

What Public Companies Should Know About New Standards for ESG Disclosure

The standards recently issued by the Sustainability Accounting Standards Board have gained traction with some institutional investors, proxy advisory firms and even public companies.

A significant number of active and passive investment managers have pledged support for new industry-specific environmental, social and governance (ESG) reporting standards for public companies that were recently published by the Sustainability Accounting Standards Board (SASB). Some investors have said they will use the materiality-based standards for investment decisions as well as for proxy voting.

What's more, the proxy advisory firm Glass Lewis has said it will incorporate SASB standards into its consideration of shareholder proposals in 2019. Glass Lewis said it will use SASB standards to assist the firm in determining the financial implications of a company adopting, or not adopting, any proposed shareholder resolutions that relate to ESG (e.g., a proposal seeking to tie executive compensation to sustainability metrics).

Some public companies have already begun using the SASB standards, the organization says. These companies include CBRE, Diageo, General Motors, Groupe PSA, Host Hotels, JetBlue, Kellogg's, Merck, Nike, NRG Energy and Schneider Electric.

While there is not (yet) a regulatory mandate for companies to adopt or disclose a specific sustainability framework, the endorsements of many investors — along with Glass Lewis — provide a strong incentive for public companies to adopt the SASB standards or some level of sustainability reporting.

Figure 1 shows a list of the organizations that comprise the SASB's Investor Advisory Group, which endorses the standards.

Figure 1

The SASB Investor Advisory Group

Aberdeen Standard Investments	Goldman Sachs Asset Management	QMA (a PGIM company)
All Pensions Group	JANA Partners	State Street Global Advisors
Bank of America Merrill Lynch	Morgan Stanley Investment Management	Sustainable Insight Capital Management
BCI	New York City Retirement Systems	TIAA Investments
BlackRock	Nordea Investment Management	UAW Retiree Medical Benefits Trust
Breckinridge Capital Advisors	Northern Trust Asset Management	UBS Asset Management
CalPERS	Ontario Teachers' Pension Plan	Vanguard
CalSTRS	Oregon State Treasury	Walden Asset Management
Calvert	Perella Weinberg Partners	Wells Fargo Asset Management
Capital Group	PGGM	Wespath Investment Management
Domini Impact Investments	PIMCO	

Source: SASB

The full list of SASB standards is available [here](#). The standards include four main elements:

- **Disclosure topics:** A minimum set of industry-specific disclosure topics reasonably likely to constitute material information and a brief description of how management or mismanagement of each topic may affect value creation.
- **Accounting metrics:** A set of quantitative and/or qualitative accounting metrics intended to measure performance on each topic.
- **Technical protocols:** Each accounting metric is accompanied by a technical protocol that provides guidance on definitions, scope, implementation, compilation and presentation, all of which are intended to constitute suitable criteria for third-party assurance.
- **Activity metrics:** A set of metrics that quantify the scale of a company's business and are intended for use in conjunction with accounting metrics to normalize data and facilitate comparison.

Next Steps

At a minimum, a company should be conversant in the SASB standards for its industry and assess to what extent it believes the standards are relevant to the company. It is also important for companies to ensure that they are adequately conveying any existing programs or actions that already address the information sought by these standards through effective disclosure and corporate investor relations websites. However, businesses should still

make their own determination of what is strategically important and consider incorporating those views into their proxy statement disclosure and/or outreach to investors.

Timing of the SASB release leaves little time to incorporate this into 2019 proxy disclosure, but familiarity with the SASB standards may help companies navigate communications with investors and potentially even the SEC on ESG-related topics such as shareholder proposals and risk oversight. Given the newness of these standards and the lack of broad consensus on sustainability reporting frameworks, even a modest level of proactive corporate actions on this topic can benefit a company and its shareholders.

If you have any questions about the sustainability reporting or other ESG-related topics and want to speak with a member of our governance consulting team, please write to consulting@radford.com. Radford can assist in determining your compliance with these standards and other relevant measures, as well as determine appropriate next steps that align with your company's business strategy, culture and goals for ESG initiatives.

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