Practical implementation of climate-related financial disclosures and their relationship to the SDGs

Presented by

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CEO
SASB Foundation Board

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Madelyn Antoncic,
CEO, The 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
  - Climate Change
  - Catastrophe
  - Global supply chain disruption

- Tomorrow
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 …

- 20% in 2011
- 53% in 2012
- 72% in 2013
- 75% in 2014
- 81% in 2015
- 82% in 2016
- 85% in 2017
- 86% in 2018

… 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](https://example.com), a random sample of 50 large, publicly listed, Fortune 500 companies used the following metrics:*

<table>
<thead>
<tr>
<th>Metric</th>
<th>Description</th>
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<tbody>
<tr>
<td>1. Lost time incident rate (per 100, 5,000, 200,000)</td>
<td>Number of incidents occurring in a given period</td>
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<td>2. Lost time frequency rate</td>
<td>Number of incidents occurring divided by total number of working hours</td>
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<td>3. Injuries resulting in lost time</td>
<td>Number of injuries causing workers to take time off</td>
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<tr>
<td>4. Accident rate</td>
<td>Total number of incidents occurring</td>
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<td>5. Accidents requiring time off</td>
<td>Number of incidents requiring workers to take time off</td>
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<tr>
<td>6. Days lost due to injury</td>
<td>Number of days lost due to injuries</td>
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<tr>
<td>7. Financial loss due to accidents</td>
<td>Financial cost incurred due to accidents</td>
</tr>
<tr>
<td>8. Injuries resulting in more than 1 day lost</td>
<td>Number of injuries requiring more than 1 day of work</td>
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<tr>
<td>9. Injury rate</td>
<td>Total number of injuries occurring</td>
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<tr>
<td>10. Lost day rate</td>
<td>Number of days lost due to injuries</td>
</tr>
<tr>
<td>11. Lost time of fewer than 61 days due to occupational illness or injury</td>
<td>Number of days lost due to occupational illness or injury</td>
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<tr>
<td>12. Lost time incident severity rate</td>
<td>Number of severity incidents occurring</td>
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<tr>
<td>13. Number of accidents</td>
<td>Total number of injuries occurring</td>
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<tr>
<td>14. Number of accidents without lost time</td>
<td>Number of injuries occurring divided by total number of working hours</td>
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<tr>
<td>15. Number of lost workdays</td>
<td>Number of days lost due to injuries</td>
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<tr>
<td>16. Number of severe accidents occurred</td>
<td>Number of severe injuries occurring</td>
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<tr>
<td>17. Rate of injury per 200,000 hours worked</td>
<td>Total number of injuries occurring divided by total number of working hours</td>
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<td>18. Reduced working days caused by work-related injuries</td>
<td>Number of days lost due to injuries</td>
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<td>19. Time loss claims</td>
<td>Number of time lost due to injuries</td>
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<tr>
<td>20. Lost time</td>
<td>Total number of time lost due to injuries</td>
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<tr>
<td>21. Incident numbers of occupational disease</td>
<td>Total number of occupational injuries</td>
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<tr>
<td>22. Occupational illness rate</td>
<td>Total number of occupational illness</td>
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<tr>
<td>23. Occupational illness cases</td>
<td>Total number of occupational illness cases</td>
</tr>
<tr>
<td>24. Occupational disease rate</td>
<td>Total number of occupational disease</td>
</tr>
</tbody>
</table>

**Uncomparable metrics**

**Unclear methodologies**

**Different units of measurement**

**Limited usefulness**

**Investor Needs vs. Issuer Reporting**

The users and providers of ESG information have starkly different perspectives

<table>
<thead>
<tr>
<th>Investor Satisfaction</th>
<th>% Investors Satisfied</th>
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</thead>
<tbody>
<tr>
<td>Disclosure of ESG-related risk/opportunity that could affect business models</td>
<td>7%</td>
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<tr>
<td>Ease of comparing peer companies based on ESG data disclosed</td>
<td>8%</td>
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</tbody>
</table>

Sources: EY, *Is your non-financial performance revealing the true value of your business*, 2017;

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**Investor Confidence vs. Issuer Confidence**

<table>
<thead>
<tr>
<th></th>
<th>% Investors Satisfied</th>
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<tbody>
<tr>
<td>Investor confidence in the quality of the ESG information received from issuers</td>
<td>29%</td>
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<tr>
<td>Issuer confidence in the quality of the ESG information reported</td>
<td>100%</td>
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</tbody>
</table>

### Alphabet Soup: Who’s Who in the Disclosure Space

Of six major disclosure frameworks, only two set reporting standards

<table>
<thead>
<tr>
<th>Subject</th>
<th>SASB</th>
<th>CDP</th>
<th>CDSB</th>
<th>GRI</th>
<th>IIRC</th>
<th>TCFD</th>
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<td>Questionnaires</td>
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<td>Materiality General and industry-specific</td>
<td>General</td>
<td>General and industry-specific</td>
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<tr>
<td><strong>Target Audience</strong></td>
<td>Investors</td>
<td>Investors, customers, and policy makers</td>
<td>Investors</td>
<td>All stakeholders</td>
<td>Investors</td>
<td>Investors</td>
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<td><strong>Reporting Channel</strong></td>
<td>Core comms to investors</td>
<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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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

United States 50%
Canada 6%
Europe 23%
Asia Pacific 15%
Latin America & the Caribbean 4%
Middle East & Africa 2%

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
SASB Membership and Advisory Bodies

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

**SASB Alliance**
- SASB's membership organization: provides education and resources to members for an annual fee
  - Corporate, investor and individual members
  - Explore ESG best practices
  - Member events and networking

**Investor Advisory Group (IAG)**
- Leading investors who publicly support improved ESG disclosure
  - Global asset owners and asset managers
  - Engage with companies to support material ESG disclosures
  - Advise on SASB strategy as needed

**Standards Advisory Group (SAG)**
- SAG to advise Standards Board on standards content
  - Diverse industry experts representing companies, investors and other stakeholders
  - Advise on implementation and emerging issues for Standards development

- 98 Organizational Members
  - 12 countries
- 44 Members
  - $33T AUM
  - 11 countries
- 174 Members
  - 24 countries
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

Financials
- Asset Management & Custody Activities
- Commercial Banks
- Consumer Finance
- Insurance
- Investment Banking & Brokerage
- Mortgage Finance
- Security & Commodity Exchanges

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 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
Sustainability Risk Metrics for 77 Specific industries
Across 26 Risk Topics

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SASB Materiality Map
Sustainability Risk Metrics for 77 Specific industries
Across 26 Risk Topics

SASB 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.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>General Issue Category</th>
<th>Food &amp; Beverage</th>
<th>Health Care</th>
<th>Infrastructure</th>
<th>Renewable Resources &amp; Alternatives Energy</th>
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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
Sustainability Risk Metrics for 77 Specific industries
Across 26 Risk Topics

Industry: Insurance

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
Insurance Industry SASB Standard
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.