Sustainable Finance initiative

Overwhelmed by ESG frameworks?

Deep dive into SASB with SFi and learn how SASB is empowering investors to make better investment decisions

Investors and analysts are increasingly looking beyond financial statements for a more comprehensive view of company performance and seeking out sustainability data to enhance their understanding of ESG-related risks and opportunities.

Yet, investors are overwhelmed by the number of reporting standards, sustainability frameworks and measurement approaches that have emerged. The SASB Standards have been one of the most widely used reporting standards by investors - empowering them to make more informed investment and voting decisions.

SFi recently spoke with Katie Schmitz Eulitt, Director, Investor Outreach of SASB to unpack what has become somewhat of an alphabet soup of standards, codes and frameworks. We discuss how investors are using SASB to inform portfolio analysis and investment decision-making, SASB's purpose and distinguishing factors to other standards, regional uptake in Asia and the road ahead.

An introduction to SASB

Sustainability Accounting Standards Board ("SASB") is an independent non-governmental organisation that issues industry-specific sustainability accounting standards for the disclosure of financially-material sustainability information to investors. Although SASB is based in the United States, the standards are intended to be used globally.

Its background and aim are to identify ESG issues that affect companies' financial performance and that are, therefore, financially material for investors. Its intention is to promote the adoption of ESG measurement standards for companies that are of the same relevance and reliability as accounting standards for financial information. SASB metrics are aligned with over 200 existing frameworks, regulations, and certifications, and are 74% quantitative.

A tool to inform portfolio analysis and investment decision-making

SASB published a set of codified standards known as the "SASB Standards" in 2018. The SASB Standards identify the subset of environmental, social and governance (ESG) issues that are reasonably likely to affect the financial condition or operating performance of a company within an industry. The SASB Standards are unique in the marketplace due to their focus on financial materiality, and this is why they are particularly relevant to investors.

Financial materiality is a universal concept important for investors and companies in all markets and countries, which enables companies to assess the ESG-related risks and opportunities that are most relevant to business financial performance. Financial materiality enables companies to identify the ESG-related risks to which they are exposed and make effective, decision-useful disclosures to their investors.

Because the materiality of sustainability issues varies across industries, SASB has established the Sustainable Industry Classification System™ (SICS), which is comprised of 11 sectors that further subdivide into 77 industries. For each industry, standards have been established for the ESG issues most likely to be material to investors, as seen in its [Materiality Map](). The standards for each industry are determined from a total list of 26 ESG General Issue Categories classified in the dimensions of Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance.

On average, each industry standard has six issues with unique industry manifestations that are identified as Disclosure Topics to inform corporate reporting. Going further, for each industry, SASB has assessed the link between key Disclosure Topics and 13 financial value drivers. It is this linkage between material ESG issues and financial performance that makes SASB so appropriate for investors.

SASB's 13 financial value drivers:

Revenue			Operating Expenses		Non-Operating Expenses		Asset and Liabilities				Cost of Capital	
Market Share	New Markets	Pricing Power	Cost of Revenue	R&D	CapEx	Extraordinary Expenses	Tangible Assets	Intangible Assets	Contingent Liabilities & Provisions	Pension & Other Liabilities	Cost of Capital	Industry Divestment Risk

Source: Sustainability Accounting Standards Board (SASB)

For investors, this helps to show how each disclosure topic/ESG issue might impact a company's financial value drivers. At the industry level, each disclosure topic might impact one or more value drivers to a different degree. The greater the number of value drivers impacted, the higher is the "financial relevance" of the material issue. As more and more companies report in accordance with the SASB Standards, it will become possible to see the relationship between these disclosure topics and the 13 financial value drivers. This will ultimately enable better resource allocation decisions by investors.

Another example by industry, as shown in the chart below, shows the most material issues in the Internet Media and Services industry and their likely effects on value drivers. For example, all five material issues affect revenue and cost of capital. In the latter case, all are rated "high" except for one.

Financial Relevance of Disclosure Topics for the Internet Media & Services Industry

Internet Media & Services						
Disclosure Topic	Revenue	OPEX	Non-Opex	Assets	Liabilities	Cost of Capital
Data Privacy, Advertising & Freedom of Expression	high	medium	medium	high	medium	high
Data Security	high	medium	medium	high	medium	high
Environmental Footprint and Hardware Infrastructure	medium	high	medium			medium
Employee Recruitment, Inclusion & Performance	medium	high		high		high
Intellectual Property and Competitive Behavior	high		high		high	high

Source: Sustainability Accounting Standards Board (SASB)

Spotlight on public markets

For investors in public markets, the SASB Standards help investors to enhance analysis and decision making by providing comparable ESG information that informs bottom up fundamental equity analysis and serves as an input in the development of risk factor models. For portfolio managers, the SASB Standards provide useful information to guide engagement efforts and stewardship. Fixed income investors can also integrate SASB into their analyses of creditworthiness. When paired with third party data providers, the SASB Standards are able to assist in reducing vendor-specific subjectivity.

For deal teams in private markets, the SASB Standards can be used to conduct due diligence on target acquisitions. Private market firms also use the SASB Standards to inform active ownership strategies supporting portfolio companies. For more guidance, see the Engagement Guide.

Distinguishing factors from other reporting standards, sustainability frameworks and measurement approaches

Lack of consistency, comparability, and reliability of ESG data is among the biggest issues cited by investors as hampering their ability to better understand ESG-associated risks and opportunities in their portfolio companies. Another factor is the confusion surrounding all the reporting standards, frameworks and measurement approaches and how they differ from one another. Here we discuss several standards and frameworks.

a. SASB and GRI (Reporting Standards)

SASB Standards and Global Reporting Initiative (GRI) Standards are complementary and are designed to serve different purposes. SASB's primary audience is investors while GRI serves a broad range of stakeholders, including civil society, policy makers, and investors. Second, their definition of "materiality" is different – SASB's definition is one of financial relevance of an ESG issue (like that of the Financial Accounting Standards Board) while GRI's definition is more broadly focused on economic, environmental and social impacts of a company in relation to sustainable development, which may be of interest to a broader range of stakeholders beyond the investor group, including customers, policy makers, and civil society. Many companies in fact use both the GRI and SASB standards together as they serve complementary purposes and most recently, GRI and SASB have announced a collaboration[1].

b. SASB and SDGs (Sustainability Frameworks)

SASB mapped the 17 Sustainable Development Goals (SDGs) and their 169 associated targets to the industry-specific Disclosure Topics included in its standards and found that 64% of SDG targets are aligned with at least one SASB disclosure topic. SASB and the SDGs can be complementary and when used in tandem with SDGs, the SASB Standards can help companies and investors identify which SDGs are related to long-term value creation. Although the SASB Standards are not measures of progress towards the SDGs, they can help companies and investors measure progress on certain financially material SDG-related risks and opportunities within their operations or portfolio[2].

c. SASB and TCFD (Sustainability Framework)

The Task Force on Climate-related Disclosures (TCFD) provides a broader framework by offering guidance for evaluating and reporting climate-related risks, as well as the related governance issues that are essential to managing them. SASB believes that standards setters like itself and GRI are complementary to such frameworks and can be and are often used together. For instance, within a broader framework of principles, SASB or GRI standards provide specific and detailed metrics for what should be reported for each topic and therefore, form a practical tool for companies implementing TCFD. See SASB's TCFD Implementation Guide for practical "how-to" guidance.

d. SASB and IMP (Measurement Approach)

The Impact Management Project is working with GRI and SASB and other nonfinancial standard setting organisations to clarify how their standards are related to each other. The IMP facilitates a "structured network" of 13 members working to leverage and harmonize their expertise in nonfinancial reporting and impact measurement for the benefit of companies, investors, and public entities in order to ensure long-term value creation for shareholders while supporting the Sustainable Development Goals.

e. SASB and ESG ratings

It is important to note that SASB does not score companies, but some companies such as State Street Global Advisors have integrated SASB into their own systems of evaluating and rating companies. SASB, is a standards setter and does not rank or rate companies. However, data ranking and ratings often require a foundation of comparable and high-quality information and the SASB Standards may be able to provide such underlying information.

Regional uptake of SASB versus global

Globally, 406 companies have reported using the SASB Standards. A paper was released in March 2020 analysing the quality of reporting of companies that used SASB standards in their 2019 sustainability reports[3]. The paper found that on average the quality of reporting was good to very good. The high quality of implementation by the early adopters of the SASB Standards is further strengthened by the call by BlackRock's CEO and Chairman, Larry Fink, for all of their portfolio companies to implement external reporting based on the SASB Standards.

Among the companies that have reported using the SASB Standards, 233 are based in the United States, 173 are based elsewhere and only 20 are based in Asia[4]. While the SASB Standards have been recognised by exchanges, investors and companies in Asia, further traction is needed. SASB and members of its Investor Advisory Group (IAG) are keen to raise further awareness of SASB in the APAC region and encourage companies to use the SASB Standards in their communications with investors. An APAC working group of the IAG has also been formed, which includes APAC-based investors as well as representatives of IAG member firms from Europe, the United Kingdom, and the United States. SASB is planning IAG Corporate-Investor Dialogues for APAC-based companies at the end of 2020, in addition to working with groups like the Asia Corporate Governance Association to demystify the SASB Standards for companies and investors and debunk the thinking that the SASB Standards are only applicable to companies in the United States.

Challenges with SASB integration in Asia

Investors in Asia have international portfolios and therefore, in theory, would want an ESG-reporting standard which meets its needs across markets. Given that the SASB Standards are aimed for global applicability, there seems to be no theoretical hurdle to getting buy-in from the investment community in Asia. Perhaps it is a matter of creating more awareness and generating traction which seems like the target of efforts of SASB going forward.

On the other hand, it is important to recognise that the SASB Standards are aimed to be nuanced for industry differences and not regional and geographic ones. For instance, SASB may highlight corruption and bribery as a material sustainability topic only for the infrastructure sector while it would be relevant for a much wider range of industries operating in countries where such issues are endemic. Another example would be with regards to responsible handling of tax practices[5].

SASB has not identified particular nuances related to the Asian market although it notes that its industry-specific SICS classification may pose challenges for trading houses and conglomerates in Asia operating in multiple industries, given that the classification does not currently map to secondary or tertiary industries in which a company may operate. SASB suggests that companies operating across multiple industries can overcome this challenge by viewing SASB standards associated with their primary SICS industry classification (via the SICS lookup tool) and also reviewing the industry standards associated with other major industries in which they operate. Looking at how peers and competitors are reporting can also help to ensure that when companies report using the SASB Standards, they are providing investors with ESG information that are most relevant to their operating realities.

Overcoming integration challenges

- **The costs of integrating the SASB Standards for mid-cap companies are not prohibitively high.** On average, each SASB industry standard has six disclosure topics and 13 metrics, making this an easy "on ramp" for companies with fewer resources that are devoted to sustainability reporting. In fact, many mid-cap companies report using the SASB Standards. For guidance on how to use the SASB Standards, see the SASB Implementation Primer.

- **Companies suffer from survey fatigue.** To help overcome survey and reporting fatigue, SASB encourages companies to focus on the stakeholders with whom companies are communicating, and what information those stakeholders need and for what purposes. Doing so will help to determine which tools to use to communicate with which audiences. Many companies use both SASB and GRI to complement their stakeholder-focused and shareholder-focused communications. For more information, please see the "Understand Audience Needs and Expectations" section of the SASB Implementation Primer.

- **Companies are reluctant to disclose certain information for competitive reasons.** A company determines for itself which SASB standards are relevant, which disclosure topics are financially material to its business, and which associated metrics to report to its investors. When a company determines that a sustainability topic is financially material to its business, SASB's standards can be applied on a voluntary basis to assist in standardising disclosure on that topic for the benefit of both the company and its investors. SASB's Standards Application Guidance recommends that when a company omits or modifies a SASB metric, it should also disclose its rationale for doing so.

Call to action to the SFi investor community

Investors in Asia have global portfolios that cross geographic boundaries, and as such want an ESG-reporting standard which meets their needs across markets and industry. We invite our investor community to join the 140+ of their peers with over US$51 trillion in assets who are supporting SASB and invite our community to encourage GP's and managers to start reporting in alignment with SASB.

Resources

[1] Makower, Joel (2020) GRI and SASB are collaborating. Is that good news for companies
[2] Cohen, Jeff (2020) SASB and Private Markets White Paper
[3] Busco, C et al. (2020) A Preliminary Analysis of SASB Reporting: Disclosure Topics, Financial Relevance, and the Financial Intensity of ESG Materiality.
[4] These companies include: Nissay Asset Management, Temasek (have been observers to the group but are joining the IAG pending identification of their named representatives), Future Fund, CBUS, APG (via their HK representative), GSAM (via their Tokyo representative), Neuberger Berman (via their Tokyo representative), BlackRock (via their HK representative).
[5] Partners Group (2017) SASB Standards and Private Markets: Partners Group's Adaptive Approach.

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