Remarks of Alan L. Beller
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Thank you Norm for that kind introduction. It is a genuine pleasure and honor to be in such distinguished company and to have been asked to speak to you today.

I should note that I am only speaking for myself today, and my views do not necessarily represent those of the SASB or any other organization or person.

Where would I start in talking about sustainability and corporate reporting? First, corporations all over the world identify and understand the key factors behind their success, their value creation proposition if you will, and also identify and understand the key factors that are risks or obstacles to their success. Second, investors should have access to enough information about those factors to make informed individual investment decisions, which collectively should become the financial markets' capital allocation decisions.

Some key factors are readily apparent in historical financial statements and other financial reporting. Others are less obvious but can represent potential signals or "red flags" that may end up not being concerning but should be examined-- for example, quarter after quarter of net income accompanied by negative operating cash flows, quarter after quarter of negative current ratios, or top line growth that correlates entirely to acquisition activity . However, many other key factors are not apparent from the financial statements or related financial reporting. Here are just a few examples: the risk of stranded assets for a company involved in resource extraction; the opportunity provided by assured access to a critical resource for a manufacturing company, especially where comparable access is problematic for competitors; risk of disruption of a supply chain that is critical to a product that is material to a company's results; opportunity for a regulatory breakthrough that will lead to a successful product or service that creates value, or conversely, risk of regulatory action that would have a material negative impact on a company's success. The key factors that are not part of the financial statements or financial reporting but that support value creation or constitute the risks or obstacles to value creation are the grist for the mill of ESG reporting, and for the SASB.

SASB'S MISSION

To paraphrase the first sentence of SASB's current mission statement: "The SASB was established to set industry-specific standards for corporate sustainability disclosure, with a view towards ensuring that the information disclosed is financially material, comparable, and decision-useful for investors."

Let's parse the key elements.

First, the standards are to be **industry specific**. I think it is axiomatic that the ESG factors that are important to value creation are different for a financial institution and a beverage company. Or for a chemical manufacturer and a retail company. However, much of the ESG disclosure that is requested by stakeholders and provided by issuers in sustainability questionnaires and reports does not differentiate by industry. As a result, companies spend inordinate unnecessary amounts of time amassing information that is beside the point, and the information that may make a difference in the performance or value creation of a company, or the companies in an industry, is buried in dozens of pages of information that probably makes no difference. At the earlies stages of its work on establishing standards, SASB identified 11 different sectors that were further broken down into 79 industries. SASB has established provisional standards, and is working on final standards, which I will get to later, for each of those 79 industries.

Second, the SASB's mission relates to **disclosure**, not the evaluation of results. Having said that, SASB would cheerfully admit, as would the SEC in its more candid moments, that disclosure requirements can drive behavior and outcomes. Moreover, the most meaningful disclosure regarding ESG topics follows from managing to those same topics. Having a company that engages in ESG disclosure because there is investor or other stakeholder demand for it while not having a management system that measures performance of ESG topics that are important to the company's performance and value is sub-optimal if not irrational.

Third, the standards are designed to produce disclosure for the specific audience of **investors**. There are dozens, even hundreds, of organizations that seek, receive, tabulate, evaluate and rate ESG disclosure. They do so for a wide audience of different stakeholders, including investors, customers, employees, communities, voters, regulators, NGOs and others. SASB respects and indeed supports other ESG disclosure regimes that are targeted to these wider audiences, and considers them as complementary to SASB's standards, but SASB's standards are specifically designed for use by investors.

Fourth, not surprisingly given that the standards target an audience of investors, the ESG information to be disclosed under the SASB standards should be **financially material**. The SASB's determination of financial materiality begins with the US federal securities law definition of materiality-- information is material if there is a substantial likelihood that its disclosure would be viewed by the reasonable investor as significantly altering the total mix of information made available. The SASB approach leads to a less inclusive concept of materiality than that used by some other organizations seeking ESG disclosure or used in some other jurisdictions' securities regulatory regimes. The SASB approach also results in a higher likelihood that its standards will call for disclosure of globally relevant information. I say this for two reasons. First, the SASB approach will lead to disclosure that meets the test of relevance under regimes where the standard of materiality is more inclusive. Second, US registration and resulting adoption of the US materiality standard for disclosure by a large number of non-US companies, including many of the world's largest companies, ensures that ESG disclosure under the SASB's standards will be globally relevant.

Fifth, the standards should produce **decision-useful** disclosure. Specifically, and also not surprising given that investors are the target audience, the disclosure produced by the standards should provide financially material information that is useful in the context of investors' investment and voting decisions. These decisions drive performance and securities value and collectively drive the allocation of capital.

Finally, disclosure under the SASB standards should be **comparable**. In particular, because of the industry-specific nature of the standards, disclosure by companies within an industry should be **comparable**. As discussed later on, in certain areas SASB standards focus on metrics, and one reason is that metrics are more likely to lead to an increase in comparability of disclosures among companies. There is a constant tension between investors' desire for comparability and the desire of management at any particular company for flexibility and for the ability to tell its own story in its own way. There is more comparability in financial reporting than in other disclosure, because accounting standards provide the baseline for financial reporting. SASB in its standard setting is seeking to drive comparability by providing a similar baseline for ESG disclosure. Companies' insistence on flexibility in the financial reporting has led, among other things, to the use of non-GAAP financial measures, which can at their best provide useful insights into financial information and at their worst (more prevalent than it should be in an ideal world) can lead to what someone described as EBBS accounting (Everything But the Bad Stuff). I am enough of a realist to know that if and when ESG disclosure becomes more prevalent, companies will seek to achieve flexibility. But SASB's standards will seek to provide a baseline of comparable disclosure and particularly metrics.

SASB'S STANDARDS AND PROCESS

SASB's process of setting standards in pursuit of its mission requires the following: identification of the sectors and industries that would be used for SASB's industry-specific approach; research to identify possible topics and metrics that the standards should address; development of a technical agenda of topics for consideration for the standards; an evidence-based approach, which has been designed to be rigorous, to determine which topics and metrics are financially material (by which I mean you can see the impact of the ESG topic in the numbers) and decision-useful for investors; and exposure of proposals to a public comment period and additional consultation with stakeholders to ensure that standards enable disclosures that focus on material information and are decision-useful for investors and cost-effective for preparers.

I want to revisit the "financially material" point for a moment. The Standards Board's processes call for topics and metrics to be included in our standards only if there is a reasonably likely financial impact. When I say, "You can see it in the numbers," for SASB that means looking at both the past and the future. If there is evidence of financial materiality in the financial statements, such as could, for example, be the case with past supply chain disruptions in the retail industry, one aspect of the analysis would be whether that is predictive for the industry going forward. Determining what ESG disclosure is financially material and decision-useful is also in part an exercise in evaluating known future trends and uncertainties. This involves an assessment of whether reasonably likely future impacts of an ESG topic or topics are also reasonably likely to materially impact a company's future financial performance or financial condition.

SASB began its standard setting by establishing a Standards Council that was charged with internal responsibility for designing and promulgating provisional disclosure standards. The provisional standards were developed and promulgated sector-by-sector between 2012 and 2016.

Following completion of the provisional standards, the SASB restructured itself to ensure that it had the structure and more closely followed the processes of an independent standard-setting organization. The structure resembles that of the FASB and the Financial Accounting Foundation or the IASB and the IFRS Foundation. An independent standard-setting board, the Sustainability Accounting Standards Board was established. The pre-existing board became the oversight and governance Board of the SASB Foundation. The Standards Board is charged with following the Conceptual Framework and Rules of Procedures that had been established to turn the provisional standards into final standards, and thereafter to monitor and update those standards.

The Foundation Board is charged with appointing the members of the Standards Board and is responsible for oversight, governance and funding. The Foundation Board is also charged with determining strategy in respect of various stakeholders in promoting use of the standards. The Foundation Board is charged with ensuring that the Standards Board follows its due process procedures, and with resolving complaints regarding allegations that the Standards Board has failed to follow due process, but the Foundation Board and its members is not involved in setting or assessing the substance of the standards.

SASB Standards identify sustainability topics at an industry level that are designed to produce presumptively material information for companies in that industry—depending on a company's specific operating context. It is up to each company's management, and I cannot emphasize this strongly enough, to determine whether a SASB standard in fact produces financially material information for that company. SASB Standards are intended to provide guidance to company management, which is ultimately responsible for determining which information is financially material.

(I would point out that the accounting standards developed by the FASB and the IASB are in fact intended to operate similarly. Accounting standards carry a materiality filter that is too often disregarded.)

The Standards Board, working from the provisional standards, engaged in public outreach and consultation and in the fall of 2017 publicly promulgated an exposure draft of final standards for the 79 industries, including 247 proposed changes from the provisional standards, and accompanied by Bases for Conclusion for each of the proposed changes.

Let me give you a company of examples of the proposed changes.

- First, the provisional standards for the biotech pharma industry included a metric measuring the average price increase of a company's drug portfolio over the previous year. The Standards Board proposed an additional metric measuring the largest percentage increase in price of any drug in the portfolio.
- Second, going in the other direction, the provisional standards included a metric for investment managers involving the CO2 emissions of the issuers in the manager's investment portfolio. The Standards Board proposed the elimination of this metric because it may well not be workable, since investment managers do not have access to complete and consistent information regarding their portfolio companies' emissions.

The Standards Board set a comment period, later extended to 120 days, for public comment on the exposure draft. There has also been additional outreach to stakeholders since the exposure draft was published. The Standards Board received 120 comment letters, many containing detailed comments on particular standards and industries. The comment letters are posted on the Foundation's website.

The Standards Board and staff have been working through the comments and other necessary steps and changes in producing final standards. There have been public meetings of the Standards Board where the public can attend in person or via the internet. Another public meeting is scheduled in July at Fordham's Lincoln Center campus. The goal of the Standards Board is to promulgate final standards by August 2018.

The Standards Board is also in the process of establishing and populating Sector Advisory Groups, including particularly issuer participants, to provide ongoing input in the process of assessing standards and changes going forward. Standard-setting will be an ongoing process.

MANNER OF DISCLOSURE

SASB's processes will produce a globally relevant set of industry-specific ESG standards. I say that notwithstanding the fact that the starting point for the SASB's standard-setting has been the concept of materiality under the US federal securities laws. And this starting point also does not dictate the manner of disclosure of information that is responsive to the SASB standards.

The SASB's work in analyzing current disclosures has convincingly demonstrated that companies include information that ties to a significant majority of the SASB provisional standards in their US regulatory filings. Unfortunately, much of the disclosure is generic boilerplate. (Interestingly, non-US companies are more responsive to the topics covered by the SASB standards than their US counterparts.)

However, with the communications revolution of the last couple of decades, featuring among other developments the internet and social media, companies today have a vast array of options available to them in deciding how to communicate with their investors. Optimal ESG disclosure will depend on companies and investors reaching an understanding as to both what information should be disclosed and how it should be disclosed.

I have talked a good deal already about the what.

An understanding as to how to disclose will require a market-driven solution. Regulatory filings will play a role, and ideally an increasing role as ESG disclosure becomes more widespread, the processes for producing and verifying the reliability of information become more mature and there is greater agreement as to what information should be disclosed. In both the short and long term, however, better disclosure will be produced by market-driven solutions and understandings between companies and investors more than by legal requirements.

Just to take the US rules for a moment, regulatory filings do not require the disclosure of all material information-- I repeat, there is no requirement that all material information be disclosed. Information is required to be disclosed if it falls into one of the following categories:

- It is responsive to a line item disclosure requirement.
- It has to be disclosed to keep the rest of what is being disclosed from being misleading.
- It is forward-looking information as to a known trend or uncertainty that is reasonably likely to occur and to have a material impact on financial performance or condition.

Now that last requirement is very important in the world of ESG disclosure, because thinking about ESG matters is inherently a forward-looking exercise. However, companies often tend to seek to satisfy this last requirement through generic and boilerplate Risk Factors or other disclosure that would not be fully responsive to what investors seek, or to SASB standards and metrics.

The SEC issued a Concept Release in 2016 seeking input on how to improve its disclosure regime. Most of the responses that were not form letters addressed ESG disclosure, and there was considerable discussion of both additional and more focused disclosure. Significantly, the SASB's comment letter stated that additional rules were unnecessary, principally because SASB believes that the existing requirement as to forward-looking information referred to above provides an adequate basis for, and the correct way to think about, ESG disclosure. It must also be noted that advocating line item requirements dictating disclosure covering 79 industry-specific standards is unrealistic without regard to the political environment.

Companies have made clear their resistance, at least currently, to providing ESG disclosure beyond the legally required minimum in regulatory filings. As noted above, there are a wide variety of other avenues for disclosure available, including sustainability reports, annual reports, integrated reporting documents, website disclosure, CEO or Chair letters to investors, investor presentations, and others. As for investors, they have increasingly made clear that getting good ESG disclosure is more important than where it appears, so long as it is readily accessible, and that company resistance to disclosure in regulatory filings has developed into an unnecessary distraction and an obstacle to ESG disclosure.

What is vital is that ESG disclosure operate within a robust framework of governance and processes and controls-- with management involvement, including financial, legal, and investor relations, and a strong control environment to ensure accuracy and completeness of disclosures. The framework around ESG disclosures should follow the same principles as are used for financial reporting. In addition, more attention should be paid to the role of assurance in respect of ESG disclosures.

I believe that the liability risk for companies for ESG disclosure in regulatory filings is not significantly greater than the risk for disclosure through other avenues. I also hope that over time more ESG disclosure is included in regulatory filings. For now, I favor a process of not insisting on inclusion in regulatory filings, except of course as to matters where disclosure is legally required, and seeking an understanding between companies and investors as to the best manner of disclosure of financially material decision-useful ESG information at an adequate level.

YOUR INVOLVEMENT

We have reached an important inflection point in the ongoing journey of ESG reporting. I would hope that in the next stages of this journey there would be engagement by issuers and investors to produce the best results for all. In particular, I would note the following:

- In the next few months, the SASB Standards Board is planning to codify and promulgate standards for 79 industries. SASB wants issuers and investors to engage in a process of adoption, but we also want feedback.
- In that vein, SASB is in the process of establishing Sector Advisory Groups for the eleven sectors. This will be a key point of engagement for receiving technical input especially from issuers. I urge issuers and their representatives to consider joining a Sector Advisory Group.
- SASB offers a certificate for those who wish to get up to speed on the basis and nuances of ESG standards and disclosure. I would urge those who might be interested to seek out more information on the SASB website.

Many thanks for the opportunity to speak with you today about this important topic. I believe we have time for a couple of questions.