



## **First-Ever Industry-Specific Sustainability Standards Issued**

### ***Independent board completes six-year process***

On November 7, 2018, the independent Sustainability Accounting Standards Board published voluntary standards covering 77 specific industries from across 11 broad sectors. The new guidelines will enable companies of all sizes to account for and report on factors of sustainability in a standardized fashion, while also facilitating comparisons between entities.

The standards set out a framework for assessing the here-to-fore difficult to quantify impacts of environmental, social and governmental conditions (ESG) in a measurable, comparable and decision-useful manner. Regardless of political persuasion, consideration of these issues will be crucial for assuring the prosperity and even survival of a business. For example, whether or not man-made climate change had an influence on the recent tragic wildfires in California, a small business located in devastated Paradise, California, may have been destroyed, and owners may have even suffered loss of life. For large companies like Pacific Gas & Electric, enormous liability may be incurred as a result of company power lines implicated in the cause of the conflagration. Owners and investors will be better served if they are informed in advance of risks, such as those leading to these fire losses.

Materials from the SASB provide a wealth of useful information for companies in any industry. A good place to start is the SASB Industry Standards Field Guide, available on the SASB website. After explaining the objectives, governance, and process for developing the standards, this volume provides a profile for each industry, along with specific exposure issues for the industry, as well as value drivers and relative financial impact. Levels of industry exposure compared to market averages are reflected for the ESG factors, which are expanded to five categories: environment, social capital, human capital, business model and innovation, and leadership and governance.

For further detail into an industry, the in depth standards for that industry can be downloaded. The content includes accounting metrics for each industry-specific sustainability disclosure topic, technical protocol for compiling data, and activity metrics for normalization.

An especially useful and user friendly interactive tool on the SASB website is the Materiality Map. In a spreadsheet format, the eleven industry sectors are listed across columns at the top. On the left, the five ESG categories are expanded to 26 lines of sustainability-related business issues. For a given sector, each line is shaded light, dark, or clear, depending on whether the issue is likely to be material for more than 50% of industries in the sector, less than 50%, or none at all. For example, the air quality issue is considered a major factor for the extractives & minerals processing sector, but a non-factor for the consumer goods sector.

When a sector column is clicked, the spreadsheet expands to reveal columns for each industry in the sector. The consumer goods sector has seven industries. For a particular industry column, each of the 26 issue lines are shaded or not, depending on whether that issue is likely to be material for companies in that industry. For example, customer privacy is considered a material factor for the e-commerce industry, but not for the appliance manufacturing industry.

When an issue line is clicked, the disclosure topic and accounting metrics are revealed. For the case of customer privacy in the e-commerce industry, the disclosure topic displayed is data privacy & advertising standards. Two accounting metrics are displayed: 1) number of users whose information is used for secondary purposes, and 2) description of policies and practices relating to behavioral advertising and user privacy. The industry standards can be consulted for details to assist in addressing the issues.

Now that the industry standards and related tools are available, a challenge for the SASB will be to gain worldwide acceptance. As the years-long efforts by the FASB and IASB to converge financial reporting standards has shown, that objective may take years and much hard work. However, at the recent World Congress of Accountants held in Sydney, Australia, the International Integrated Reporting Council, the Global Reporting Initiative, the Carbon disclosure Project, along with the SASB all agreed to align their standards and frameworks within two years. The process will be facilitated by an umbrella group, the Corporate Reporting dialogue, which includes the above organizations as well as the FASB, IASB, Climate Disclosure Standards Boards, and the International Organization for Standardization.

Further details can be found at the [SASB Standards Overview](#) and [Corporate Reporting Dialogue](#).

(<https://www.sasb.org/standards-overview/>) and (<http://corporatereportingdialogue.com/>).