

Sustainability Accounting Standards Board (SASB) consultation on proposed changes to its Conceptual Framework & Rules of Procedure

The Climate Disclosure Standards Board (CDSB) would like to thank SASB for the opportunity to provide comments on proposed changes to the SASB Conceptual Framework & Rules of Procedure.

The CDSB works to provide decision-useful environmental information to markets via mainstream corporate reports. Our mission is to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting.

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

The CDSB Framework is used by large-listed companies globally and is referenced in government guidance to reporting regulation in the Commission Guidelines on Non-Financial Reporting, the UK Companies Act 2006, and stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. CDSB has also contributed to the work of the UN Sustainable Stock Exchanges Initiative through its working groups on disclosure, green finance, and financial regulators. CDSB also hosts the TCFD Knowledge Hub on behalf of the Task Force on Climate-related Financial Disclosures (TCFD), which helps report preparers to find the resources they need to understand and implement the TCFD recommendations.

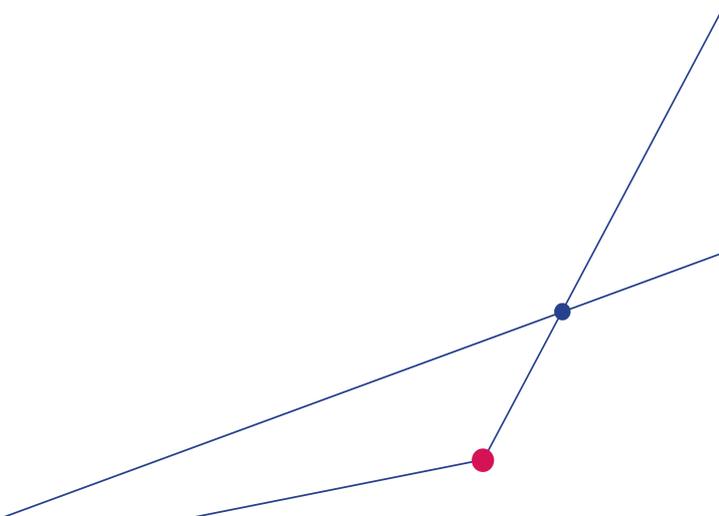
Our comments in full are provided below. Please do not hesitate to contact me directly (mardi@cdsb.net) or CDSB's Senior Technical Officer, David Astley (david.astley@cdsb.net).



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Questions for Stakeholders – Conceptual Framework

Question 1 - Do you believe the concepts described in the Conceptual Framework exposure draft are appropriate for a global standard-setting organization? Are there concepts or principles that warrant discussion in—or removal from—the Conceptual Framework to help the Standards Board more effectively develop standards that have global applicability?

Overall, CDSB sees that the Conceptual Framework is a clear and methodical, providing the user with an appropriate amount of detail and technicality. Concepts and principles are well explained, with the Conceptual Framework organised in a manner that is accumulative and logical for users independent of pre-existing knowledge.

CDSB would like to express a concern, though. We found it notable that the mainstream annual report was absent as the preferred channel of disclosure for SASB's metrics and indicators. While it was presumable from the primary audience and materiality definition offered in the Conceptual Framework that the imagined channel of disclosure would be the mainstream annual report, this was not explicit.

We believe this lack of clarity is detrimental to the objectives of the SASB Standards as well as potentially confusing to a reporting landscape that is already considered by many to be complex and difficult to engage with. Offering greater clarity would better ensure that CDSB and SASB's complementary market offerings, as well as those developed by other similarly motivated organisations, are employed together for high-quality reporting to capital markets. This would indeed build on the work that SASB is commendably undertaking with IIRC under the Value Reporting Foundation. The complementarity of these various material sustainability reporting frameworks, standards and guides could be simply and effectively illustrated in the Conceptual Framework to benefit report preparers.

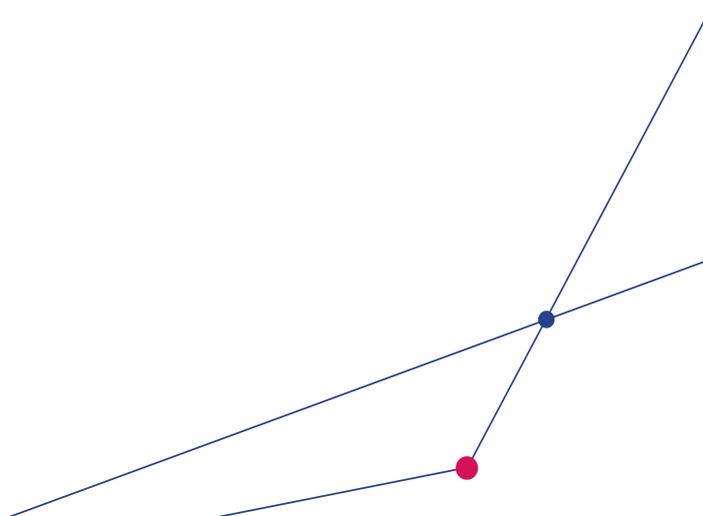
Further, CDSB see that this ambiguity is detrimental to the ambition of ensuring the connectivity of SASB metrics and indicators with the structure and existing disclosures of the mainstream report, most importantly with those of financial position and performance. CDSB sees that this thorough interconnection of the front and back ends of the annual report is essential to provide investors and other capital providers with a full and holistic picture of value creation and the most decision-useful information.

Question 2 - Should SASB describe its approach to governance in the Conceptual Framework? Is SASB's approach to governance, as described above, sufficiently clear?

CDSB believes that there may be benefit in explaining SASB's approach to governance issues in its Conceptual Framework, especially in terms of clarifying the position of the disclosure standards in relation to national or international governance codes. While the explanation to the approach offered is clear, we do think that it could benefit from being more concise. For example, the second set of bullet points – those relating to Section 5.0 of the Standards Application Guidance – could be cut while keeping the reference for the reader to turn to if interested.

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Question 3 - Are all aspects of the proposed definition of financial materiality clear and understandable? Does the definition accurately reflect SASB's mission to facilitate communication between companies and investors about financially material, decision-useful sustainability information?

The definition of financial materiality offered in the updated Conceptual Framework is clear and understandable and is aligned with the definitions offered by CDSB and, more importantly, IFRS. Employing a materiality definition that is aligned with that of financial reporting ensures high quality, decision-useful reporting on corporate sustainability issues, meaning that investors are better able to navigate, understand, connect and act according to these disclosures. Additionally, the appreciation of national regulations and the individuality of materiality assessments for each company offered in paragraph 26 is welcome and clearly explained for users.

Question 4 – Are the characteristics of topic and metric selection (as framed and defined in the exposure draft) supportive in establishing standards that produce financially material, decision-useful, and cost-effective information (i.e., SASB's three core objectives)? Are the definitions of the characteristics sufficiently clear? Are any characteristics that may be supportive of the objectives of the Standards missing, and therefore should be added? Are any characteristics redundant or misaligned with these objectives, and therefore should be removed?

Taken as a whole, the characteristics for topic and metric selection do support the ambitions of financial materiality, decision-usefulness and, to a lesser extent, cost-effectiveness. Regarding the final of the three ambitions, we see that the characteristics of prevalence and alignment do speak to the idea of cost-effectiveness, but these links are less clear than for the other two ambitions. It could be useful for report users if the connections between the two sets characteristics and cost-effectiveness and, indeed, the other two ambitions are more clearly articulated. It should be emphasised, though, that brevity should remain a key requirement in any further drafting.

Again, considering the characteristics for topic and metric selection as a whole, CDSB feels that the only characteristic that is amiss is one regarding connectedness. In the CDSB Framework, the third guiding principle emphasises the importance of ensuring that material environmental information is disclosed in a manner that properly and thoroughly connects it with other information in the mainstream report, such as financial, risk and strategic information, so offering report users with a more comprehensive understanding of material environmental issues. Importantly, the IIRC also include connectedness as one of its fundamental principles. CDSB believes that the metrics offered by SASB to report preparers are, to a great extent, already fulfilling this characteristic, and that connectedness should be key consideration in future developments of the SASB Standards.

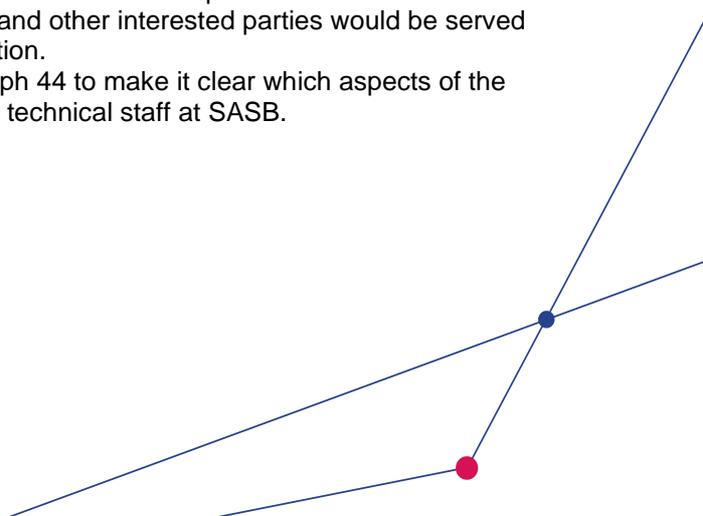
Question 5 - When read alongside the Rules of Procedure exposure draft, are there important aspects of SASB's approach to standard-setting that are missing from the Conceptual Framework exposure draft? Are there any material inconsistencies between the Conceptual Framework and Rules of Procedure exposure drafts?

On the understanding that the Conceptual Framework and Rules of Procedure will be presented to the market once finalised as separate documents, CDSB would encourage SASB to include a guiding reference to the Rules of Procedure in the summary of the standard-setting process in the Conceptual Framework. With such a reference, CDSB believes that the needs of report preparers and other interested parties would be served without extending the section with additional detail and information.

As a minor note, we think that it would be beneficial for paragraph 44 to make it clear which aspects of the standard setting processes are conducted and overseen by the technical staff at SASB.

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Question 6 – Additional comments

N/A

Questions for Stakeholders – Rules of Procedure

Question 7 – Does the Rules of Procedure exposure draft provide a clear description of the Standards Board’s operating procedures? Are there any areas that should be further clarified?

Overall, CDSB found the description of SASB’s operating procedures to be clear and informative. There were two areas that we thought could be improved, however. First, offering the reader greater detail on how consultation responses are processed, consolidated and considered during the standard-setting process would be of value, ensuring that users are confident that their thoughts and suggestions will be properly and thoroughly considered. Secondly, CDSB believes that the diagram on pg. 43 that summarises the due process procedure for standard-setting could be improved in terms of design and detail. To really summarise the process, we think that it would be beneficial to clarify the aspects of SASB involved in each step as well as set out more clearly when and how stakeholders’ opinions are engaged.

Question 8 – Does the exposure draft clearly explain the activities that the Standards Board and technical staff engage in to determine when and if standard-setting is necessary? Are these activities consistent with the mission of SASB and the objectives of the SASB Standards? Are there other activities that should be pursued to monitor the relevant industries and issues?

CDSB sees that the activities outlined in the Rules of Procedure clearly explain when and if standard-setting is necessary. The activities do very much seem consistent with the mission of SASB and the objectives of the SASB Standards.

A small point of clarification, though, could be how the research and consultation are organised within the SASB technical team, i.e. by topic (e.g. water, climate, human rights, etc) or by industry classification. While a minor point, it is important to specify how expertise are organised within the standard-setting process.

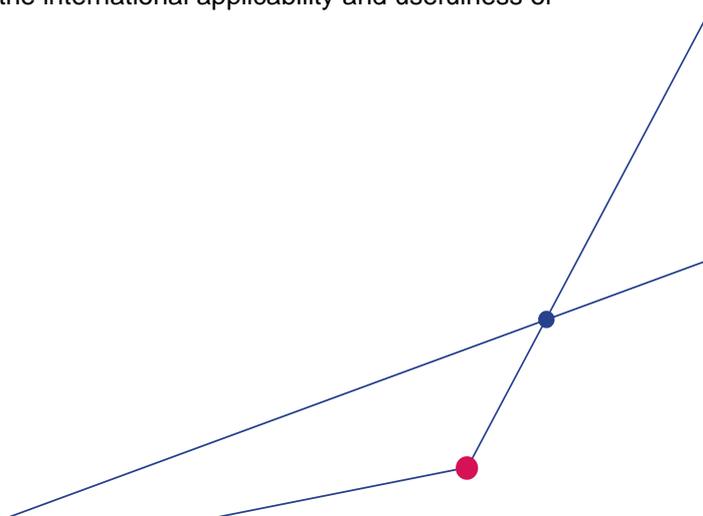
Question 9 – Are the ways in which stakeholders can participate in SASB’s due process for standard-setting activities clear? Is it sufficiently clear how such participation may inform standard-setting outcomes? Are there other methods the Standards Board and/or technical staff should pursue to obtain market input on the Standards?

CDSB found that the summary offered on pg. 48 offered sufficient detail and clarity on how stakeholders can participate and inform the standard setting process. The summary neatly breaks down the various means of participating and it is clear from the previous sections when in the overall process these means are appropriate.

When thinking of how else the Standards Board and technical staff may expand participation and diversify market input on the Standards, CDSB sees that a more global membership across the various bodies that govern and advise SASB would be of great benefit to ensuring the international applicability and usefulness of its Standards.

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Question 10 – Is SASB’s governance structure sufficiently and clearly articulated in the document and in a way that appropriately contextualizes subsequent content in the document? Is the independence of the Standards Board clear? Is the oversight role of the Foundation Board of Directors clear?

CDSB sees that the explanation offered of the governance structure of SASB is clear and succinct, but also that it may be beneficial to users for detail to offered on the nature and role of the membership and advisory bodies and sector committees in the standard-setting process. Expanding the illustration offered on pg. 40 to includes these groups as well as the technical staff would be of benefit.

Question 11 – When read alongside the Conceptual Framework exposure draft, are there important aspects of policies and practices followed by the Standards Board that are missing from the Rules of Procedure exposure draft?

CDSB did not identify any missing policies or practices in the Rules of Procedure.

Question 12 – Additional comments

N/A

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