Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111
(415) 830-9220
sasb.org

12 November 2019

Professor Carol Adams
The Palatine Centre
Durham University
Stockton Road
Durham DH1 3LE UK

Dear Dr. Adams:

Thank you for the opportunity to comment on your consultation paper, "Recommendations for SDG Disclosures." By way of introduction, I write to you as the Director of NGO Outreach for the Sustainability Accounting Standards Board (SASB). SASB is an independent nonprofit organization that connects businesses and investors on the financial impacts of sustainability. Using a robust due process with significant market input, SASB has established disclosure standards for 77 industries across 11 sectors. The ability to identify business relevant ESG issues for each industry is driven by the concept of financial materiality. Generally speaking, financially material information is that which is important to a person making an investment or voting decision, and has an impact on the financial condition or operating performance of a company within an industry. SASB standards help investors by fostering corporate disclosures of environmental, social and governance (ESG) sustainability data that is comparable, consistent, and financially material—empowering investors to make better investment and voting decisions.

At SASB, we also recognize that "a shift in investment and capital markets is required to achieve the SDGs"[1]. The UN estimates that achieving the SDGs will require annual investments of US$5-7 trillion until 2030. Given the scale and urgency of many of the challenges embedded in the Goals, private-sector capital will be essential to transform global ambition into global action. Our theory of change begins with the understanding that mobilizing capital at this scale requires alignment of business and investor interests. Companies are more likely to allocate capital to SDGs that are aligned with their business strategy and financial goals (through both their products and services and improved business operations). Investors are more likely to finance SDG-related activities aligned with investment strategy and return targets. Companies and investors can accelerate progress by aligning business and financial objectives, reduce negative impacts, and achieve positive impacts on the SDGs. Disclosure has a critical role to play in driving a race to the top to enable capital allocation and outcomes.

**<u>After reviewing the paper, we offer the following comments to your questions:</u>**

**1) Principles**

1) Are the disclosure Principles selected appropriate to encourage both the integration of SDGs into strategy and transparency in relation to risks, opportunities and impacts?

[1] Recommendations for SDG Disclosures: A consultation paper, P. 7

Principles underpin the preparation of corporate disclosures[2]. Principles inform the content of disclosures, the quality of information disclosed, and how, where and when it is presented in the relevant report. Significant differences in reporting principles can result in confusion for report preparers and may inhibit the utility of such information for users if these differences are not well-founded, clearly articulated or well understood.

Through its participation in the Corporate Reporting Dialogue, SASB, along with CDP, CDSB, GRI, IIRC, and ISO[3] have committed to ensure that the reporting landscape works effectively to support organisations in preparing disclosures that meet the evolving information needs of capital markets and society through among other items, alignment of principles.

As part of the CRD workplan, participants individually considered the key content elements of the principles of their frameworks or standards and mapped these against each of the TCFD's Principles for Effective Disclosure. The TCFD's seven Principles for Effective Disclosure, were explicitly and intentionally drafted to be 'largely consistent with other mainstream, internationally accepted frameworks.'[4] The mapping shows the level of considerable agreement between the TCFD's seven principles and the Participants' reporting principles.

> *Rather than introduce an additional set of principles capturing aspects of good disclosure, we recommend that the proposed <u>Framework for Recommended SDG Disclosures</u> use the TCFD Principles for Effective Disclosure and offer report users confidence in the complementarity of the CRD Participants' different frameworks and standards, as reflected in the CRD's recent TCFD mapping efforts.*

**2) Disclosures**

a) Are the recommended Disclosures appropriate and complete?
b) Are you aware of additional good practice examples?

The SDG Compass, developed by the UN Global Compact, GRI, and WBCSD is a guide that companies can use to align their strategies with the relevant SDGs, measure and manage their impacts, and report on performance, whether positive or negative, related to the relevant SDG. The SDG Compass incorporates feedback received through three consultation periods from companies, government agencies, academic institutions and civil society organizations worldwide. It is supported by a constantly updated inventory of business indicators and tools.

> *We recommend that the proposed <u>Framework for Recommended SDG Disclosures</u> actively seek to align to the SDG Compass.*

3) **Enhancing the credibility of Disclosures**

a) Are there additional sources of assurance evidence that could be included?
b) Do you foresee issues in the supply of assurance? Why?
c) Are there alternatives to assurance that could be included to enhance credibility of reporting?

The development of Table 3 is an important step to adding credibility and robustness to an organization's approach. An important area of further development is suitable criteria for quantitative metrics associated with SDG targets, which is most likely to be achieved when

[2] https://corporatereportingdialogue.com/wp-content/uploads/2019/09/CRD_BAP_Report_2019.pdf
[3] CDP, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), International Organization for Standardization (ISO).
[4] TCFD (2017), Final Report. Accessed online: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

using well-defined, independent, disclosure standards. A review of ESG reporting shows that despite a proliferation of ESG disclosure by companies[5], most ESG reporting provides information on policies and targets, not numeric performance[6]. Additionally, even when the data is numeric, uncomparable metrics and units of measures lead to variability of data that can lead to vastly different interpretations of performance.[7]

*We recommend that the proposed Framework for Recommended SDG Disclosures point to existing standards that contribute to the goal of enhanced corporate reporting, particularly those developed with due process and designed to serve as a basis for suitable criteria if an entity chooses to seek third-party assurance.*

**4) Alignment**

• Are there further opportunities for aligning existing frameworks?

There is a need for the emergence and implementation of an aligned, global approach that can lead to comparable, high quality reporting. This is an opportunity to do help improve awareness of existing alignment.

*We recommend that the proposed Framework for Recommended SDG Disclosures strongly support the efforts of the Corporate Reporting Dialogue and its member organizations.*

**5) Other matters**

• Are there additional matters which should be addressed prior to finalisation?

Thank you for considering these recommendations. If you have any additional questions or comments, please contact me at sonal.dalal@sasb.org.

Sincerely,

Sonal Pandya Dalal

Director of NGO Outreach
Sustainability Accounting Standards Board

[5] In 2018, 86% of the S&P 500 reported ESG information, compared to 20% in 2011.

[6] Goldman Sachs Global Investment Research, *The PM's Guide to the ESG Revolution*, April 18, 2017.

[7] Kotsantonis, Sakis, Serafeim, George. "Four Things No One Will Tell You About ESG Data" Journal of Applied Corporate Finance. Volume 31 Number 2 (2019): Page 52