Understanding the New Sustainability Accounting Standards

Rita Ormsby and Ryan Phillips
Information Services Librarians
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Baruch College, CUNY, New York
For the SLA Business & Finance Division
SLA Conference Boston, MA June 16, 2015
Sustainable Investment

• U.S. SRI investments increased 76% from $3.74 to $6.57 trillion from Jan. 2012 to Jan. 2014

• One of every six dollars under professional management in the U.S.

  Report on the U.S. Sustainable, Responsible and Impact Investment Trends 2014

• Variety of global reporting frameworks creates complexities and makes it “hard for stakeholders to analyze these reports and compare companies based on the information provided”

  2014 CSR-Sustainability Monitor
The Sustainability Accounting Standards Board (SASB)

• Envisions capital markets that value all forms of capital

• SASB’s Mission: To develop & disseminate sustainability accounting standards that help public corporations disclose material, decision-making information to investors through a process including evidence-based research and broad, balanced stakeholder participation.
The SASB:

• Is an independent 501(c)(3) non-profit organization
• Was founded in 2011 by Jean Rogers, who is the CEO
• Has roots in a Harvard IRI paper, “From Transparency to Performance,” by Steve Lydenberg, Jean Rogers, & David Woods
• Is accredited by the American National Standards Institute (ANSI)
• Is not associated with the Financial Accounting Standards Board (FASB) or the Securities & Exchange Commission (SEC)
SASB Timetable for Issuing Standards
By 2016, SASB will have issued standards for more than 80 industries in 10 sectors

- Health Care: 6 industries
- Tech & Communication: 6 industries
- Transportation: 8 industries
- Resource Transformation: 5 industries
- Renewable Resources & Alternative Energy: 5 industries
- Financials: 7 industries
- Non-Renewable Resources: 8 industries
- Services: 10 industries
- Consumption: 15 industries
- Infrastructure: 10 industries

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SASB’s Prioritization Begins With

• A comprehensive set of sustainability issues dealing with:
  Environment
  Business Model & Innovation
  Social Capital
  Leadership & Governance
  Human Capital

• Standards address business issues known to impact value creation

• SASB standards average five disclosure topics and 14 metrics (79% quantitative) per industry
SASB’s SICS

Sustainability Industry Classification System (SICS)

- Groups like industries in terms of their material sustainability impacts
- 10 Thematic Sectors
- 35 Sub-sectors
- 80+ industries
SASB’s Materiality Map™ identifies likely material sustainability issues on an industry by industry basis.

### Issues

<table>
<thead>
<tr>
<th>Environment</th>
<th>Health Care</th>
<th>Financials</th>
<th>Technology and Communications</th>
<th>Non-Renewable Resources</th>
<th>Transportation</th>
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<th>Responsible Transformation</th>
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<td>Supply chain management</td>
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© 2015 SASB™ Materiality Map™
SASB’s Sustainability Industry Classification Code (SICS)™

• First Impact-Oriented Industry Classification Scheme:
  Rather than revenue, SICS classifies industries according to “resource intensity and sustainability innovation potential,” thereby increasing likelihood of recognizing the value of intangibles

• Each company is classified into one primary industry

• SASB website, www.sasb.org, offers a SICS Look-Up tool and Standards Navigator

• What if a company is engaged in more than one industry?
  SASB suggests users learn the percentage of revenue from the business segments and consult other applicable industries’ guidance as needed
Example: BSX (Boston Scientific) & the SICS™ Look-Up Tool
Shows Primary SICS Sector is Health Care
Shows Primary SICS Industry is Medical Equipment & Supplies
Go to SASB Standards at www.sasb.org
Select Health Care and Download Standard for Medical Equipment & Supplies
They will open as a pdf file
Example: SASB Standard for Medical Equipment & Supplies

Provisional SASB Standard has been available since August 2013

TOC Provides Sustainability Topics and Accounting Metrics

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SUSTAINABILITY ACCOUNTING STANDARD | MEDICAL EQUIPMENT AND SUPPLIES
### Table 1. Material Sustainability Topics & Accounting Metrics

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>CODE</th>
<th>ACCOUNTING METRIC</th>
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</thead>
<tbody>
<tr>
<td>Product Safety</td>
<td>HC2001-01</td>
<td>List of products recalled</td>
</tr>
<tr>
<td></td>
<td>HC2001-02</td>
<td>Use of products listed in the company’s MedWatch Safety Alerts for human medical products (Medical Devices database).</td>
</tr>
<tr>
<td></td>
<td>HC2001-03</td>
<td>Number of facilities related to products as reported in the FDA Adverse Event Reporting System.</td>
</tr>
<tr>
<td>Ethical Marketing</td>
<td>HC2001-04</td>
<td>Description of legal and regulatory fines and settlements associated with false marketing claims, including Medicaid drug, chop, and CostShare Act violations for off-label marketing prohibited under the False Claims Act. Dollar amount of fines and settlements and a description of corrective actions implemented in response to events.</td>
</tr>
<tr>
<td></td>
<td>HC2001-05</td>
<td>Description of codes of ethics governing promotion of off label use of products, including mechanisms to ensure compliance.</td>
</tr>
<tr>
<td>Affordability and Fair Pricing</td>
<td>HC2001-06</td>
<td>Ratio of weighted average cost of net price increase to the annual increase in the U.S. Consumer Price Index.</td>
</tr>
<tr>
<td></td>
<td>HC2001-07</td>
<td>Description of how price information (such as average and market) for each product is disclosed to customers or their agents (e.g., group purchasing organizations or consultants).</td>
</tr>
<tr>
<td>Energy, Water, and Waste Efficiency</td>
<td>HC2001-08</td>
<td>Total annual energy consumed (megawatt-hour) and percentage renewable (e.g., wind, biomass, solar).</td>
</tr>
<tr>
<td></td>
<td>HC2001-09</td>
<td>Total water withdrawals and percentage from water treatment and recycling, as defined by the Wiki Water use by action percentage of water used.</td>
</tr>
<tr>
<td>Product Design and Lifecycle Management</td>
<td>HC2001-11</td>
<td>Description of environmental and human health considerations made at product lifecycle stages such as design, procurement, manufacturing, distribution, use, and end of life and the type and percentage of products to which efforts apply.</td>
</tr>
<tr>
<td></td>
<td>HC2001-12</td>
<td>Description of Extended Producer Responsibility (EPR) initiatives to promote manufacturer take back, reuse, or proper disposal at the end of the lifecycle. Weight of products accepted for take back and reused, recycled, or donated, broken down by EPR deemed and equipment and used supplies.</td>
</tr>
<tr>
<td>Corruption and integrity</td>
<td>HC2001-13</td>
<td>Description of legal and regulatory fines and settlements associated with bribery, corruption, or unethical business practices, including violations of the Foreign Corrupt Practices Act.</td>
</tr>
<tr>
<td></td>
<td>HC2001-14</td>
<td>Description of codes of ethics governing interactions with health care professionals including mechanisms to ensure employee compliance.</td>
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</table>

### Table 1. Material Sustainability Topics & Accounting Metrics (cont.)

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>CODE</th>
<th>ACCOUNTING METRIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing and Supply Chain Management</td>
<td>HC2001-15</td>
<td>Number of and type of US enforcement actions taken in response to violations of current good manufacturing practices (CGMP) including product recalled, withdrawn, from 482(b)(1) reported recall, which is not related to product safety or product deviation.</td>
</tr>
<tr>
<td></td>
<td>HC2001-16</td>
<td>Percentage of facilities and/or suppliers participating in third party audit program for integrity of supply chain and products used, materials, devices, packaging, etc.</td>
</tr>
<tr>
<td></td>
<td>HC2001-17</td>
<td>Percentage of efforts to maintain visibility within the distribution chain, particularly with respect to wholesalers, re-packagers, and/or contract distributors.</td>
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<tr>
<td></td>
<td>HC2001-18</td>
<td>Description of any existing or proposed risk to consumers with containing gas masks (or components) within the supply chain, including those related to restricted and regulated, political situations, legal or Medical, climate change, or environmental pressures.</td>
</tr>
</tbody>
</table>
Example: SASB Standard & Accounting Metrics In Greater Detail for Medical Equipment & Supplies

Energy, Water, and Waste Efficiency

Description
The manufacturing of medical equipment and supplies requires the use of energy, water, and material inputs in addition to the creation of waste. As concern over climate change and dwindling natural resources continues to impact pricing, medical equipment and supplies companies will be exposed to fluctuations in costs for these key inputs. Terms that are able to improve manufacturing efficiencies and limit dependence on resources are likely to enhance shareholder value.

Accounting Metrics

HC0201.08. Total annual energy consumed (gigajoules) and percentage renewable (e.g., wind, biomass, solar).

32. The registrant shall convert the amount of electricity it purchased from kilowatt hours (kWh) to gigajoules (GJ).

33. The registrant shall disclose fossil fuel consumption in terms of its energy content, using higher heating values (HHV), also known as gross calorific value (GCV), which are directly measured or taken from the Intergovernmental Panel on Climate Change (IPCC), the U.S. Department of Energy (DOE), or the U.S. Energy Information Administration (EIA).

34. The registrant shall disclose renewable energy consumption as a percentage of its overall energy consumption, in terms of its energy content. For biofuels the registrant shall use HHVs from the sources mentioned above. For solar or wind energy consumption, the registrant shall convert from electricity production (kWh) to gigajoules (GJ).

35. The registrant shall disclose renewable energy data for renewable energy it directly produces, or which it purchases through renewable energy certificates (RECs) that are certified (i.e., through Green-e), or renewable power purchase agreements (PPAs). It shall not disclose the renewable portion of the energy that is drawn from electricity grids.

HC0201.09. Total water withdrawals and percentage from water-stressed regions – High or Extremely High Baseline Water Stress as defined by the WRI Water Risk Atlas; percentage of process water recycled.

36. Process water withdrawal is the total amount of water removed from freshwater sources for use in manufacturing operations. This figure should not include water use in manufacturing that is recycled. Water withdrawals shall be disclosed in terms of cubic meters (m³).

37. Using the World Resources Institute (WRI)'s Water Risk Atlas tool, “Aqueduct,” (publicly available online http://aqueduct.wri.org), the registrant shall analyze all of its manufacturing facilities for water risks and identify facilities that are in a location with High (40-80%) or Extremely High (>80%) Baseline Water Stress.
SASB’s Standards Navigator Offers Look-Up Tool & Additional Information
Disclosure Topics & Metrics Include Accounting Metrics
And SASB Metric Disclosure Guidance
SASB Reference Documents Include Industry Briefs
And Model 10-K filings

SASB seeks comments on these mock documents

Example of text for medical equipment and supplies:

**United States Securities and Exchange Commission**

**Washington, D.C. 20549**

**Form 10-K**

**Check One**

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the year ended December 31, 2011**

**Bay-DNA Inc.**

(Fiscal Year-End June 30)

**Registration No.**

333-12345

**Commission File No.**

1-12345

**Securities Act of 1933**

Underwriting...

**Securities Exchange Act of 1934**

**Sustainability Performance**

**Introduction**

The following is a mock excerpt from a Form 10-K for a biotechnology company. "Bay-DNA Inc.", due to incorporate disclosure in the Advisor Standard for Biotechnology, Inc. in Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). This document serves as an example of two types of disclosure SAS allows for standards. It is not intended to provide a template for companies to follow. This is a working document on which SAS is seeking comments, input, and assistance from outside stakeholders, users, and preparers in the form of disclosure to SAS standards. Comments are due via www.sasb.org/submit.
Major Themes from Standards Setting

Some patterns have begun to emerge after 5 sectors and 35 industries, according to SASB:

- **CLIMATE CHANGE**
  Event readiness in health care delivery, financed emissions in banking, carbon intensity of reserves in oil and gas, emissions from refining, vulnerability of real estate and insurance, impact on crop yields

- **PRODUCT STEWARDSHIP & SOCIAL UTILITY**
  Counterfeit drugs, food quality and nutrition, car and airline safety, responsible gambling and drinking, product design and take-back

- **RESOURCE INTENSITY AND SCARCITY**
  Health care facilities and data centers – 24/7, fuel management in transport, rare earth minerals in manufacturing, water consumption in beverages, oil and gas, agriculture

- **ACCESS AND AFFORDABILITY OF SERVICES**
  Orphan drugs and pricing, access to medicine and coverage, transparency in procedures and billing

- **FINANCING AND RESPONSIBLE LENDING**
  Hedging fuel prices in airlines and commodities in agriculture, responsible lending in mortgages, consumer finance, and education, financial inclusion and literacy
How to Cite a SASB Standard Metric

• Cite the metric number followed by criterion number (such as “metric HC0201-10, criterion .02”)

• Information received from the SASB, which gave permission for use of their logo, and kindly provided a slide pack of which we have incorporated some slides
ESG Data and Databases

- Thomson Reuters Datastream Asset4
- Bloomberg ESG
- GMI Analyst
- MSGI ESG Research
What’s Ahead?
Will there be a revolution in reporting requirements to include sustainability?

• SASB accounting sustainability standards need acceptance by investors and adoption by corporations making filings

• SASB is aligning with other organizations, such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Committee (IIRC), to advance corporate disclosure on sustainability issues
To Learn More & Stay Informed

• Sign up for SASB updates on its website, [www.sasb.org](http://www.sasb.org)
• Watch SASB videos posted on [YouTube.com](http://www.youtube.com)
• 3BL Media has posted a webinar [The Evolution of Sustainability Reporting and Disclosure: A Primer for Communication Pros](http://www.youtube.com/watch?v=1234567890), which incorporates SASB into a discussion of other global reporting frameworks and changes coming in the near future
• Sign up for alerts to read sustainability articles in financial and accounting journals, newspapers and websites