ESG-Related Information Abounds
The rapid rise of CSR reporting has given researchers new data sets to study

From a minority of the S&P 500 in 2011 …

... to a clear majority in 2018.

Source: Governance and Accountability Institute
Data Quality Lags Data Volume
Most ESG reporting covers policies and targets—not performance—limiting usefulness

Goldman Sachs found only 11.6% of metrics were performance data

Comparability Is Also Limited
Even when data are numeric, they aren’t always comparable across companies

Example: 24 different metrics used across 50 Fortune 500 companies to ‘quantify’ 1 ESG topic

In disclosing information regarding employee health and safety, a random sample of 50 large, publicly listed, Fortune 500 companies used the following metrics:

1. Lost time incident rate (per 100, 5,000, 200,000)
2. Lost time frequency rate
3. Injuries resulting in lost time
4. Accident rate
5. Accidents requiring time off
6. Days lost due to injury
7. Financial loss due to accidents
8. Injuries resulting in more than 1 day lost
9. Injury rate
10. Lost day rate
11. Lost time of fewer than 61 days due to occupational illness or injury
12. Lost time incident severity rate
13. Number of accidents
14. Number of accidents without lost time
15. Number of lost workdays
16. Number of severe accidents occurred
17. Rate of injury per 200,000 hours worked
18. Reduced working days caused by work-related injuries
19. Time loss claims
20. Lost time
21. Incident numbers of occupational disease
22. Occupational illness rate
23. Occupational illness cases
24. Occupational disease rate

## Investor Needs vs. Issuer Reporting

The users and providers of ESG information have starkly different perspectives

### Investor Satisfaction

<table>
<thead>
<tr>
<th>% Investors Satisfied</th>
<th>Disclosure of ESG-related risk/opportunity that could affect business models</th>
<th>7%</th>
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<td>Ease of comparing peer companies based on ESG data disclosed</td>
<td>8%</td>
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Sources: EY, *Is your non-financial performance revealing the true value of your business*, 2017;

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### Investor Confidence vs. Issuer Confidence

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<tr>
<th>% Investors Satisfied</th>
<th>Investor confidence in the quality of the ESG information received from issuers</th>
<th>29%</th>
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<td>Issuer confidence in the quality of the ESG information reported</td>
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Alphabet Soup: Who’s Who in the Disclosure Space

Of six major disclosure frameworks, only two set reporting standards

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<th>Subject</th>
<th>SASB</th>
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<th>CDSB</th>
<th>GRI</th>
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<td>Target Audience</td>
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<td>Investors, customers, and policy makers</td>
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<td>All stakeholders</td>
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<td>Online portal</td>
<td>Annual report</td>
<td>Sustainability report</td>
<td>Integrated report</td>
<td>Mainstream financial filings</td>
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Raters Seek ‘Signals’ but Fall Short, Yielding Uncorrelated Ratings

ESG ratings can only be as useful as the underlying data and methodologies

Figure 1
ESG Scores are Different Across Providers
(Cross sectional Correlation for Constituents of the MSCI World Index, June 30, 2017)

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<th>Sustainalytics</th>
<th>MSCI</th>
<th>RobecoSAM</th>
<th>Bloomberg ESG</th>
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Source: The ESG Data Challenge, SSGA, March 2019

<Comparison of ESG evaluation by FTSE and MSCI>

Source: Results of ESG Index Selection, GPIF, July 2017

Source: How Robust Are CSR Benchmarks? Comparing ASSET4 with Sustainalytics, Tilburg University, October 2018
SASB Making an Impact
SASB standards are increasingly used across the global capital markets

>235,000
STANDARDS DOWNLOADS
by

>19,000
USERS
in

>140
COUNTRIES

Updated Jun 2019
SASB Standards: Created For the Market, By the Market
Market input has strengthened the standards throughout their development

Over 6 years, thousands of corporate professionals, investors, and industry experts have provided input on the standards

- 159 consultations with 141 companies
- 271 consultations with 38 institutional investors
- 19 consultations with industry associations

Development of PROVISIONAL Standards
- 2012
  - Industry Research
  - Standards Council Review
  - Public Comment Letters
  - PROVISIONAL STANDARD
  - Exposure Draft of the Provisional Standards
  - Consultation

Development of CODIFIED Standards
- 2018
  - Technical Agenda
  - Public Comment Letters
  - CODIFIED STANDARD
  - Exposure Draft of Proposed Changes
  - Standards Board Vote
SASB Membership and Advisory Bodies

Extensive involvement shows the standards are a product of global market forces

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<th>SASB Alliance</th>
<th>Investor Advisory Group (IAG)</th>
<th>Standards Advisory Group (SAG)</th>
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<td><strong>SASB's membership organization:</strong> provides education and resources to members for an annual fee</td>
<td><strong>Leading investors who publicly support improved ESG disclosure</strong></td>
<td><strong>SAG to advise Standards Board on standards content</strong></td>
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<td>- Corporate, investor and individual members</td>
<td>- Global asset owners and asset managers</td>
<td>- Diverse industry experts representing companies, investors and other stakeholders</td>
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<td>- Explore ESG best practices</td>
<td>- Engage with companies to support material ESG disclosures</td>
<td>- Advise on implementation and emerging issues for Standards development</td>
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<td>- Member events and networking</td>
<td>- Advise on SASB strategy as needed</td>
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The SASB Difference
What sets SASB apart from the rest of the ‘alphabet soup’?

- Financially Material
- Decision-Useful
- Cost-Effective
- Industry-Specific
- Evidence-Based
- Market-Informed
SASB’s New Lens
SICS® groups industries by resource intensity and sustainability impacts

**Consumer Goods**
- Apparel, Accessories & Footwear
- Appliance Manufacturing
- Building Products & Furnishings
- E-Commerce
- Household & Personal Products
- Multiline and Specialty Retailers & Distributors
- Toys & Sporting Goods

**Extractives & Minerals Processing**
- Coal Operations
- Construction Materials
- Iron & Steel Producers
- Metals & Mining
- Oil & Gas - Exploration & Production
- Oil & Gas - Midstream
- Oil & Gas - Refining & Marketing
- Oil & Gas – Services

**Food & Beverage**
- Agricultural Products
- Alcoholic Beverages
- Food Retailers & Distributors
- Meat, Poultry & Dairy
- Non-Alcoholic Beverages
- Processed Foods
- Restaurants
- Tobacco

**Health Care**
- Biotechnology & Pharmaceuticals
- Drug Retailers
- Health Care Delivery
- Health Care Distributors
- Managed Care
- Medical Equipment & Supplies

**Infrastructure**
- Electric Utilities & Power Generators
- Engineering & Construction Services
- Gas Utilities & Distributors
- Home Builders
- Real Estate
- Real Estate Services
- Waste Management
- Water Utilities & Services

**Renewable Resources & Alternative Energy**
- Biofuels
- Forestry Management
- Fuel Cells & Industrial Batteries
- Pulp & Paper Products
- Solar Technology & Project Developers
- Wind Technology & Project Developers

**Resource Transformation**
- Aerospace & Defense
- Chemicals
- Containers & Packaging
- Electrical & Electronic Equipment
- Industrial Machinery & Goods

**Services**
- Advertising & Marketing
- Casinos & Gaming
- Education
- Hotels & Lodging
- Leisure Facilities
- Media & Entertainment
- Professional & Commercial Services

**Technology & Communications**
- Electronic Manufacturing Services & Original Design Manufacturing
- Hardware
- Internet Media & Services
- Semiconductors
- Software & IT Services
- Telecommunication Services

**Transportation**
- Air Freight & Logistics
- Airlines
- Auto Parts
- Automobiles
- Car Rental & Leasing
- Cruise Lines
- Marine Transportation
- Rail Transportation
- Road Transportation
Focused But Comprehensive
SASB’s research process starts with a broad universe of sustainability issues

Environment
- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance
- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

Social Capital
- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital
- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

Business Model & Innovation
- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change
# SASB Materiality Map: The Holy Grail

Sustainability metrics for 77 industries across 26 risk and opportunity categories

## SASB Materiality Map®

SASB's Materiality Map® identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry. In the left-hand column, SASB identifies 26 sustainability-related business issues, or General Issue Categories, which encompass a range of Disclosure Topics and their associated Accounting Metrics that vary by Industry. For example, the General Issue Category of Customer Welfare encompasses both the Health and Nutrition topic in the Processed Foods industry and the Counterfeit Drugs topic in the Healthcare Distributors industry. For commercial use terms of the Materiality Map, please contact us.

## Sector Level Map

- Issue is likely to be material for more than 50% of industries in sector
- Issue is likely to be material for fewer than 50% of industries in sector
- Issue is not likely to be material for any of the industries in sector

### Table: SASB Materiality Map

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Sector Level Map
- Issue is likely to be material for more than 50% of industries in sector
- Issue is likely to be material for fewer than 50% of industries in sector
- Issue is not likely to be material for any of the industries in sector

Industry Level Map
- Not likely a material issue for companies in the industry
- Likely a material issue for companies in the industry
SASB Materiality Map: The Holy Grail
Sustainability metrics for 77 industries across 26 risk and opportunity categories

SASB’s Materiality Map® identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry. In the left-hand column, SASB identifies 26 sustainability-related business issues, or General Issue Categories, which encompass a range of Disclosure Topics and their associated Accounting Metrics that vary by industry. For example, the General Issue Category of Customer Welfare encompasses both the Health and Nutrition topic in the Processed Foods Industry and the Counterfeit Drugs topic in the Health Care Distributors Industry. For commercial use terms of the Materiality Map, please contact us.

General Issue Category: Physical Impacts of Climate Change

Disclosure Topic: Environmental Risk Exposure

Accounting Metric(s)

- FN-IN-450a.1: Probable Maximum Loss (PML) of insured products from weather-related natural catastrophes
- FN-IN-450a.2: Total amount of monetary losses attributable to insurance payouts from (1) modeled natural catastrophes and (2) non-modeled natural catastrophes, by type of event and geographic segment (net and gross of reinsurance)
- FN-IN-450a.3: Description of approach to incorporation of environmental risks into (1) the underwriting process for individual contracts and (2) the management of firm-level risks and capital adequacy
Rigorous Metrics
Detailed technical protocols ensure SASB metrics are consistent, comparable & reliable
TCFD/CDSB/SASB

Comprehensive approach for disclosure of climate risks and opportunities aligned to the TCFD

**CDSB Framework** provides guiding principles and reporting requirements for effective disclosure

**SASB Standards**
Financially material disclosure topics and metrics for 77 industries

**Combine foundational elements:**
- CDSB Guiding Principles and Reporting Requirements (climate & environment);
- Map combined foundational elements to TCFD’s 11 Recommended Disclosures
TCFD and SASB: SASB Standards Are a Tool to Implement TCFD
SASB provides detailed, industry specific climate metrics for TCFD disclosures

TCFD Recommendations cover four broad areas:

- Governance*
- Strategy*
- Risk Management*
- Targets & Metrics

SASB Standards provide industry specific metrics for use in TCFD disclosures. SASB’s metrics are among the most frequently cited metrics in TCFD’s Implementation Guidance.
Industry-Specific Disclosure Is the Core of TCFD
SASB metrics sit at the heart of the recommendations, powering effective disclosure

SASB metrics are among the most frequently referenced tools cited by TCFD for implementing the Recommendations

Metrics and targets are critical to more effective disclosure of governance, strategy, and risk management – the “outer layers” of the TCFD "onion."

Large-Scale Challenges Call for Large-Scale Solutions

Only by harnessing the power of markets can global efforts be equal to the task.

Markets need to be fit for purpose to face daunting macroeconomic trends such as climate change, resource constraints, population growth, technological innovation, globalization, and more.

At SASB, we believe our standards are a key piece of this new, 21st century market infrastructure.

By finding the common ground where business incentives are aligned with societal interests, we enable win-win solutions that transcend zero-sum naysaying and create shared value.