



Improving Performance Through Standardized Sustainability Accounting

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

April 7, 2017

The Accounting Profession 100 Years Ago

Federal
recognition

1924

FASB

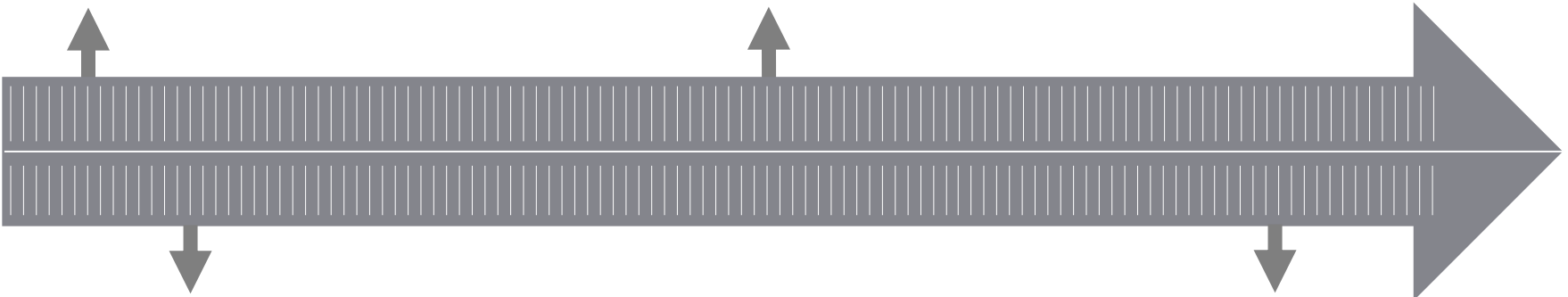
1973

1934

SEC

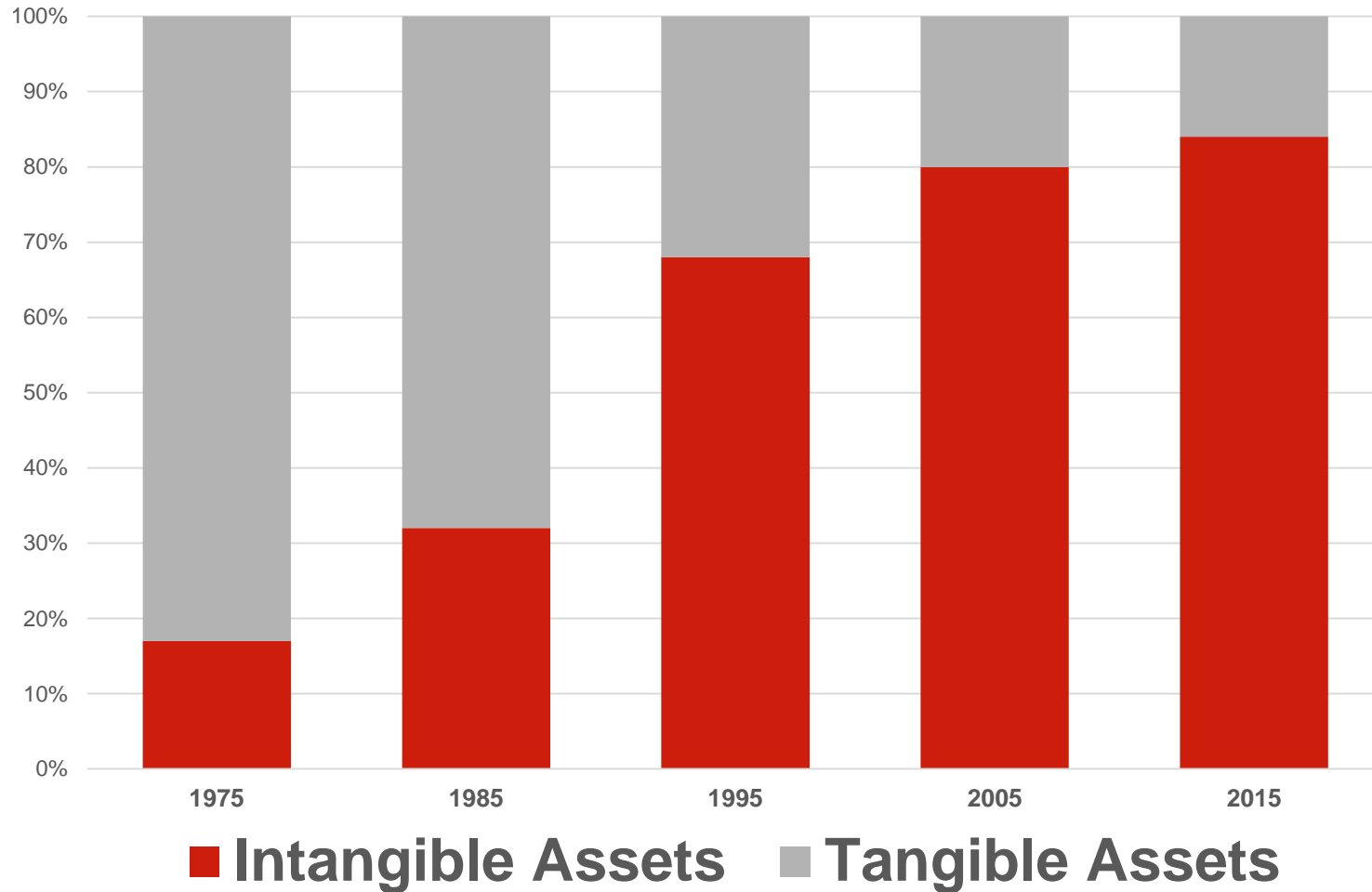
2002

PCAOB



The Rise of Intangible Assets

Components of S&P 500 Market Value

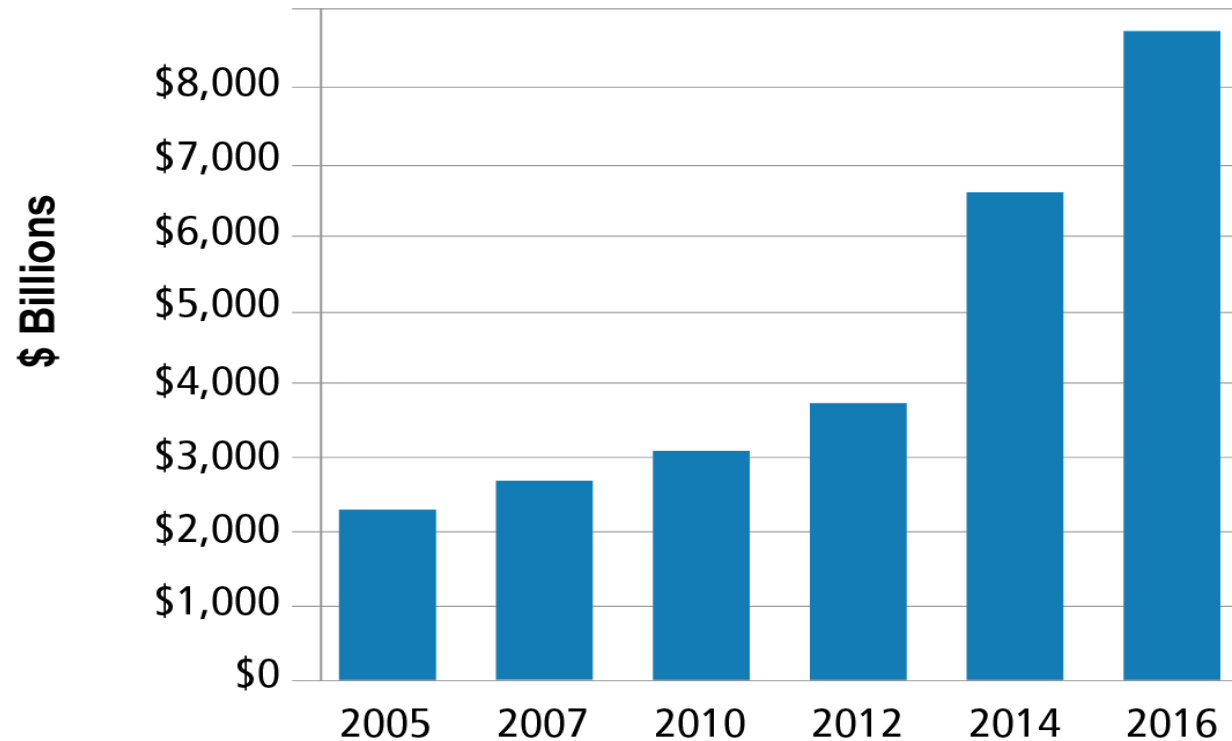


Source: Ocean Tomo



The Growing Importance of Sustainability to Institutional Investors

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

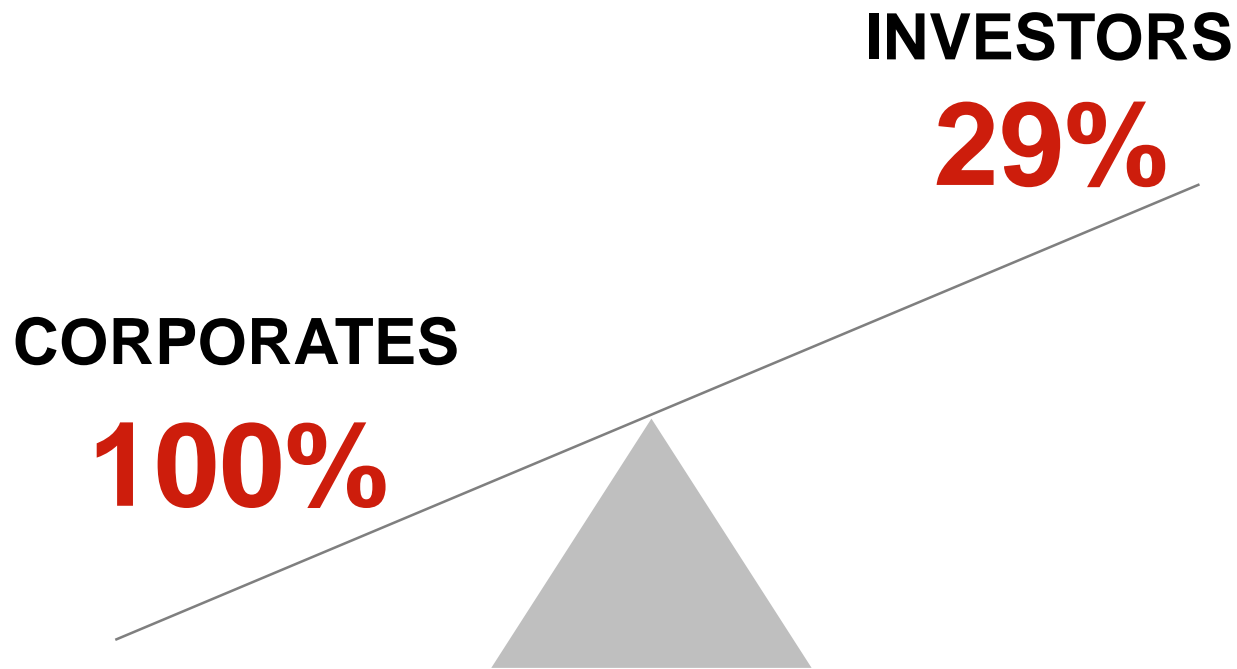


Adapted from US SIF Foundation



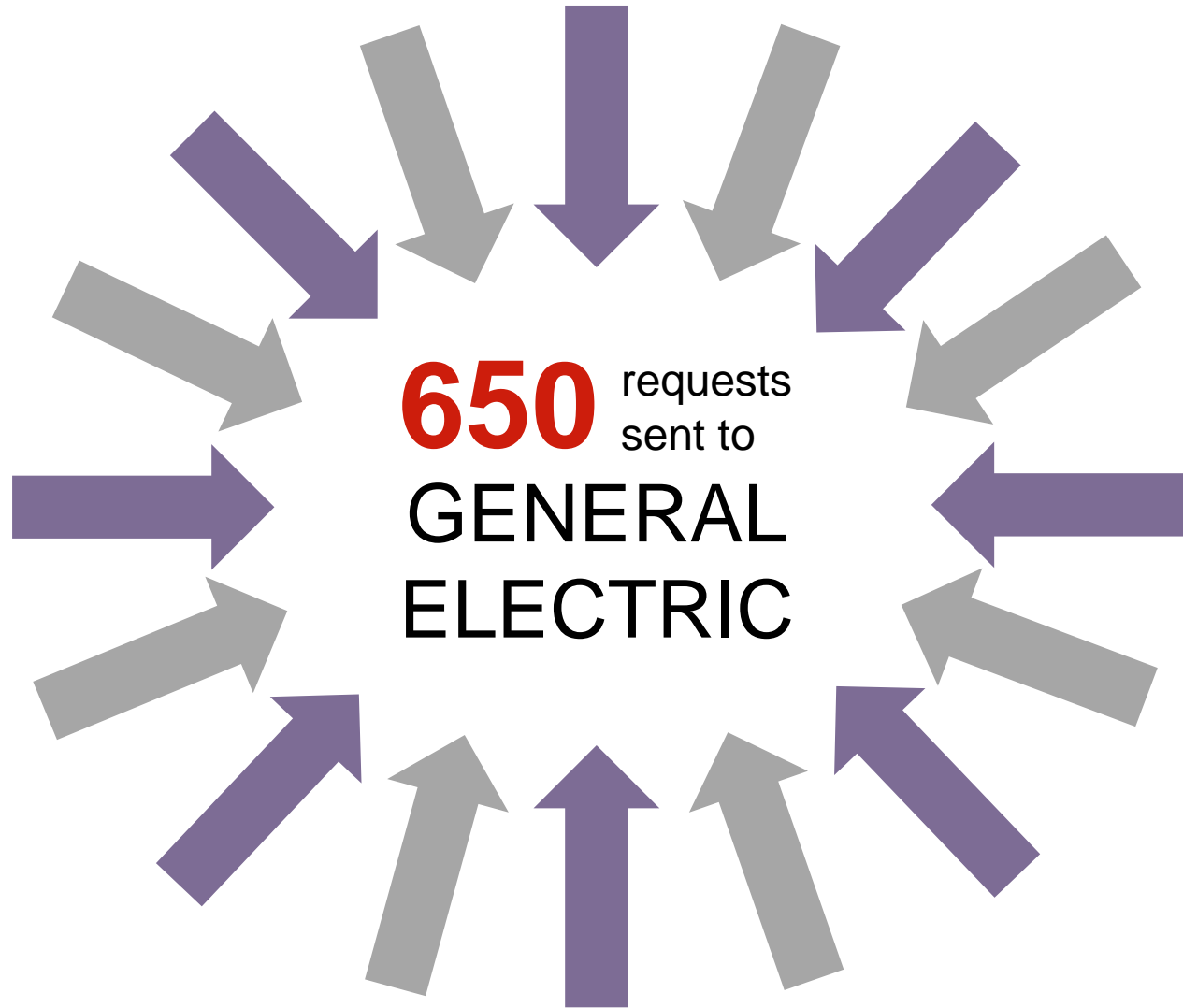
Investors Lack Confidence in the Quality of Sustainability Data

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



Source: PwC, ESG Pulse 2016, October 2016. Base: 28

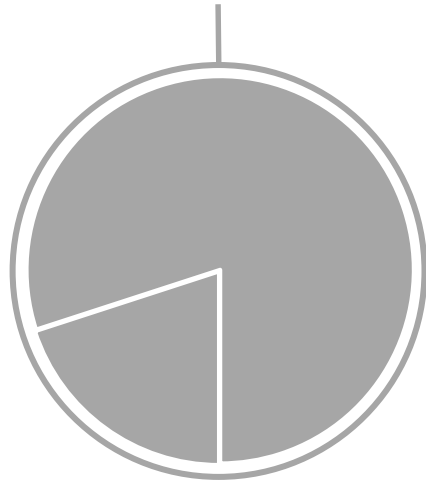
Companies Are Bombarded With Requests for Sustainability Data



Source: Ann R. Klee, The Environmental Forum, May/June 2015

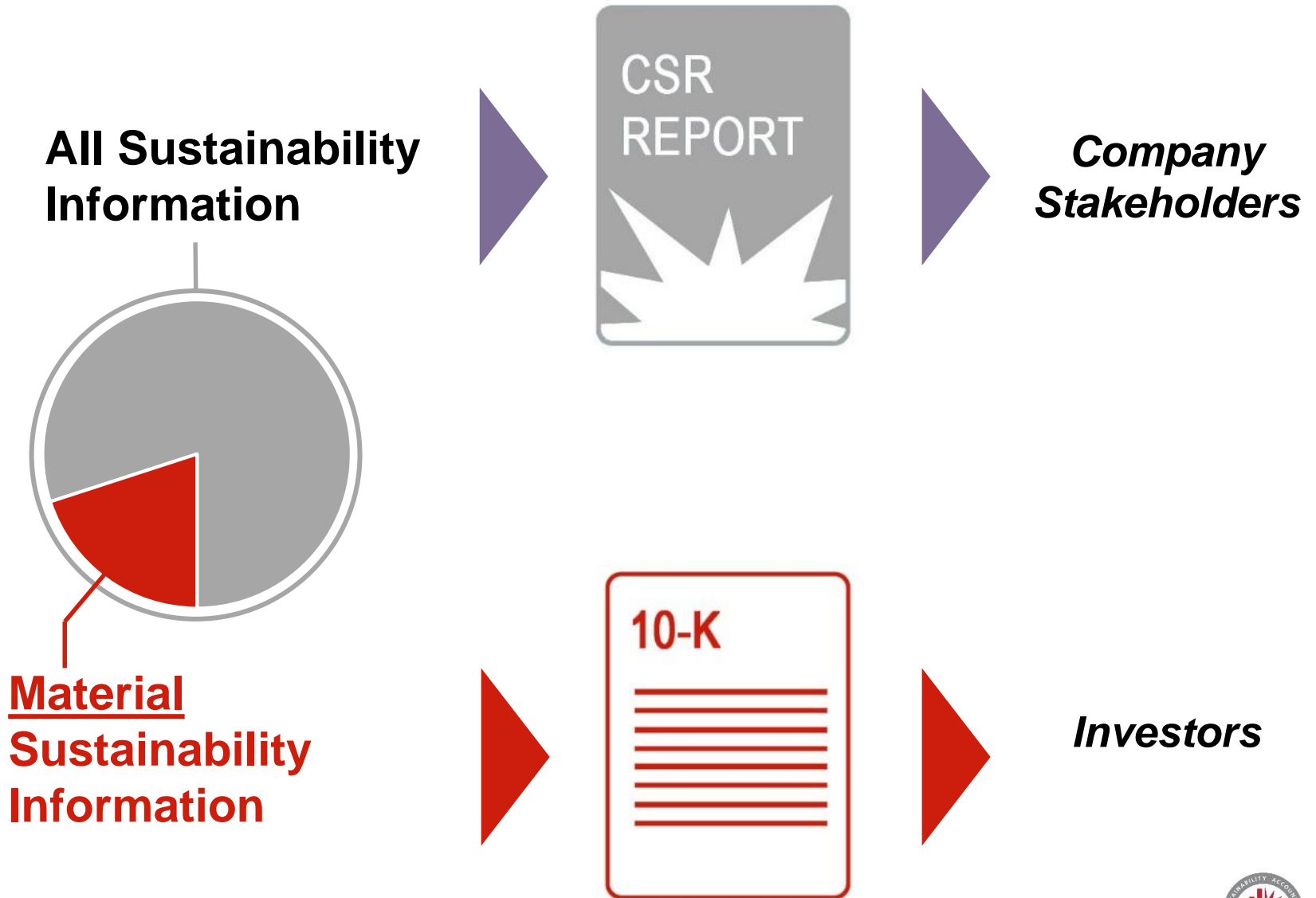
81% of the S&P 500 Issue Sustainability (CSR) Reports

**All Sustainability
Information**



***Company
Stakeholders***

Not All Sustainability Information is Material to Investors



From the Past 100 Years to the Next 100

Federal
recognition

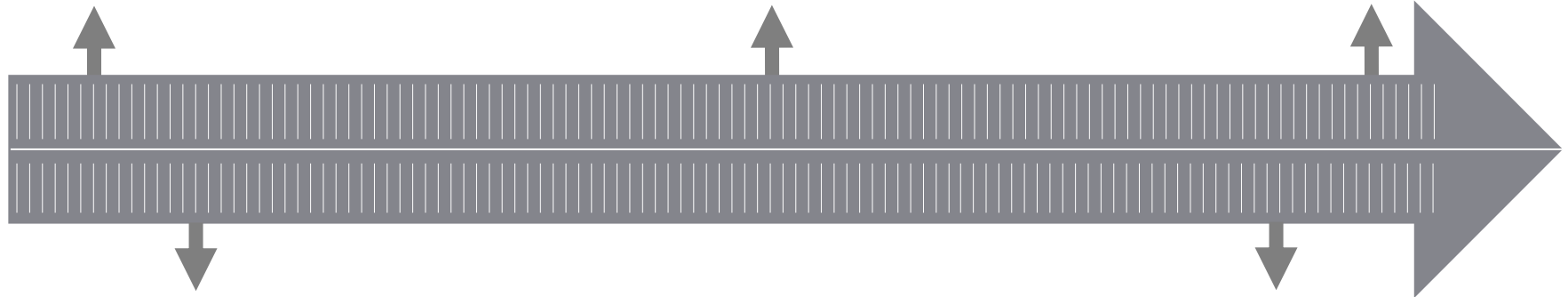
1924

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

Alan Beller

Senior Counsel
Cleary Gottlieb Steen & Hamilton

Robert Hirth, Jr.

Chairman – Committee of Sponsoring Organizations
of the Treadway Commission (COSO)

Curtis Ravenel

Global Head, Sustainable Business
and Finance – Bloomberg LP

Audrey Choi

CEO – Institute for Sustainable
Investing, Morgan Stanley

Shawn Lytle

President
Delaware Management Holdings, Inc.

Jean Rogers, PhD, PE

Chief Executive Officer & Founder
SASB (Ex-officio)

Jack Ehnes

CEO – CalSTRS

Ken Mehlman

Member & Global Head of Public Affairs
KKR

Robert K. Steel

Partner & CEO
Perella Weinberg Partners

Steven O. Gunders, CPA, MBA

Partner
Deloitte & Touche LLP (Retired)

Clara Miller

President – The F.B. Heron Foundation

Laura Tyson, PhD

Director, Institute for Business
and Social Impact
Berkeley Haas School of Business

Stephen Haggerty

Head of Americas Equity Research
Bank of America Merrill Lynch

Catherine Odelbo, MBA

Executive Vice President Corporate Strategy
and Partnerships – Morningstar Inc.

Elisse Walter, JD

Former Chairman – SEC

Robert H. Herz

Former Chairman – FASB

Kevin Parker

CEO – Sustainable Insight Capital Management

Edward D. White, JD

Managing Partner – Fahr LLC

Arnie Pinkston, JD

General Counsel
Allergan (Retired)



Broad Support from Leading Investors

\$20T

Assets Under
Management

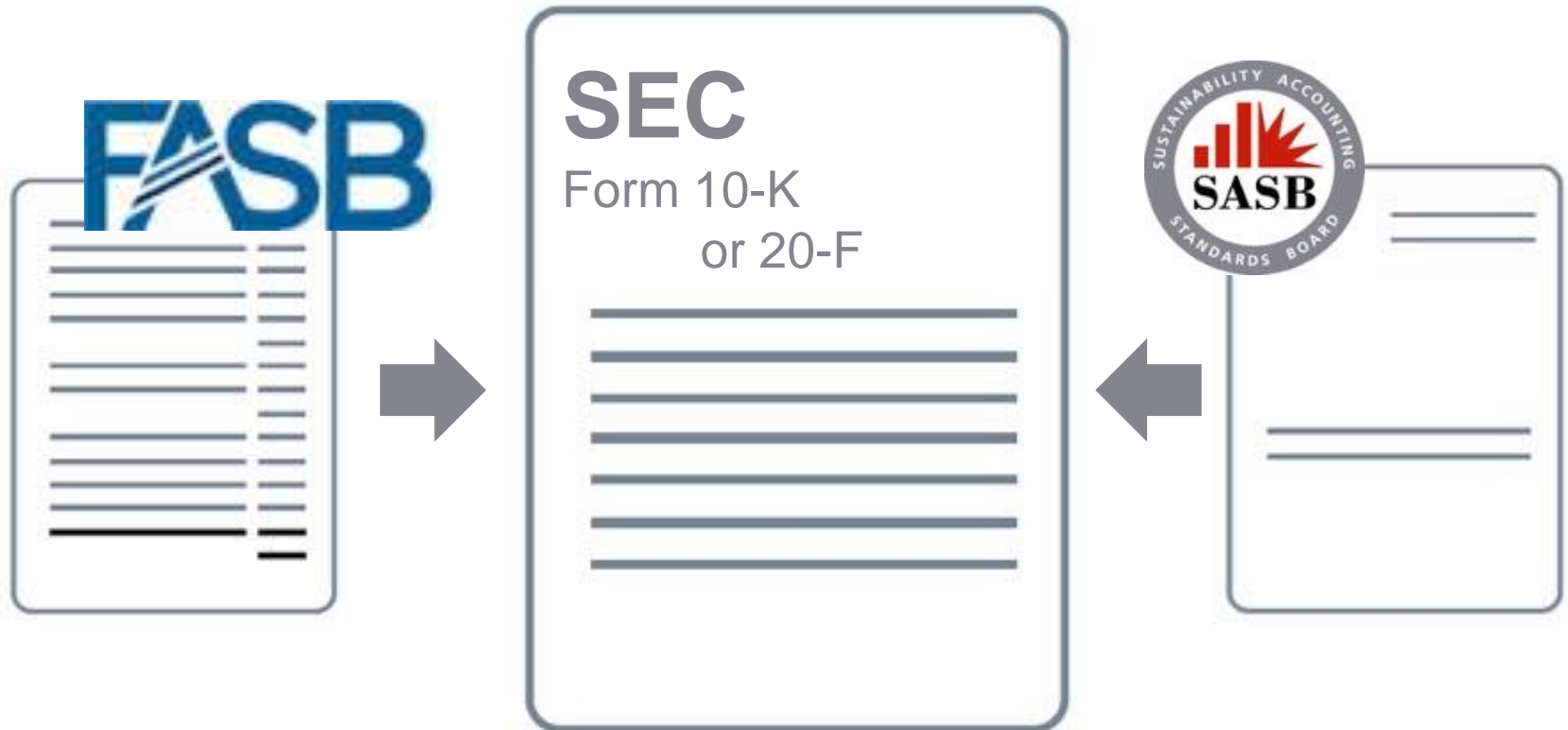
BLACKROCK®



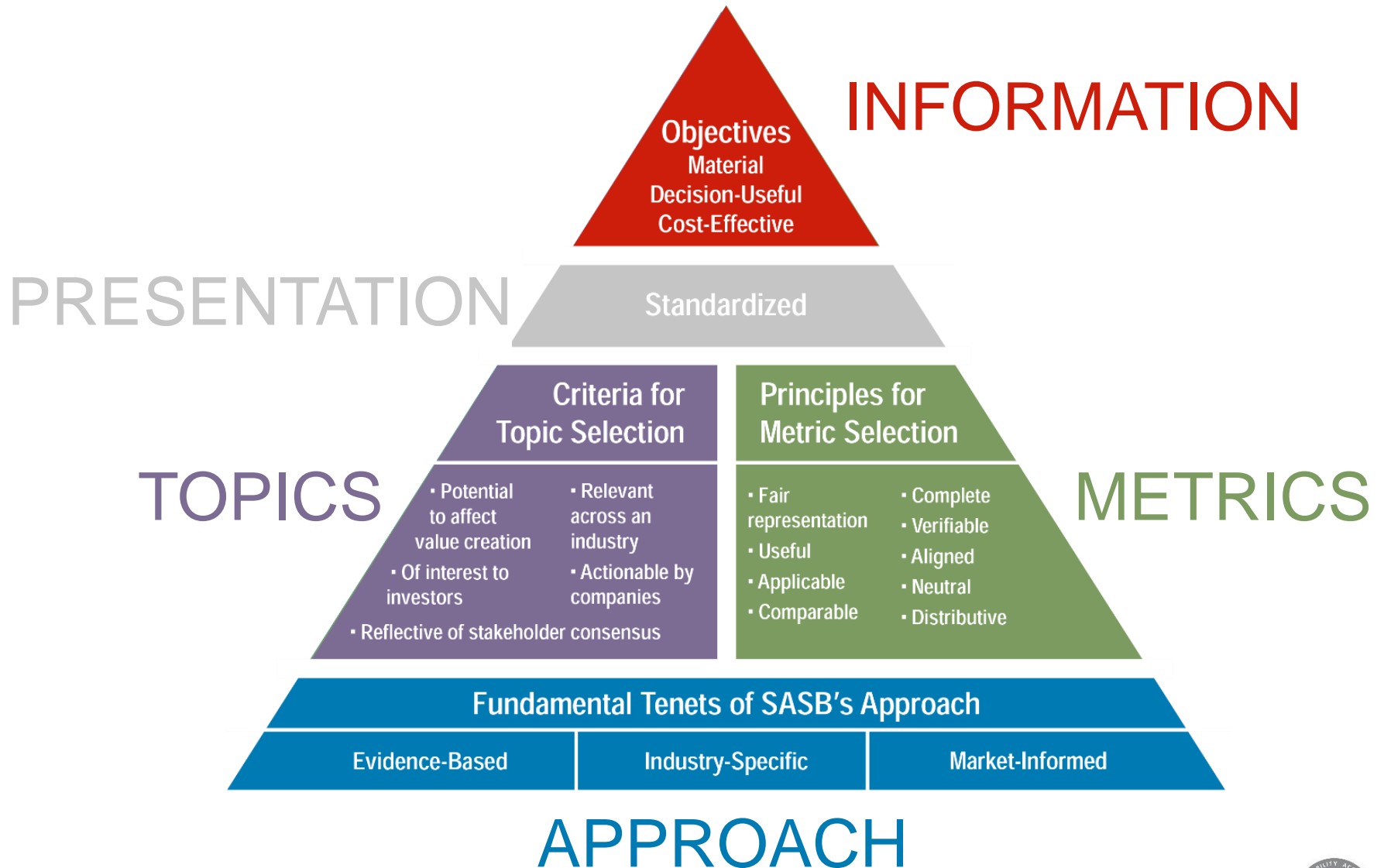
**STATE STREET
GLOBAL ADVISORS.**



SASB Standards Are Designed to Complement FASB/U.S. GAAP



The Core Objectives for SASB Sustainability Accounting Standards



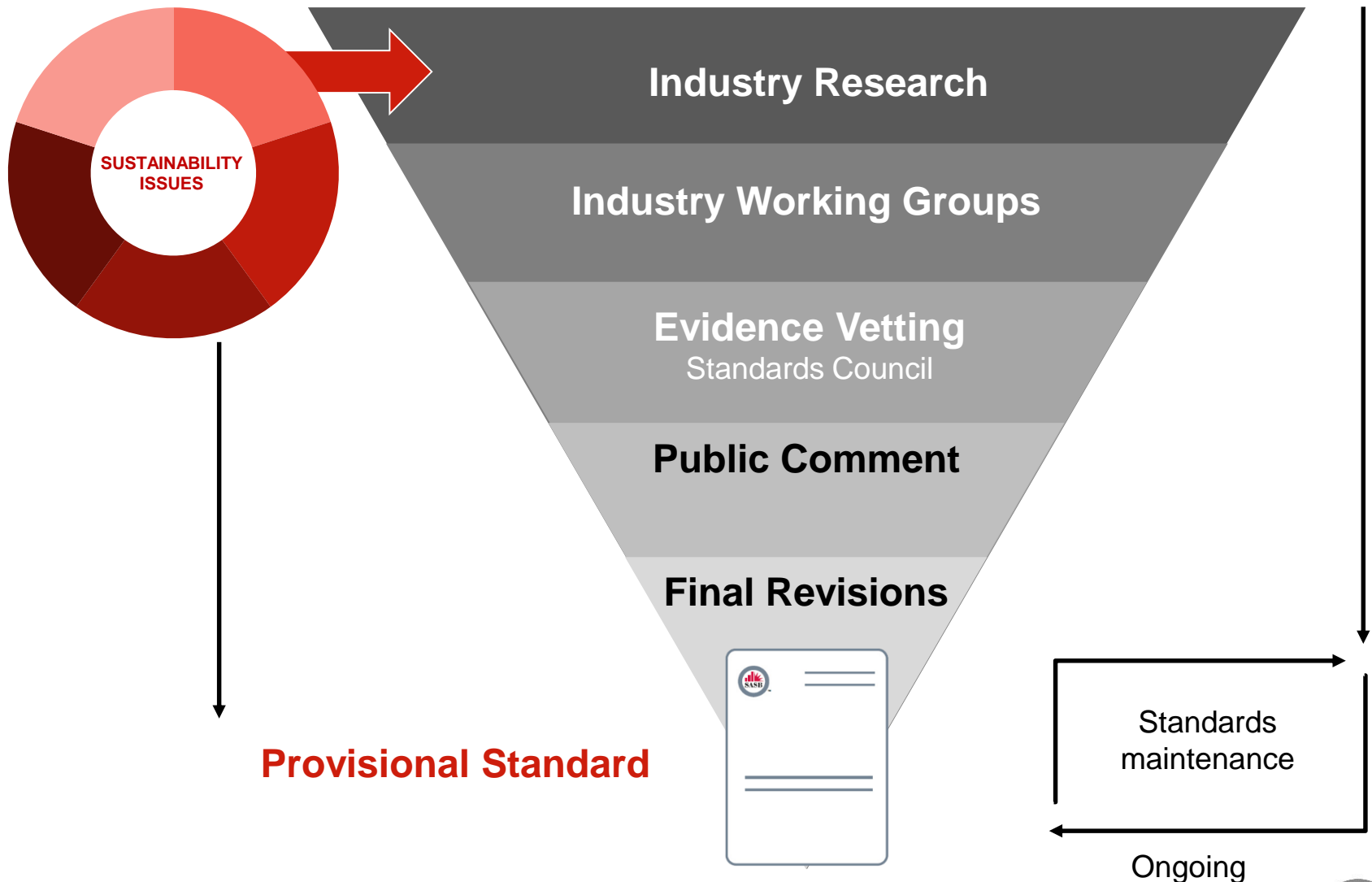
A Market-Driven Approach to Address Investors & Issuers Needs



- 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

- 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



Robust Standards Designed to Provide Decision-Useful Information



Industry-specific disclosure topics

Table 1. Material Sustainability Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC
Greenhouse Gas Emissions	Gross global Scope 1 emissions, percentage covered under a regulatory program, percentage by hydrocarbon resource
	Amount of gross global Scope 1 emissions from: (1) combustion, (2) flared hydrocarbons, (3) process emissions, (4) directly vented releases, and (5) fugitive emissions/leaks
	Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets
Air Quality	Air emissions for the following pollutants: NO _x (excluding N ₂ O), SO _x , volatile organic compounds (VOCs), and particulate matter (PM)
Water Management	Total fresh water withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress
	Volume of produced water and flowback generated; percentage (1) discharged, (2) injected, (3) recycled; hydrocarbon content in discharged water

Technical protocol for compiling data; activity metrics for normalization

Accounting metrics for each disclosure topic

Reserves Valuation & Capital Expenditures

Description

Estimates suggest that E&P companies are unlikely to be able to extract a significant proportion of probable oil and gas reserves if GHG emissions are to be controlled to limit global temperatures to 1.5 degrees Celsius. Companies with more carbon-intensive reserves and production and higher emissions, together with improved competitive energy technologies, could lower or reduce the growth in global demand, and therefore reduce the need for gas products. Extraction costs could increase with regulations that put a price on GHG emissions. Regulatory actions that are more stringent or those focusing on industries with high emissions, could impair asset values substantially over time. Stewardship of capital resources and production decisions that take into account near-term risks related to climate change mitigation actions can help prevent current asset impairment and ensure long-term asset and creditworthiness.

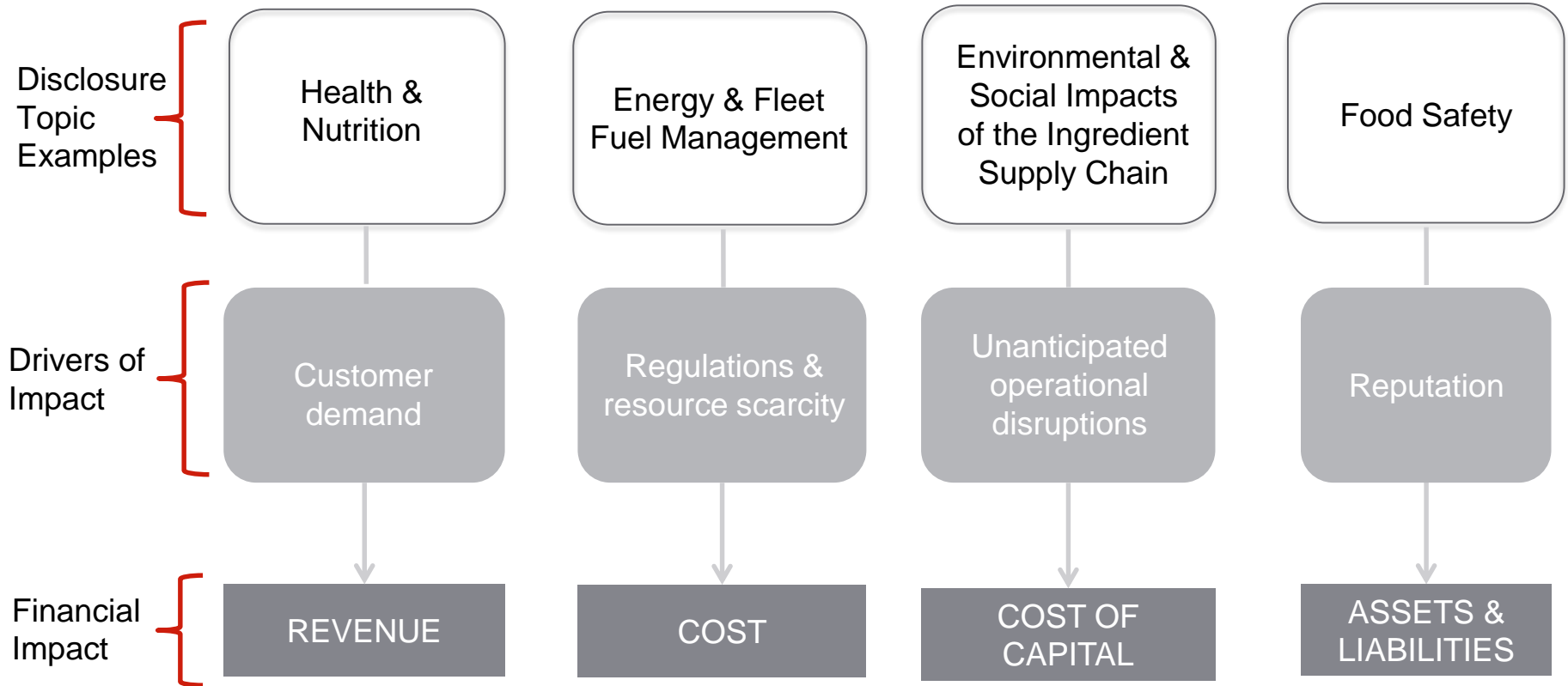
Accounting Metrics

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

.122 The registrant shall conduct an analysis of its reserves to determine how several future price scenarios could affect its determination of whether the reserves are proved or probable.



Sustainability Topics and Financial Impact

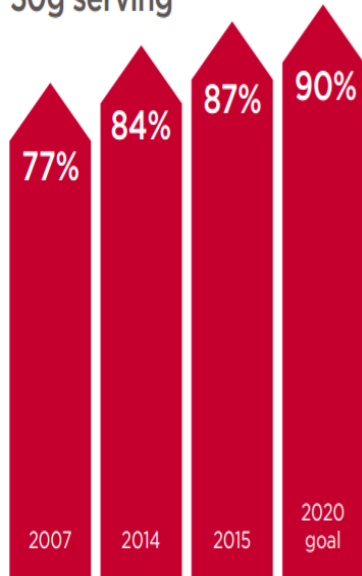


Need for Consistent & Comparable Data

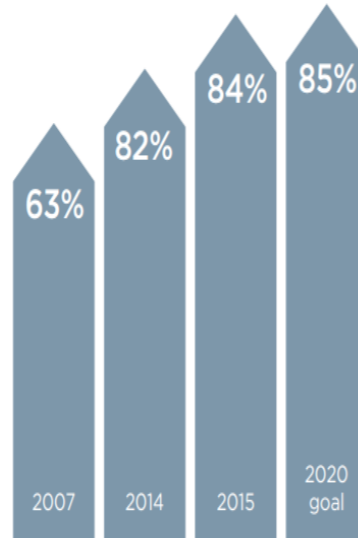
SASB METRIC: Health & Nutrition - Revenue from products labeled and/or marketed to promote health and nutrition attributes

DISCLOSURE OF COMPANY A

Percent of cereals with 10g or less of sugar per 30g serving



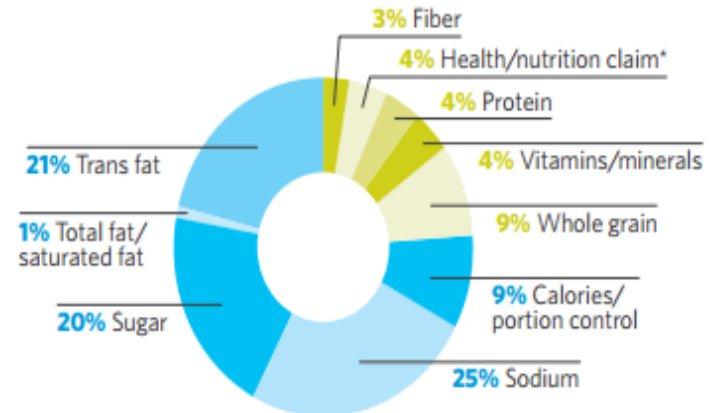
Percent of cereals with 150mg or less of sodium per 30g serving



DISCLOSURE OF MAJOR COMPETITOR

Drivers of nutritional improvements

U.S. retail products FY05-FY15



Decreasing nutrients of concern: 77%

Increasing positive nutrients: 23%

*Health/nutrition claim includes gluten-free and heart health claims.

Comparing Fundamentals, Competing on Performance

Company Name & Ticker

Crispy Chips Inc.	CC
Wow Foods Co.	WFC
Century Ingred.	CI
Mouthful Brands	MB

<u>Water Management</u>		<u>Food Safety</u>	
Total Water Consumed	% in stressed regions	Food Recalled	Audit Conformance Rate
Th m ³	%	Th metric tons	%

4,855	20%	1.3	96%
3,217	10%	5.8	63%
52,809	22%	9.3	78%
5,062	31%	.4	99%

Average
Median

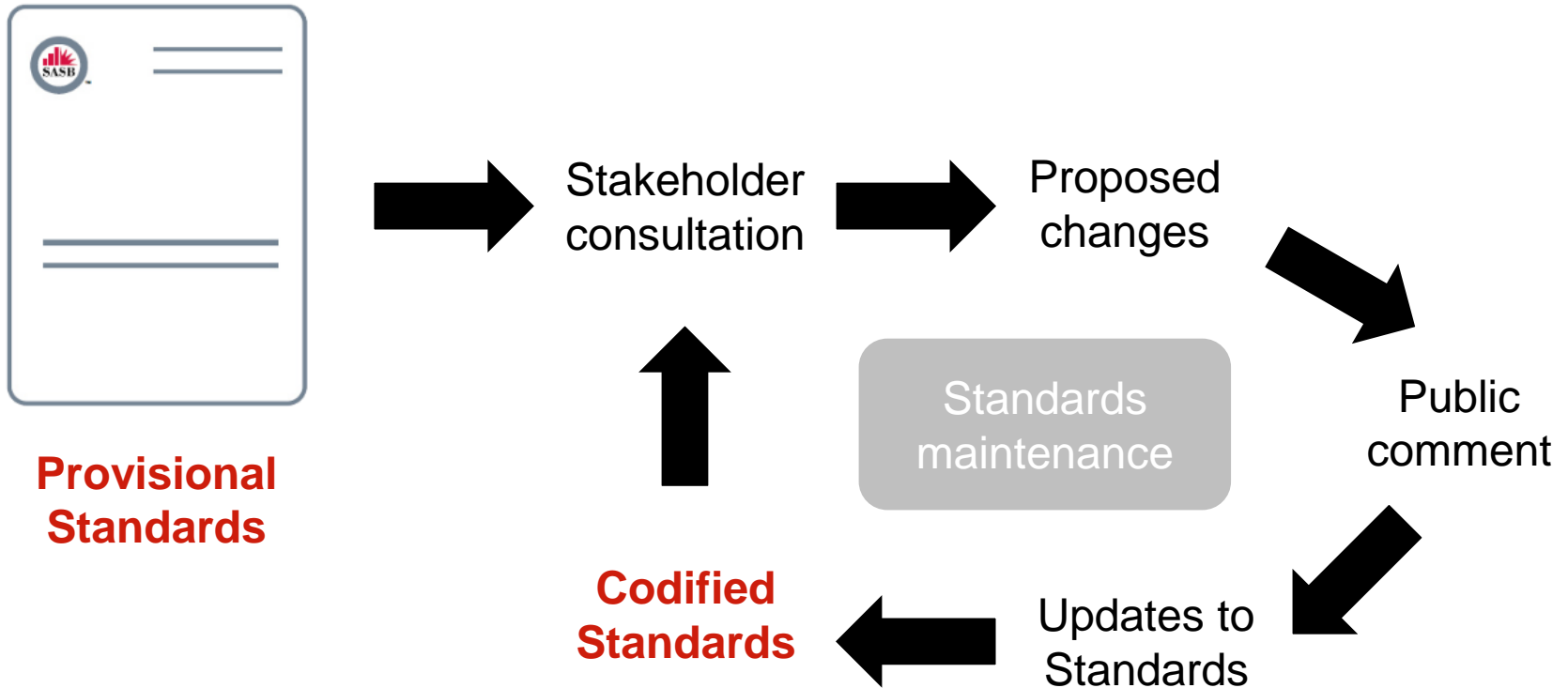
16,485.7	21%	4.2	84%
4,958.5	21%	3.6	87%

Benefits of Industry Benchmarking

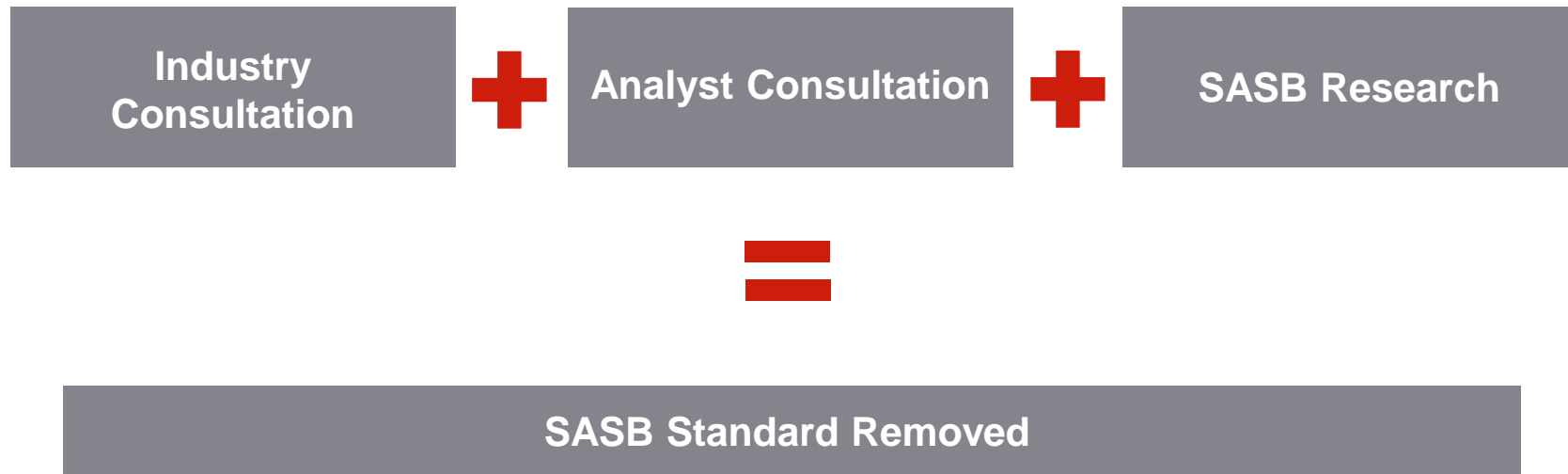
SASB metric: (1) Total water withdrawn and (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress



Ongoing Standards Development Process



The Evolution of SASB Standards – Product of Market Participation



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)



Thank You!

Questions?

Contact Us

Levi Stewart, CPA – levi.stewart@sasb.org

Nicolai Lundy – nicolai.lundy@sasb.org





Accounting for a Sustainable Future

APPENDIX

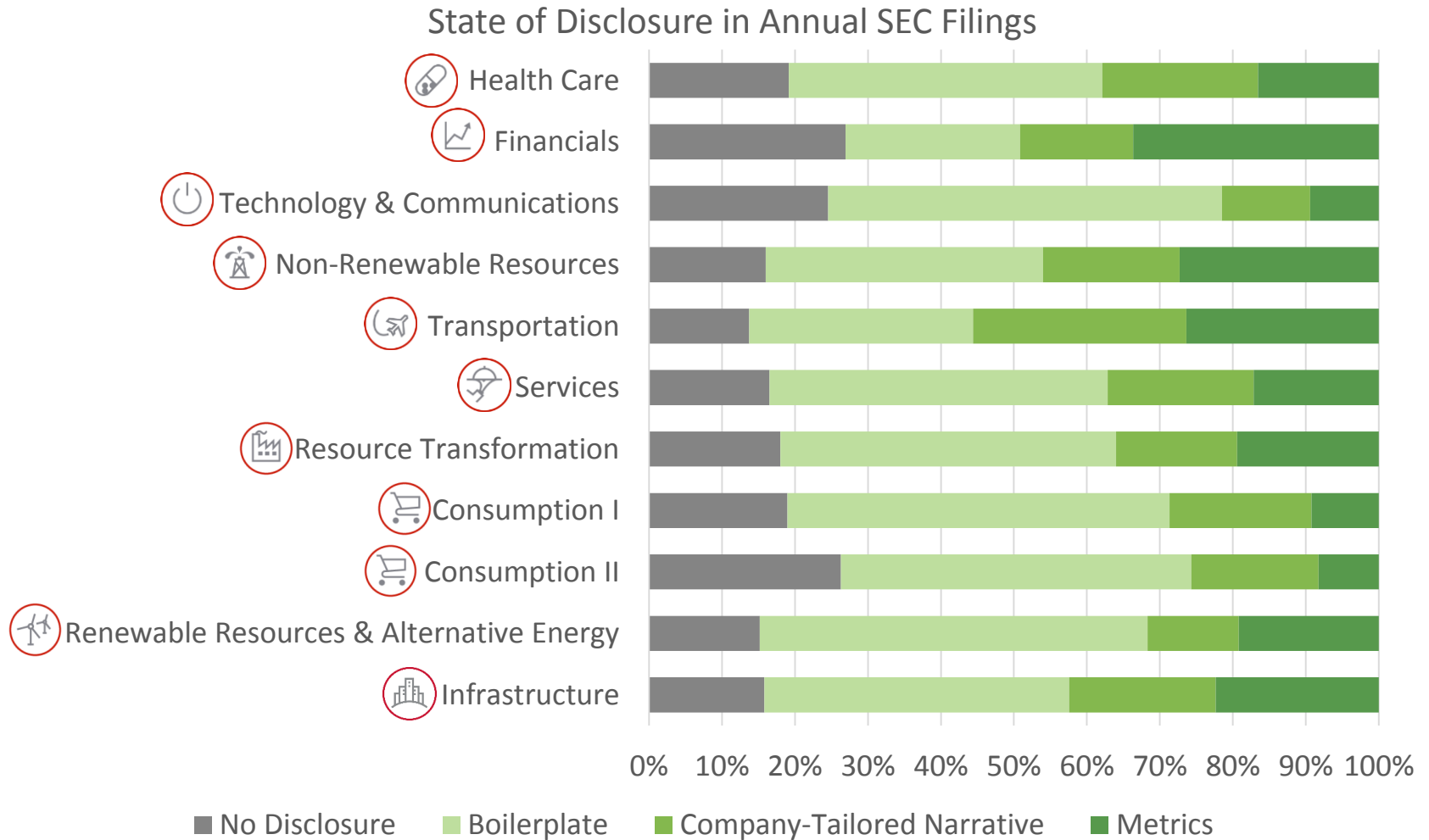


SASB's Investor Advisory Group – Representing \$20T AUM



Current State of Disclosure on SASB Topics in the Form 10-K

Opportunity to transform disclosure from boilerplate to performance-based

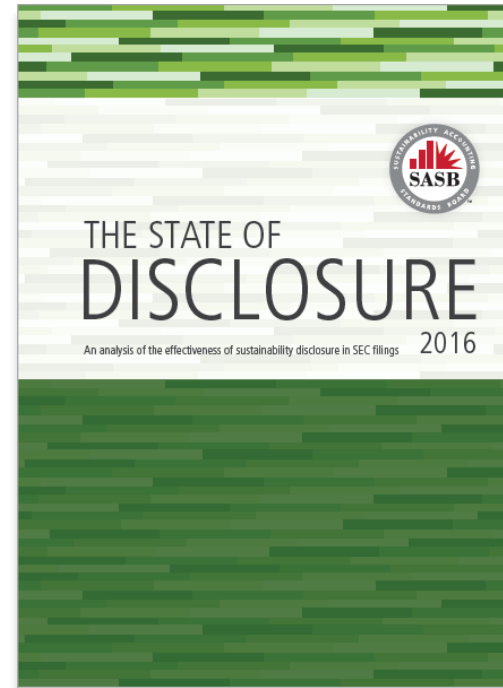


Source: SASB analysis performed between May and August 2016 using the latest annual SEC Filings (i.e. Form 10-Ks and 20-Fs) for the top companies, by revenue, per SICs industry (maximum of 10 companies).

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



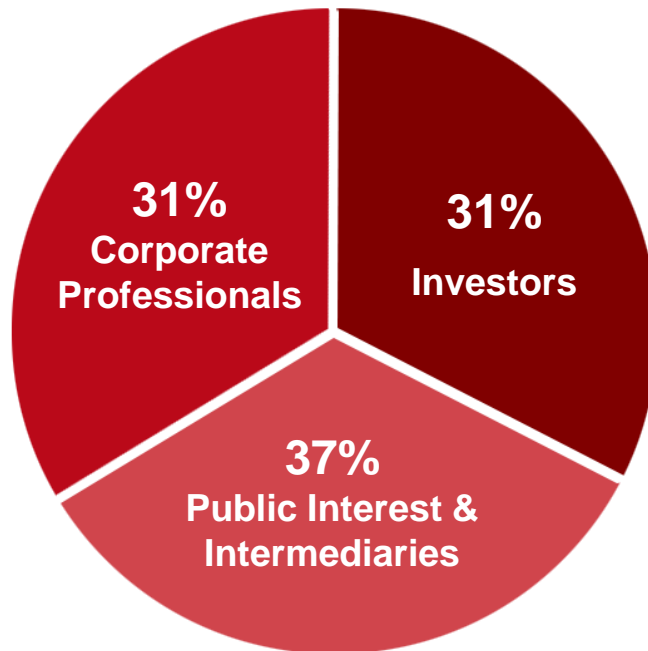
Balanced Participation

SASB's standards-setting process is inclusive and informed by industry expertise



SASB INDUSTRY WORKING GROUPS REFLECT BROAD-BASED INTEREST

IWG Participation



>2,800

PARTICIPANTS

\$23.4T

ASSETS UNDER MANAGEMENT

\$11.0T

MARKET CAPITALIZATION

