INTRODUCTION

This document describes the Sustainability Accounting Standards Board’s (“SASB”) approach to determining materiality for the purposes of standard setting. This approach is informed by the provisions of the federal securities laws and the regulations of the Securities and Exchange Commission (“SEC”) thereunder, including in particular Regulation S-K; opinions of the U.S. Supreme Court; and interpretations and guidance issued by the SEC. Together with robust vetting and verification, this is a conservative and rigorous approach. Specifically, SASB’s standard-setting process is evidence-based, market-informed, and validated through research and quantitative analysis focused on determining whether performance on a given topic would affect the financial condition and operating performance of the company, and thereby be reasonably likely to affect the investment or voting decision of a reasonable investor. With this process, SASB is able to identify topics that are reasonably likely to be material to investors and therefore warrant inclusion as a topic for standardized disclosure, and thereby improve the decision-usefulness of information contained in SEC filings (such as Forms 10-K and 20-F).

This bulletin details the approach to materiality that SASB’s technical staff adheres to when assessing the potential for material impacts relating to a sustainability topic under the securities laws for the purpose of informing standard setting. The determination of materiality and duty to disclose lies with corporations, which are subject to federal securities laws.
HOW MATERIALITY INFORMS STANDARDS DEVELOPMENT

Materiality, as defined by the courts, recognizes that some information is important to investors in making investment and voting decisions, while other information is not. This concept is applied pursuant to the federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934 and regulations thereunder, as interpreted and enforced by the SEC. Thus, materiality underpins the rationale for corporate disclosures in the U.S., which is why SASB uses it to guide our process when surfacing the environmental, social, and governance topics that are reasonably likely to have material impacts on the financial condition or operating performance of companies in a given industry.

Although we do not prescribe what constitutes a material disclosure for any company or industry (see “The Reporting Entity Determines Materiality” sidebar), our process serves to establish a basis for standard-setting that is aligned with existing U.S. federal securities law. This rigorous, dynamic approach (see Figure 1) is rooted in evidence, shaped by the market, and subject to quantitative testing and qualitative vetting.

The Reporting Entity Determines Materiality

The determination of materiality and disclosure obligations for a given company is the responsibility of the corporation, consistent with the Supreme Court’s explanation that the determination of materiality is an “inherently fact-specific finding.”

As a private sector body, SASB does not and cannot require disclosures or mandate disclosure standards, nor does it purport to do so. Rather, SASB develops standards that assist companies in fulfilling existing regulatory requirements.

SASB’s staff currently consists of several analysts focused on each major sector. Each analyst covers five to 10 industries within the sector. SASB analysts are immersed in industry news, conduct independent research, and maintain relationships with the top companies and analysts in their sector in order to identify emerging issues. SASB’s analysts are the first point of entry for topics to be surfaced, analyzed, and vetted with respect to materiality. The process delineated in Figure 1 shows the steps that our analysts go through to assess materiality and test the reasonableness of the assumptions. Every topic that appears in a SASB standard is subject to this process. By strictly following this process, SASB is able to identify and standardize disclosure for the sustainability topics that are most important to investors—those that are reasonably likely to have material impacts on companies in an industry. For example, recent high-profile events have led to increased scrutiny of the Commercial Banks industry and how its companies align employee incentives with customer welfare; SASB analysts are considering this topic for inclusion in the Commercial Banks industry by evaluating evidence, vetting the materiality, and testing the assumptions (this topic is already addressed in the Consumer Finance industry) to ensure that it stands up to a thorough analysis. Our analysts apply the same treatment to all issues, regardless of how and when they arise; i.e., whether they are suggested directly by investors and other stakeholders or identified by our analysts as emerging issues.

Several steps in the process are explicitly underpinned by key legal concepts with respect to materiality consistent with U.S. securities law, as detailed below. (See Figure 2.)

**Figure 2. Evidence, Objectives, and Legal Basis for SASB Methodology**

Each step is underpinned by a legal consideration consistent with U.S. securities law.

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In order to determine if a topic is to be included in SASB’s standards, SASB analysts undergo a series of steps designed to identify those industry-specific issues that are reasonably likely to have material impacts and therefore warrant standardized disclosure. Each of these steps is discussed in detail in the remainder of this section.

1. SURFACING ISSUES

SASB analysts identify sustainability topics in each industry that would be of interest to a “reasonable investor” by scanning and being responsive to the market landscape for issues that emerge from the “total mix” of information. This approach is rooted in the U.S. Supreme Court’s definition of materiality. (See “Step 1: Legal Considerations” sidebar.) For this step, along with all others, SASB endeavors to parallel the logic underlying U.S. securities law to identify only the industry-specific sustainability factors that are most likely to have material impacts on companies in an industry and that therefore warrant standardized disclosure. It is the responsibility of every SEC registrant to determine the factors that are material to its business.

To assess each topic within the context of the “total mix,” analysts evaluate it against five factors:

- **Financial Impacts & Risk:** Analysts assess the likelihood that corporate performance on the topic will have a direct and measurable impact on near- or medium-term financial condition or performance.

- **Legal, Regulatory & Policy Drivers:** Analysts evaluate the topic in light of how existing, evolving, or emerging regulation may influence company actions and affect financial performance by forcing the internalization of costs associated with compliance and/or by creating upside opportunity associated with new products, markets, or business models that become viable under a different regulatory regime.

- **Industry Norms & Competitive Drivers:** Analysts consider how peer actions and disclosure on industry issues may create investor pressure for higher standards of performance related to the management and disclosure of certain sustainability topics.

- **Investor/Stakeholder Concerns & Social Trends:** Analysts assess the likelihood that investors and other stakeholders will raise concerns that could influence medium- or long-term financial or operating performance; or create acute short-term financial issues.

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Step 1: Legal Considerations

The federal securities laws and regulations seek to protect investors by requiring publicly listed companies to make required disclosure. The disclosure requirements are in turn tied to the concept of material information—that which would be necessary for a reasonable investor to make informed investment or voting decisions. The U.S. Supreme Court defines material information as presenting "a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix’ of information made available.”

Assessing and disclosing the materiality of sustainability impacts can be challenging for registrants in preparing their filings because guidance for doing so is not yet well-developed. Judgments by companies as to materiality under the federal securities laws should not rely exclusively on financial or other quantitative thresholds. In other words, companies must consider qualitative as well as quantitative factors. While the SEC has made this point explicitly in relation to financial statements, its underlying logic underpins materiality determination and disclosure requirements generally.

impacts through loss of license to operate, reputational damage, changes in customer
demand, or disruptions to business viability.

- **Opportunities for Innovation:** Analysts assess the likelihood that new products and
  business models can address industry sustainability challenges related to the topic and
  drive market expansion or have the potential for a disruptive change that provides
  new sources of competitive advantage.

The sources of information SASB uses to assess these five factors are outlined in Figure 3. This
data-driven analysis enables SASB to formulate an initial hypothesis about the likely materiality
of the topic based on whether it would be of interest to a “reasonable investor” and
affect their investment (or voting) decisions in consideration of the total mix of information
available to them.

**KEY QUESTIONS**

The following represents the key legal ques-
tions SASB analysts consider in this first step
to help determine if a standard is warranted:

- Is the issue important to the “total mix”
of information?
- Would it likely be of interest to the
  “reasonable investor”?

If a topic emerges on the basis of one or
more of the five factors, it is established that
it is present in the “total mix” of information
and warrants further consideration of the
financial materiality in the next step.

**2. MATERIALITY ASSESSMENT**

Issues that emerge from Step 1 are evaluated
in Step 2 to understand the links between
performance on the sustainability topic
and specific financial drivers. SASB analysts
conduct in-depth research to gather evidence
on whether the topic potentially presents
one or more known trends, events, or
uncertainties with an actual or reasonably
likely effect on the financial condition or
operating performance of companies in an
industry.2 This approach is aligned with
the requirements of Item 303 of Regulation S-K.
(See “Step 2: Legal Considerations (Part I)” sidebar.) As mentioned in the previous
step, SASB endeavors to parallel the logic

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2 17 C.F.R. §229.303 – Item 303, Management’s discussion and analysis of financial condition and results of operations

**Step 2: Legal Considerations (Part I)**

The concept of materiality underpins the
financial reporting obligations of publicly
listed companies in the U.S., such as those
included in Regulation S-K, which sets forth
the specific line-item disclosure requirements
for Form 10-K and other SEC filings. In
addition to the line-item requirements,
companies are required to describe known
trends, demands, events, and uncertainties
that are reasonably likely to have a
material impact on business outcomes in
Management’s Discussion and Analysis of
Financial Condition and Results of Operations
(MD&A).3 One of the primary purposes of this
section is to “enhance financial disclosure
and provide the context for analyzing a
company’s financial information.”4 In
MD&A, companies must “provide investors
and other users with material information
that is necessary to [form] an understanding
of the company’s financial condition and
operating performance, as well as its
prospects for the future.”5 For example, Item 303 of Regulation S-K states that MD&A
“shall focus specifically on material events
and uncertainties known to management
that would cause reported financial
information not to be necessarily indicative
of future operating results or of future
financial condition.” Finally, registrants
are required to disclose, in addition to the
information expressly required, “such further
material information, if any, as may be
necessary to make the required statements,
in light of the circumstances under which
they are made, not misleading.”6

- 17 C.F.R. §229.303 – Item 303, Management's discussion and analysis of financial condition and results of operations.
- 17 C.F.R. §230.408 and §240.12b-20, Additional information.
underlying U.S. securities law to identify only the industry-specific sustainability factors that are most likely to have material impacts on companies in an industry and that therefore warrant disclosure standards.

In conducting our extensive research to identify evidence of financial impacts associated with sustainability issues, SASB relies on robust and diverse sources of credible evidence. Analysts primarily analyze two types of information: industry-level and company-specific data:

- **Industry-level information** provides the financial and regulatory context in which companies in the industry operate, as well as context on how the industry as a whole is affected by, or impacts, sustainability issues (e.g., large contributors to greenhouse gases, industries with high injury or fatality rates, etc.). This information is drawn from credible sources such as databases of U.S. government agencies (environmental, safety data), industry research products, academic studies, and financial publications, among others. SASB analysts conduct additional analysis of data where necessary to assess industry performance relative to other industries and over time. The context of the industry's impact on environmental or social issues provides information on whether the industry is currently, or likely to be in the future, a focus of regulatory, customer, or community pressures that would affect company financial performance.

- **Company-specific information** provides tangible examples of actual or potential impact on company valuation or financial performance resulting from sustainability issues (e.g., large or frequent fines faced by companies, cost savings through implementation of energy efficiency measures, reputational and market damage from customer or stakeholder action, etc.). This information is derived from company reporting through sustainability reports and websites as well as regulatory filings, earnings call transcripts, news media, and case studies from NGOs and research organizations, among others.

Taken together, this provides an overall picture of whether performance with respect to the topic has the potential to affect the financial condition and operating performance of companies in an industry. As far as possible, in order to ensure that the disclosure topics identified are relevant for an industry over time, SASB analysts evaluate evidence based on the underlying industry structure, regulatory environment, and financial drivers of an industry; they also focus on long-term trends rather than infrequent events at a specific corporation. This research is supplemented by evaluating current affairs in an industry or sector to ensure emerging sustainability topics are included in the standards as they become relevant. (See “Explore SASB Research” sidebar.) The ongoing process of evaluating evidence for materiality also serves to validate and confirm continued inclusion of issues in the standards for each industry.

**Step 2: Legal Considerations (Part II)**

In weighing its duty to disclose information in MD&A, management must make two assessments where a trend, demand, commitment, event or uncertainty is known:

1. Is the known trend, demand, commitment, event or uncertainty likely to come to fruition? If management determines that it is not reasonably likely to occur, no disclosure is required.

2. If management cannot make that determination, it must evaluate objectively the consequences of the known trend, demand, commitment, event, or uncertainty on the assumption that it will come to fruition. Disclosure is then required unless management determines that a material effect on the registrant's financial condition or results of operations is not reasonably likely to occur.

When assessing sustainability issues with the potential for material financial impact, SASB considers the two-part test that the SEC has established for companies to determine whether known trends, demands, commitments, events, or uncertainties should be disclosed in the MD&A section of Form 10-K.¹ (See “Step 2: Legal Considerations [Part II]” sidebar.) Through this process, analysts assess whether a surfaced topic warrants addition to, removal from, or revision of the industry standard.

In conducting their research, SASB analysts identify specific types of financial impacts associated with a sustainability topic and map the topic to those impacts with an assessment of their likelihood and intensity. These financial impacts include:

- **Revenue/cost:** Projected revenue, earnings, market share, and/or pricing power can be impacted by material sustainability factors (e.g., shifting customer demand or regulatory impacts on end use that give rise to competing products and services and innovation). Costs can be impacted by operational efficiency (energy, labor, supply chain), by investments needed for compliance with sustainability-related regulation, by penalties for non-compliance, or through the availability or price of raw materials or other inputs for production, which may be affected by resource scarcity or internalization of environmental or social externalities (e.g., increasing electricity prices driven by investments in low-carbon utility infrastructure).

- **Assets/liabilities:** Sustainability factors can affect both tangible and intangible assets. For example, water scarcity can impair agricultural and grazing land as well as nearby processing facilities, whereas labor and community relations can impact brand value. Greater workforce diversity is important for innovation and helps companies understand the needs of their diverse and global customer base, enabling them to design desirable products and services and communicate effectively with customers, potentially enhancing patents, trademarks, brand value, and more. Liabilities can also be impacted by weather-related events, while performance issues, litigation, and regulatory actions related to sustainability issues can create contingent liabilities.

- **Risk profile:** A company’s financial condition and market valuation can be impacted by sustainability factors through the increased cost of capital or limited access to capital. For example, unanticipated operational disruptions or increased resource volatility could increase company risk premiums. Or concerns around an industry’s environmental performance and associated risks can create industry-wide divestment risks. Better disclosure enables a more complete understanding of exposure to risk and more accurate pricing of risk associated with volatile performance and/or industries with an unstable outlook.

**KEY QUESTIONS**

The following represents the key questions SASB analysts consider in this second step to help determine if a standard is warranted:

- How strong is the evidence to support a conclusion that this topic relates to a known trend or uncertainty that is reasonably likely to occur? If the evidence is strong, what is the likelihood that it will have a material effect on companies in the industry?

- What are the specific financial impacts that can be identified and what are the drivers of these impacts?

¹ SEC, Management’s Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures, Release No. 33-6835 (May 18, 1989) [54 FR 22427]
3. CHARACTERIZING NATURE OF FINANCIAL IMPACT

Having evaluated the evidence for financial impact associated with a sustainability issue, and having determined the likely channels of impact, SASB analysts then characterize the nature of the impact by assessing its probability and magnitude. This approach aligns with a test established by the U.S. Supreme Court. (See “Step 3: Legal Considerations” sidebar.) As mentioned in the previous steps, SASB endeavors to parallel the logic underlying U.S. securities law only to identify the industry-specific sustainability factors that are most likely to have material impacts on companies in an industry and that therefore warrant standardized disclosure. It is the responsibility of every SEC registrant to determine the factors that are material to its business and its duty to disclose such information.

In assessing the magnitude of financial impacts and their effect on shareholder value, SASB analysts conduct valuation analyses, such as discounted cash flow modeling. For example, SASB analysts will use available data related to performance on the sustainability topic (or reasonable assumptions where sample sizes for the data are too small to identify a range of performance and benchmark a company) and incorporate such data into a typical valuation model for a company. Through this integration, SASB evaluates the difference in impact on valuation, and additionally, assesses the difference in valuation when considering scenarios of top- and bottom-decile performers. (See Figure 3.)

Figure 3. Assessing Impacts of ESG on Valuation of Hypothetical Company

Step 3: Legal Considerations

The U.S. Supreme Court has stated that a determination of materiality “with respect to contingent or speculative information or events … will depend at any given time upon a balancing of both the indicated probability that the event will occur and the anticipated magnitude of the event in light of the totality of the company activity.”+ Thus, sustainability issues, even those that might look well into the future, would meet materiality thresholds and should be disclosed if circumstances warrant.

Figure 3 illustrates one type of analysis used to assess impacts on an individual company’s equity value. This analysis, taken from a hypothetical company in the Electric Utilities industry, depicts the outputs of ESG performance scenarios generated through a discounted cash flow model: a fully integrated ESG scenario, which integrates median estimates of corporate performance, as well as a High and a Low ESG performance scenario, each of which assume best and worst case performance, respectively.

The model integrates three sustainability issues – GHG Emissions, Water Scarcity, and Workforce Health & Safety. Such analyses are designed to incorporate actual performance data when available, though the lack of adequate data (as well as future performance projections) necessitates the depicted performance scenarios. The financial impact of sustainability issues combined with insufficient performance data leads to a range of uncertainty in market value. In this example, the market’s range of uncertainty is $11/share (the difference between the high ESG performance and low ESG performance scenarios).

Overall, this type of analysis leads to a better understanding of the probability and magnitude of financial impact, while demonstrating that more effective disclosure will improve the market’s ability to value securities. When a topic is not effectively disclosed using metrics that can establish a level of performance with respect to peers, but instead is buried underneath boilerplate language that is not decision-useful, analysts have less certainty about its impact on valuation and therefore its risk to shareholders.4

KEY QUESTIONS:

The following represents the key questions SASB analysts consider in this third step to help determine if a standard is warranted:

- What is the probability of an impact occurring to a typical industry firm? If an impact were to occur, what would be its likely magnitude? Would the nature of the financial impact more likely be acute or chronic?
- What type of risk factor might the issue present? Is it likely to be a market risk (e.g., due to regulations affecting the entire industry) or a specific one (e.g., due to management of operational safety)?

4. VETTING

Although evidence-based research provides a foundation for SASB’s assessment of the likely materiality of a topic, that assessment is vetted through feedback from participants in the capital markets—i.e., corporate issuers and mainstream investors. SASB actively solicits input and carefully weighs all issuer and investor perspectives in considering which aspects of a sustainability topic warrant disclosure. This approach aligns with the Supreme Court’s definition of materiality, which turns on the views of the “reasonable investor.” (See “Step 4: Legal

Considerations” sidebar.) As mentioned in the previous steps, SASB endeavors to parallel the logic underlying U.S. securities law to identify only the industry-specific sustainability factors that are most likely to have material impacts on companies in an industry and that therefore warrant standardized disclosure.

SASB considers sustainability topics for standard-setting when a consensus exists among issuers and investors that the topic is reasonably likely to have a material impact on companies in the industry. To assess and measure market sentiment regarding the issues and the credibility of evidence, SASB analysts solicit, consider, and incorporate input through consultation with issuers and investors, technical resource groups, and sector advisory groups. We also engage in a public comment period for further vetting.

KEY QUESTIONS:

The following represents the key questions SASB analysts consider in this fourth step to help determine if a standard is warranted:

- Does market feedback indicate that performance on the sustainability topic is reasonably likely to have a material impact on companies in the industry?
- Is there a consensus that the proposed topics or changes to the standards are reasonably likely to have material impacts?

5. VERIFICATION

After vetting, SASB further verifies the materiality of impacts related to a topic by assessing the current state of disclosure in mandatory filings. As mentioned in previous steps, SASB endeavors to parallel the logic underlying U.S. securities law to identify only the industry-specific sustainability factors that are most likely to have material impacts on companies in an industry and that therefore warrant disclosure standards. It is the responsibility of every SEC registrant to determine the factors that are material to its business and its duty to disclose such information.

Using both manual and automated methods, SASB evaluates the current state of disclosure on each sustainability topic included in SEC Forms 10-K and 20-F. SASB analysts verify that companies are already acknowledging the existence of—or the potential for—material impacts.

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**Step 4: Legal Considerations**

As the SEC has pointed out, “the federal securities laws are dynamic and respond to changing circumstances,” and, “risk profiles of registrants are constantly changing and evolving.” Therefore, as changes occur in the broader economy, the information markets need to efficiently allocate capital may also change in ways that may require public companies to adjust their disclosures. Specifically, as has been noted, the determination of what is material evolves, as does that of the “reasonable investor,” and in so doing “provides a framework for addressing new issues and shedding issues whose importance has waned.”

As of 2016, the UN Principles for Responsible Investment had more than 1,500 signatories representing more than $60 trillion in assets, a clear indication that sustainability issues have captured the interest of the “reasonable investor.” To a large degree, this increasing interest among investors is why, in 2010, the Commission stated that the disclosure of impacts related to climate change may already be required to be disclosed pursuant to existing regulation. It further reminded registrants that they are required to disclose, in addition to the information expressly required by regulation, “such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.”

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***** 17 C.F.R. §230.408 and §240.12b-20, Additional information.
associated with the topic, and SASB analysts evaluate the quality of disclosure on the topic.

SASB’s analysis of 2015 filings (Forms 10-K and 20-F) shows that 69 percent of companies reported on at least three-quarters of the sustainability topics included in their industry’s SASB provisional standard, and 38 percent provided disclosure on every SASB topic. This is a clear indication that companies have already recognized that the majority of the sustainability factors identified in SASB standards are reasonably likely to have material impacts on their business. Nevertheless, only 24 percent of these disclosures contain metrics. Meanwhile, of these same disclosures, more than 53 percent use boilerplate language, demonstrating that many companies are seeking to take a minimally compliant approach to sustainability disclosure. (See Appendix C.) Boilerplate disclosure is not useful for investors and is challenging for analysts seeking to quantify exposure to a risk or other potential impact.

Through evaluation of the quantity and quality of disclosure on the topic, SASB analysts can monitor changes over time that may indicate an evolving understanding of materiality or emerging considerations related to a particular topic.

KEY QUESTIONS:

The following represents the key questions SASB analysts consider in this fifth step to help determine if a standard is warranted:

• Are companies reporting on SASB disclosure topics in their Form 10-K or 20-F filings?
• What is the quality of disclosure on these topics?

6. VALIDATION

The validation of materiality occurs through determining whether performance on a particular sustainability topic is correlated to financial performance, established through “back-testing.” Use of this emerging field of quantitative analysis is hampered by the lack of high-quality longitudinal data sets. Where possible, SASB conducts quantitative analysis to assess the impact of the topic at both equity and portfolio levels. For example, using historical data on stock prices along with SASB performance metrics (or reasonable proxies for those metrics), SASB analysts are able to conduct correlation analyses that can quantify the contribution of a topic to risk and return at the company level. At the portfolio level, analysts can evaluate whether a topic or set of topics are “factors” in describing industry-common risk or company-specific risk. As high-quality performance data becomes more available, analysts will be able to perform more rigorous back-testing. Such improvements in data quality will also benefit external research and analysis. (See “Independent Validation” sidebar.)
STAFF BULLETIN NO. SB002-07062017  SASB’S APPROACH TO MATERIALITY FOR THE PURPOSE OF STANDARDS DEVELOPMENT

Having established that the topic represents a known trend, demand, commitment, event, or uncertainty that is reasonably likely to occur, these assessments help SASB validate the materiality of a topic and its impact on a company’s financial condition and operating performance. As mentioned in the previous step, SASB endeavors to parallel the logic underlying U.S. securities law to identify only the industry-specific sustainability factors that are most likely to have material impacts on companies in an industry and that therefore warrant standardized disclosure. It is the responsibility of every SEC registrant to determine the factors that are material to its business and its duty to disclose such information.

KEY QUESTIONS:

The following represents the key questions SASB analysts consider in this sixth step to help determine if a standard is warranted:

- Can risk/return impacts be seen at the company level in terms of a correlation to market price, fundamental performance, or both?
- Can risk/return impacts be discerned at the portfolio level in terms of the contribution to industry common factors?

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5 SEC, Management’s Discussion and Analysis of Financial Condition and Results of Operations; Certain Investment Company Disclosures, Release No. 33-6835 (May 18, 1989) [54 FR 22427]
6 17 C.F.R. §229.303 – Item 303, Management’s discussion and analysis of financial condition and results of operations
EVOLUTION OF A TOPIC

Each of SASB’s industry-specific disclosure topics goes through every step of the process outlined above. To better understand this process, it may be useful to consider how a single topic—alignment of incentives in the Commercial Banks industry—has emerged to become the focus of SASB analysis:

In September 2016, a large Commercial Banks firm was fined $185 million for deceptive sales practices that included opening as many as two million deposit and credit-card accounts without customers’ knowledge since 2011. The bank’s stock price dropped 10 percent in the weeks following the news, and the incident may have additional long-term impacts. Increased public attention to the topic is likely to raise the stakes on future cases of mismanagement, resulting in impaired reputational value, diminished market share, and declining top-line revenues. Weaker profitability and a riskier profile may also result in a higher cost of capital.

As a result, SASB analysts began examining the issue to determine its importance to investors in the context of the “total mix” of information. Commercial Banks have not heretofore disclosed information in their SEC filings regarding the alignment of employee incentives with customer welfare. However, the firm in question was criticized for failing to do so, and the SEC currently requires disclosure in proxy and information statements about a company’s compensation policies and practices for all employees if those policies and practices create risks that are reasonably likely to have a material adverse effect on the company.\(^7\) Given this development, there is an increased likelihood that the amount and quality of relevant disclosure will improve. The Consumer Financial Protection Bureau (CFPB) has heavily scrutinized the marketing of add-on products in the closely related Consumer Finance industry, and appears prepared to do the same for Commercial Banks. For all firms, regardless of performance, increasingly aggressive enforcement by regulators should be evaluated to determine whether it may represent a known trend or uncertainty that is reasonably likely to have material impacts on the industry through increased compliance costs.

SASB analysts are engaged in deep consultation with issuers and investors regarding the alignment of employee incentives in the industry. To ensure that the issue is properly framed and corporate performance is usefully measured, SASB analysts are also consulting with technical resource groups and sector advisory groups. Meanwhile, using industry performance data (or reasonable assumptions) on the issue, SASB analysts are constructing financial models to assess the probability and magnitude of impacts on equity valuation for top- and bottom-decile performers, resulting in a range of uncertainty that will represent the unpriced risk related to the issue. Finally, if this evidence-based research and market feedback indicate the topic warrants a standardized disclosure topic and, therefore, inclusion in the industry’s sustainability accounting standard (a determination that has not been made as of now), SASB’s proposed treatment will be issued for public comment.

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\(^7\) Securities and Exchange Commission, Release No. 33-9089, Proxy Disclosure Enhancements (December 16, 2009)
THE SASB STANDARDS BOARD

The SASB Standards Board is responsible for adopting the standards, maintaining technical agendas, proposing updates to the standards, and taking overall responsibility for the standard setting process.

JEAN ROGERS – CHAIR
FOUNDER & CHAIR OF THE SASB STANDARDS BOARD

JEFFREY HALES, PHD – VICE CHAIR
PROFESSOR, GEORGIA INSTITUTE OF TECHNOLOGY, ERNEST SCHELLER JR. COLLEGE OF BUSINESS

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SENIOR PORTFOLIO MANAGER, HEAD OF SOCIAL IMPACT INVESTING, WELLS FARGO PRIVATE BANK

ELIZABETH SEEGER
DIRECTOR, KKR

STEPHANIE TANG, JD
SENIOR CORPORATE COUNSEL AND ASSISTANT CORPORATE SECRETARY, THE CLOROXY COMPANY

BOARD COMMITTEE MEMBERS PER SECTOR

The SASB operates in a sector committee structure, which assigns a minimum of three board members to each sector for reviews, discussion, and liaising with staff.

HEALTH CARE
LLOYD KURTZ, SECTOR CHAIR
BOB HIRTH
JEAN ROGERS

FINANCIALS
JEFF HALES, SECTOR CHAIR
DAN GOELZER
VERITY CHEGAR

TECHNOLOGY & COMMUNICATIONS
BOB HIRTH, SECTOR CHAIR
LLOYD KURTZ
VERITY CHEGAR

EXTRACTIVES & MINERALS PROCESSING (FORMERLY NON-RENEWABLE RESOURCES)
VERITY CHEGAR, SECTOR CHAIR
ELIZABETH SEEGER
BOB HIRTH

RENEWABLE RESOURCES & ALTERNATIVE ENERGY
STEPHANIE TANG, SECTOR CHAIR
JEFF HALES
KURT KUEHN

TRANSPORTATION
KURT KUEHN, SECTOR CHAIR
JEAN ROGERS
JEFF HALES

SERVICES
DAN GOELZER, SECTOR CHAIR
JEFF HALES
BOB HIRTH

RESOURCE TRANSFORMATION
LLOYD KURTZ, SECTOR CHAIR
DAN GOELZER
JEAN ROGERS

FOOD & BEVERAGE (FORMERLY CONSUMPTION I)
STEPHANIE TANG, SECTOR CHAIR
ELIZABETH SEEGER
LLOYD KURTZ

CONSUMER GOODS
ELIZABETH SEEGER, SECTOR CHAIR
STEPHANIE TANG
KURT KUEHN

INFRASTRUCTURE
JEAN ROGERS, SECTOR CHAIR
KURT KUEHN
VERITY CHEGAR
THE SASB STAFF

The SASB staff comprises dedicated sector analysts who conduct industry-specific research and analysis and facilitate ongoing dialogue with expert stakeholders in order to determine if topics are likely to be material, and to determine the nature and magnitude of potential financial impacts, along with the most appropriate form of disclosure.

Figure 4. The SASB’s staff structure

<table>
<thead>
<tr>
<th>DAVID POST, CFA</th>
<th>Director of Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECTOR ANALYST</td>
<td>SICSTM SECTOR</td>
</tr>
<tr>
<td>ERIC KANE</td>
<td>HEALTH CARE</td>
</tr>
<tr>
<td>ANTON GORODNIUK</td>
<td>FINANCIALS</td>
</tr>
<tr>
<td>QUINN UNDERRINER</td>
<td>TECHNOLOGY &amp; COMMUNICATIONS</td>
</tr>
<tr>
<td>DAVID PARHAM</td>
<td>EXTRACTIVES &amp; MINERALS PROCESSING</td>
</tr>
<tr>
<td>NASHAT MOIN</td>
<td>TRANSPORTATION</td>
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<tr>
<td>(INTERIM)</td>
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<tr>
<td>SONYA HETRICK</td>
<td>SERVICES</td>
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<tr>
<td>HENRIK COTRAN</td>
<td>RESOURCE TRANSFORMATION</td>
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<tr>
<td>BRYAN ESTERLY</td>
<td>FOOD &amp; BEVERAGE</td>
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<td>(INTERIM)</td>
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<tr>
<td>NASHAT MOIN</td>
<td>CONSUMER GOODS</td>
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<tr>
<td>(INTERIM)</td>
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<tr>
<td>HENRIK COTRAN</td>
<td>RENEWABLE RESOURCES &amp; ALTERNATIVE ENERGY</td>
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<tr>
<td>BRYAN ESTERLY</td>
<td>INFRASTRUCTURE</td>
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</tbody>
</table>
CONCLUSION

SASB’s role as a standards setter is to identify topics that are reasonably likely to be material to investors and ensure that an appropriate standard exists for cost-effective, decision-useful disclosure in mandatory SEC filings. SASB analysts employ a rigorous approach to determine topics that are reasonably likely to have material impacts on the financial condition and operating performance of companies. The SEC has stated that, “as a practical matter, it is impossible to provide every item of information that might be of interest to some investor in making investment and voting decisions.”

That’s why SASB views sustainability disclosure through the lens of materiality—an approach that filters out information that is not generally important to the “reasonable investor,” helping ensure that he or she is not buried in an “avalanche of trivial information.” Thus, underpinned by the U.S. Supreme Court’s definition of materiality and coupled with evidence-based, market-informed processes, our relatively conservative approach allows our analysts to assess which topics to include in our standards.

Although SASB’s standards are designed for integration into the MD&A and other relevant sections of mandatory SEC filings, such as Forms 10-K and 20-F, a company’s management is responsible for determining whether the relevant SASB standard should be used to comply with the disclosure requirements of the federal securities laws. SASB recognizes that each company is responsible for determining what information is material and what information should be included in its SEC filings.

### APPENDICES

**Appendix A. SASB Universe of Sustainability Issues**

This exhaustive list of sustainability factors is filtered down through a series of steps, outlined in the Process section of this document, which are designed to identify only those issues reasonably likely to have material impacts on companies in an industry.

<table>
<thead>
<tr>
<th>Sustainability Dimension</th>
<th>General Topic</th>
</tr>
</thead>
</table>
| Environment                    | GHG Emissions  
Air Quality  
Energy Management  
Water and Wastewater Management  
Waste and Hazardous Materials Management  
Ecological Impacts  
Climate Impacts |
| Social Capital                 | Community Relations  
Human Rights  
Data Privacy and Security  
Access and Affordability  
Customer Welfare  
Selling Practices and Product Labeling |
| Human Capital                  | Labor Relations  
Labor Practices and Compensation  
Employee Health, Safety and Wellbeing  
Employee Recruitment, Engagement, and Diversity |
| Business Model & Innovation    | Product Design and Lifecycle Management  
Product Quality and Safety  
Product Packaging and Distribution  
Supply Chain Management  
Materials Sourcing  
Financing Risks  
Rate Structure and Pricing  
Business Model Resilience |
| Leadership & Governance        | Business Ethics  
Competitive Behavior  
Management of Legal & Regulatory Environment  
Critical Incident Risk Management  
Systemic Risk Management |
Appendix B. SASB Industry Working Group Outcomes

In addition to performing evidence-based research, SASB vets each of its disclosure topics with a group of industry experts—including balanced representation of corporate, investor, and other perspectives—to assess the likelihood that they will have material impacts on companies in an industry. During the provisional phase of standard-setting, over 85 percent of investors and issuers (on average) agreed on the likely materiality of SASB’s sustainability disclosure topics. When a topic failed to reach at least 75 percent consensus, it was either flagged for further review (if close to 75 percent) or not carried forward.

Stakeholder-specific feedback on likely materiality of all proposed disclosure topics

(\% of respondents, by interest group, who think suggested topics are likely to constitute material information)

The chart reflects only those sustainability topics proposed to SASB’s Industry Working Groups that were also eventually included in the provisional sustainability accounting standard. On average, 78.2 percent of corporate professionals and 88.7 percent of investors agreed the topics were likely to constitute material information for companies in the industry.
Appendix C. Current State of Sustainability Disclosure in SEC Filings

Although SASB research shows that nearly three-quarters of its disclosure topics are already addressed by issuers in their SEC filings, the information being disclosed is rarely decision-useful to investors. More than 40 percent of all disclosures on sustainability topics contain boilerplate language, while only about 15 percent of such disclosures use metrics. Even then, companies use different metrics and/or calculation methods, which hinders comparability.

### State of Disclosure in Annual SEC Filings

<table>
<thead>
<tr>
<th>Sector</th>
<th>No Disclosure</th>
<th>Boilerplate</th>
<th>Company Tailored Narrative</th>
<th>Metrics</th>
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</thead>
<tbody>
<tr>
<td>All Sectors</td>
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<td>Health Care</td>
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<td>Financials</td>
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<tr>
<td>Technology &amp; Communications</td>
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<td>Non-Renewable Resources</td>
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<td>Transportation</td>
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<td>Services</td>
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<td>Resource Transformation</td>
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<tr>
<td>Consumption I</td>
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<td>Consumption II</td>
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<td>Renewable Resources &amp; Alternative Energy</td>
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<tr>
<td>Infrastructure</td>
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ABOUT SASB

SASB’s mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors. That mission is accomplished through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation. SASB standards are designed for the disclosure of material sustainability information in mandatory SEC filings, such as Forms 10-K and 20-F.