Public Comment to the Sustainability Accounting Standards Board re: its *Conceptual Framework Exposure Draft*

Submitted by Members of the Sustainability Context Group
July 26, 2013

We, the undersigned members of the *Sustainability Context Group*, an international community of corporate sustainability professionals, managers, academics, analysts and advisors, are pleased to submit the following comments to SASB in response to its June 12, 2013 *Conceptual Framework Exposure Draft*:

1. **We fully support, in the strongest possible terms, the *Framework*'s grounding in the multi-capital model as a basis for accounting for and disclosing material sustainability issues**. The *Exposure Draft* encapsulates this commitment in citing "forms of capital beyond financial capital" (1.2; 2.8), "non-financial capital" (2.3 - 2.10) and "common capitals" (3.44; 3.49 - 3.51) which SASB defines as natural, social, and human capitals (as well as intellectual capital in places). In our view, SASB is among the first of the major reporting standards (after IIRC) to take an explicit and vigorous stance on this subject, the importance of which cannot be overstated. Indeed, we believe there cannot be any meaningful measure of organizational performance (either financial or non-financial) without taking account of impacts on vital capitals. We applaud SASB's leadership on this issue and urge it to stay the course.
2. **The *Conceptual Framework*'s commitment to the multi-capital model could stand to be strengthened.** The underlying reason for measuring and managing impacts on capitals in all forms – which constitute the very foundations of value creation – is to enhance or maintain the stocks for future use in supporting shareholder value and stakeholder well-being, or at a minimum, to signal when their availability and/or quality is threatened to such a point that adaptive management actions are needed to maintain continuity of business operations. By creating a framework that instructs companies to report their use of a shared capital stock with no supporting acknowledgment of the size of that capital stock, its health, or the reporting company's claim of share for the stock in

question, SASB is, in our opinion, missing a critical step in helping companies and investors better evaluate sustainability risks and opportunities—namely, the step of placing corporate sustainability metrics in their appropriate supporting "context".

3. **To strengthen the *Conceptual Framework*, SASB should strongly consider including a "context" requirement.** We believe the long-term viability of the SASB Framework (as well as the long-term viability of capital markets and human existence on our planet) hinges on requiring companies to measure and disclose their impacts on the multiple capitals within the "context" of sustaining stocks of these vital common capitals at levels required to ensure ongoing shareholder value creation and stakeholder well-being.
4. **We acknowledge the fundamental difference between financial capital and non-financial (or common) capitals that the *Exposure Draft* notes in 2.4** (more on this below.) However, we do not agree with the mutual exclusivity the *Exposure Draft* implies in 2.6 and 2.7, whereby the minimum decision-useful information for comparing performance between peers and industries necessarily precludes a degree of accounting or information associated with scientific accuracy and target setting. To the contrary, we believe investors and other end-users of SEC-mandated material information have a right to expect, at minimum, data that aligns with scientific accuracy and underpins target setting. We can't imagine that SASB intends to purvey scientifically inaccurate information, nor to withhold information that would enable investors to assess the quality of company target setting.
5. **On the difference between financial and non-financial capital, we believe that the former consists primarily of quantitative data that has companies themselves and the market as its reference point (or context), enabling companies themselves, and their external shareholders and stakeholders, to gauge performance.** Context for financial capital is therefore inherent in the existence of financial markets and enterprises within them – it is a self-referencing system.
6. **Non-financial (or common) capitals, on the other hand, are**:
    a. Varied and many in number;
    b. Highly dependent on spatial and temporal characteristics;
    c. Interactive and interdependent within systems frameworks;
    d. Drawn upon by diverse users who each perceive a legitimate claim to their partial use.
7. **Said another way, the "context" within which companies or their shareholders and stakeholders can appropriately evaluate the risks and opportunities associated with "common capitals" is not inherent in a simple reporting of the numbers used to represent impacts on those capitals (a stance similar to the idea that "non-financial accounting does not aggregate into clear flows" (2.4))**. These contexts must be identified, and will be specific to the resources impacted and spatial/temporal interrelationships of each company (within its industry) in question.

8. **In light of the general absence of third party standards for the determination of such context for "Common Capitals", it is incumbent on the reporting companies themselves (and/or their industry) to provide best-available and transparent "context" data for common capitals** – in other words, to provide the thresholds for company-level (and/or industry-level) impacts on common capitals that sustain common capital stocks and flows sufficient for ongoing value-creation.
9. **While we understand that this imposes a burden, we believe it is absolutely necessary**. No company, nor its shareholders and stakeholders, can evaluate its performance vis-à-vis common capitals without such context. To exclude this context from the accounting process would encourage business reporting of potentially meaningless numbers that do little to improve performance – financial *and* non-financial – through improved risk/opportunity analysis, securing of license to operate, and quantifying externalities for the purpose of internalizing them. Turning the tables, company use of common capitals places burdens (historically, presently, and into the future) on individual stakeholders and society at large, some of which have eroded the availability and viability of common capitals for ongoing use by companies, stakeholders, and society at large (beyond the thresholds of our planetary boundaries in certain instances). We believe the burdens placed on companies for identifying the context for sustaining common capitals is altogether commensurate with the burdens companies impose on common capitals, stakeholders, and society, and therefore represents minimum, decision-useful, material information.
10. **Thankfully, the SASB Framework lends itself to a context-based approach in three ways, therefore requiring very little modification of the existing format**. Our suggestions for how to include robust and impactful "context" requirements are as follows:
    a. Revise the "Forward-looking Adjustment" Principle from "externalities" to "sustainability context" to more comprehensively cover all three "main factors" identified by the *Exposure Draft* (3.44 – "extensive license to operate" and "use of common capitals" in addition to "high costs on society and/or environmental externalities");
    b. In the "Characteristics of Sustainability Accounting and Disclosure: Principles" section (4.2), replace "directional" (and its definition) – which lacks the necessary elements of *time/pace* and *proximity to relevant social or ecological threshold* that define sustainability – with "contextual: The metric provides clarity about whether the numerical value signals sustainable performance";
    c. The Multi-Stakeholder Industry Working Groups present an ideal opportunity to initiate discussion toward identifying methods that companies can use to determine their sustainability thresholds in material areas of impact for their industries. We believe this is the most cost-effective means of sourcing this necessary information, as

it spreads the burden across the peer-group. Regardless, we believe the benefits of clearly identifying industry-specific sustainability thresholds far outweigh the costs of unsustainable performance.

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Sincerely,

<u>Signatories to July 26, 2013 Public Comment by SCG to SASB</u>
<u>During Public Comment Period re: *Conceptual Framework Exposure Draft*</u>

[Note: All signatories are signing in their personal capacity; organizational affiliations are included for identification purposes only, except for asterisked entries that indicate signing in organizational capacity.]

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