SASB Standards

Breakout session 4
Presenters

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Agenda

1. Background and due process of the SASB Standards
2. The value of the SASB Standards and their role in IFRS S1 and IFRS S2
3. What next?
Background and due process of the SASB Standards
Rationalising investor-focused standards and frameworks
What are the SASB Standards?

- 77 industry-specific disclosure standards
- Guide to identify the sustainability factors most relevant to financial performance and company prospects for the typical company in an industry
- Developed through transparent, market-informed due process
- Over 3,000 companies in 79 jurisdictions report using SASB Standards
- Result in comparable information for investors and other providers of capital
Industry-specific

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

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

### FOOD & BEVERAGE
- Agricultural Products
- Meat, Poultry & Dairy
- Processed Foods
- Non-Alcoholic Beverages
- Alcoholic Beverages
- Tobacco
- Food Retailers & Distributors
- Restaurants

### EXTRACTIVES AND MINERALS PROCESSING
- Oil & Gas – Exploration & Production
- Oil & Gas – Midstream
- Oil & Gas – Refining & Marketing
- Oil & Gas – Services
- Coal Operations
- Metals & Mining
- Iron & Steel Producers
- Construction Materials

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

### HEALTH CARE
- Biotechnology & Pharmaceuticals
- Medical Equipment & Supplies
- Health Care Delivery
- Health Care Distributors
- Managed Care
- Drug Retailers

### TRANSPORTATION
- Automobiles
- Auto Parts
- Car Rental & Leasing
- Airlines
- Air Freight & Logistics
- Cruise Lines
- Marine Transportation
- Road Transportation
- Rail Transportation

### TECHNOLOGY & COMMUNICATIONS
- Hardware
- Electronic Manufacturing Services & Original Design Manufacturing
- Software & IT Services
- Semiconductors
- Internet Media & Services
- Telecommunication Services

### RENEWABLE RESOURCES & ALTERNATIVE ENERGY
- Biofuels
- Solar Technology & Project Developers
- Wind Technology & Project Developers
- Fuel Cells & Industrial Batteries
- Forestry Management
- Pulp & Paper Products

### RESOURCE TRANSFORMATION
- Chemicals
- Aerospace & Defense
- Electrical & Electronic Equipment
- Industrial Machinery & Goods
- Containers & Packaging
Sustainability topics

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

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

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

Investor-relevant, Industry-specific, Market-informed, Evidence-based, Decision-useful, Cost-effective
Evidence-based and decision-useful

Disclosure topic examples from SASB Standards

- Food safety (Restaurants)
  - Demand for products and services
  - REVENUE

- Fuel management (Airlines)
  - Cost structure
  - COSTS

- Stranded assets (Oil & Gas)
  - Valuation of tangible assets
  - ASSETS

- Data security (Software & IT Services)
  - Contingent liabilities
  - LIABILITIES

- Community relations (Metals & Mining)
  - Social license to operate
  - COST OF CAPITAL

- Food safety (Restaurants)
- Fuel management (Airlines)
- Stranded assets (Oil & Gas)
- Data security (Software & IT Services)
- Community relations (Metals & Mining)

- Income statement
- Balance sheet
- Cash flow

- Investor-relevant
- Industry-specific
- Market-informed
- Evidence-based
- Decision-useful
- Cost-effective
Market-informed and cost-effective

On average, each SASB Standard includes **6 disclosure topics** and **13 metrics**.
Over a decade prior to the IFRS Foundation consolidation, the SASB staff conducted industry-based research, receiving market input from corporate professionals, investors and industry experts.
SASB Standards due process: project-based model

After codification in 2018, the SASB Standards adopted a project-based model to update and refine content
The result: 77 industry-specific standards

- 77 Industries
- 444 Industry-based disclosure topics*
- 6 Disclosure Topics per industry (average)
- 13 Accounting Metrics per industry (average)
- 74% Quantitative metrics**

* Unique number of Topics
** ~1,000 Accounting Metrics in total, with ~2500+ sub-metrics.
The value of the SASB Standards and their role in IFRS S1 and IFRS S2
Investors demand industry-specific disclosures

“Standards which are industry-specific and framed upon financial materiality – improve understanding of company performance on ESG issues most relevant to long-term value creation (or destruction). SASB Standards are important tools for improving price discovery and valuations across asset classes and global capital markets.”

ISSB Investor Advisory Group (IIAG), comprised of 63 member institutions with US$54 trillion AUM invested in markets around the world
Industry-specific disclosure is useful because:

• relevant sustainability-related risks and opportunities vary by industry
• investors analyse companies, portfolios and indices by industry and sector
• companies can focus on reporting disclosures that more closely fits their business model
• it reduces costs and minimises noise by focusing on the most relevant information
Market use and assurance of SASB Standards disclosure

- SASB Standards are licensed by 400+ entities in 30+ countries across the globe
- Over 300 investment and diversified financial institutions, including asset owners, asset managers and banks, managing a combined US$59 trillion in assets under management (AUM) license the SASB Standards for use in investment strategies and research tools
- IFRS Sustainability Alliance includes over 340 global investors based in 31 jurisdictions managing a combined total of over US$81 trillion AUM
- SASB Standards have already achieved significant market traction: Used by over 3000 companies in 79 jurisdictions; 74% of S&P 1200*
- ~44% of preparer publications using the SASB Standards are externally verified. Limited assurance for externally verified reports is the most common level of assurance

* data as of 30 June 2023
ISSB Standards recognise the value of industry-specific disclosures

- **IFRS S1** asks companies to consider the industry SASB Standards for topics beyond climate to identify sustainability risks or opportunities and disclosures
- **IFRS S2** requires industry-specific climate-related disclosures and provides illustrative guidance to support application derived from the SASB Standards
IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information

- Asks for disclosure of **material information** about **sustainability-related risks and opportunities** with the financial statements, to meet investor information needs
- Applies **TCFD architecture** whenever providing information about sustainability
- Requires **industry-specific disclosures**
- For matters other than climate (IFRS S2) refers to **sources to help companies** identify sustainability-related risks and opportunities and information
- Can be used in conjunction with **any accounting requirements (GAAP)**
Guidance for developing sustainability disclosures

Which risks & opportunities?

To identify relevant risks and opportunities, a company uses ISSB Standards and shall consider:
- SASB Standards

A company may also consider:
- CDSB Framework Application Guidance
- industry practice
- materials of investor-focused standard setters

Which information?

To identify what information to disclose, a company uses ISSB Standards, and for matters other than climate, shall consider:
- SASB Standards

A company may also consider, to the extent it meets investor information needs:
- CDSB Framework Application Guidance
- industry practice
- materials of investor-focused standard setters
- GRI Standards
- European Sustainability Reporting Standards
IFRS S2: Climate-related Disclosures

- Incorporates the TCFD recommendations
- To meet investor information needs, IFRS S2:
  - is used in accordance with IFRS S1
  - requires disclosure of material information about climate-related risks and opportunities, including physical and transition risks
  - requires industry-specific disclosures, which are supported by accompanying guidance built on SASB Standards
IFRS S2 industry-specific requirements

In response to feedback, IFRS S2:

• requires that industry-specific disclosures be provided but the industry-based metrics provided are illustrative guidance rather than requirements

• an exception to this is information about financed emissions which is required to be provided

The ISSB has indicated an intention to make the industry-based metrics mandatory in the future, subject to consultation
What next?
International applicability project

1. **Focus on revising jurisdiction-specific non-climate SASB Standards content**
   - Methodology to enhance international applicability of non-climate-related metrics
   - Climate-related disclosure topics & metrics updated and published in June in the *Industry-based Guidance on Implementing IFRS S2* (~350 out of ~1,000 metrics)

2. Project to **remove and replace jurisdiction-specific references and definitions** without significantly altering SASB Standards, industries, topics or metrics

3. **First step** in enhancing international applicability in a consistent and timely manner, helping preparers implement IFRS S1
Methodology process - SASB international applicability

**Metric revision approach**

1. **International reference**
2. **By definition** (~90%)
3. **Applicable jurisdiction**
4. **Remove** (~10%)
5. **Replace***
   *Almost all revise quantitative to qualitative metrics (x 4-6)

**Order of preference**

- **Objectives:**
  - Focused on non-climate-related SASB Standards metrics (~650)
  - Identify metrics with substantive jurisdiction-specific terms (~200)
  - Improve global usefulness and ease of application cost-effectively
  - Preserve original metric structure and intent (current users)
  - Use five cascading revision approaches, also in combination
  - Narrowly remove and replace jurisdiction-specific references

- **First step in the longer-term ISSB effort**
Methodology Exposure Draft respondents

**Summary statistics**

- 148 responses from 138 unique respondents

*Some respondents submitted a survey and comment letter.*

**Jurisdictional spread**

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<thead>
<tr>
<th>Region</th>
<th>Count</th>
<th>Percentage</th>
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<tr>
<td>Europe</td>
<td>47</td>
<td>(34%)</td>
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<tr>
<td>North America</td>
<td>25</td>
<td>(18%)</td>
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<tr>
<td>Latin America &amp; Caribbean</td>
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<td>(8%)</td>
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<tr>
<td>Asia &amp; Oceania</td>
<td>44</td>
<td>(32%)</td>
</tr>
<tr>
<td>Africa</td>
<td>11</td>
<td>(8%)</td>
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**Stakeholder breakdown**

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<tr>
<td>Preparers</td>
<td>43</td>
<td>31%</td>
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<td>Accounting profession and auditors</td>
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<td>Standard-setters</td>
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<td>Investors</td>
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<td>14%</td>
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<tr>
<td>Policy makers</td>
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<td>&lt; 1%</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td>138</td>
<td>100%</td>
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</table>
Feedback broadly supported the ISSB’s direction of travel

Almost all respondents agreed:

- Methodology enhances international applicability
- Scope and objectives of the methodology are clear
- Current constraints of the objective are appropriate
- Revision approaches are sequenced appropriately
SASB Standards: beyond internationalisation efforts

- Advancing the industry-based research and standard-setting work inherited from SASB
  - initial focus on projects in which recommendations had already been published by SASB
- Maintaining the SASB Standards through research, consultation, outreach and revisions
- The ISSB is considering the future of the SASB Standards as part of its strategic planning linked to its consultation on agenda priorities