



SASB Considerations For the Grinnell College Task Force on Fossil Fuels & Climate Change

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Disclaimer

The following represents my own views on SASB's work and its application to the questions Grinnell College is considering.

These views are not the views of the SASB or The SASB Foundation.

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FRAMING QUESTIONS



Framing Questions for Grinnell's Discussion

Generated by the Task Force

- How can institutional investors assess the climate hazard of particular investments?
- Do investors have to exit a sector of the economy entirely (i.e., divest) in order to impact climate?
- How can institutional investors positively impact climate? What empirical evidence supports the effectiveness of such actions?
- What resources can guide effective action?

WHY IS SASB NEEDED?



SASB Disclosure Topics In Everyday News

Material ESG issues are mainstream business issues



AUTO PARTS

TRANSPORTATION SECTOR

TOPIC:
Product Safety

U.S indicts three Takata executives, fines company \$1 billion in air-bag scandal



CRUISE LINES

SERVICES SECTOR

TOPIC:
Discharge Management

Carnival Princess to pay record \$40 million for pollution cover-up



PROFESSIONAL SERVICES

SERVICES SECTOR

TOPIC:
Professional Integrity

Moody's Reaches \$864 Million Subprime Ratings Settlement



INTERNET MEDIA & SERVICES INDUSTRY

TECHNOLOGY & COMMUNICATIONS SECTOR

TOPIC:
Data Privacy

Data Could be the Next Tech Hot Button for Regulators



AUTOMOBILES

TRANSPORTATION SECTOR

TOPIC:
Fuel Economy

FBI arrests top Volkswagen executive in emissions scandal



PHARMACEUTICALS

HEALTH CARE SECTOR

TOPIC:
Affordability & Fair Pricing

How Valeant Cashed in Twice on Higher Drug Prices



RESTAURANTS

SERVICES SECTOR

TOPIC:
Food Safety

Chipotle Customers Haven't Forgotten the Chain's Food Safety Crisis



RESTAURANTS

SERVICES SECTOR

TOPIC:
Fair Labor Practices

McDonald's agrees to \$3.7M deal with California workers


SASB Standards Support Data Driven Investment Decisions

SASB standards enable peer-to-peer comparisons and industry benchmarking

Illustrative

SASB
Metrics

http://www.tblanalysts.com/nr/metals_mining/compare



Sustainability Fundamentals: Metals & Mining Industry

Sector NR

Industry Metals & Mining

View Company Compare

This view compares the company you have selected to other companies in the same industry. Click on the column heading to sort the report on any of the metrics shown.

Greenhouse Gas Emissions	Energy Management			Water Management		Waste & Hazardous Materials Management		Security, Human Rights, and Rights of Indigenous Peoples		Labor Relations		Workforce Health, Safety, and Well-Being			
	Gross Scope 1 Emissions	Total Energy Consumption	Electricity Used	% Renewable Energy	Total Water Use	% Water Use Recycled	Total Weight of Tailings Waste	% Recycled - Tailings Waste	Proven Reserves, Areas of Conflict	Proven Reserves, Indigenous Land	% of Workforce Collective Bargaining	Number of Strikes / Lockouts	MSHA All-Incidence Rate	Fatality Rate	
<i>Millions of Metric Tons of CO2 equivalent</i>	<i>Thousands of Megawatt Hours</i>	<i>Thousands of Megawatt Hours</i>	<i>%</i>	<i>Thousands of Cubic Meters</i>	<i>%</i>	<i>Thousands of Metric Tons</i>	<i>%</i>	<i>Millions of Metric Tons</i>	<i>Millions of Metric Tons</i>	<i>%</i>	<i>Number</i>	<i>Rate</i>	<i>Rate</i>		
Company Name & Ticker															
Mineco International	MNCO	19.8	120,278.0	60,278.0	37.6	991,000.0	26.6	138,000.0	42.0	4.50	7.0	72.00	1.0	0.4	0.0189
Bauxiton Inc.	BXN	20.7	92,500.0	27,222.0	9.0	499,200.0	31.9	151,000.0	37.0	1.40	3.3	54.00	0.0	0.8	0.0139
Keystone Resources	KSR	14.3	56,389.0	16,111.0	25.0	1,928,800.0	82.0	70,000.0	15.0	0.35	2.0	96.00	0.0	0.4	0.0005
Alumint	ALO	24.2	123,084.0	50,878.0	27.3	96,300.0	-	-	-	-	-	61.7	1.0	1.1	0.0317
TexasChristi	TXC	6.0	28,333.0	9,722.0	-	1,460,000.0	80.0	215,000.0	64.0	2.10	1.5	48.00	-	0.6	0.0120
Weranda	WDA	38.3	100,833.0	568.5	-	402,000.0	10.0	28,000.0	28.0	0.20	0.85	57.40	0.0	1.5	0.0062
Montano Mining	MTO	3.8	17,083.0	4,306.0	0.5	654,204.0	28.4	135,900.0	55.0	0.90	3.2	49.00	-	0.3	0.0044
Industry Average		18.2	76,928.6	24,155.1	19.9	861,643.4	43.2	122,983.3	40.2	1.6	3.0	62.6	0.4	0.7	0.0125
Industry Median		19.8	92,500.0	16,111.0	25.0	654,204.0	30.2	136,950.0	39.5	1.2	2.6	57.4	0.0	0.6	0.0120

Peer comparison

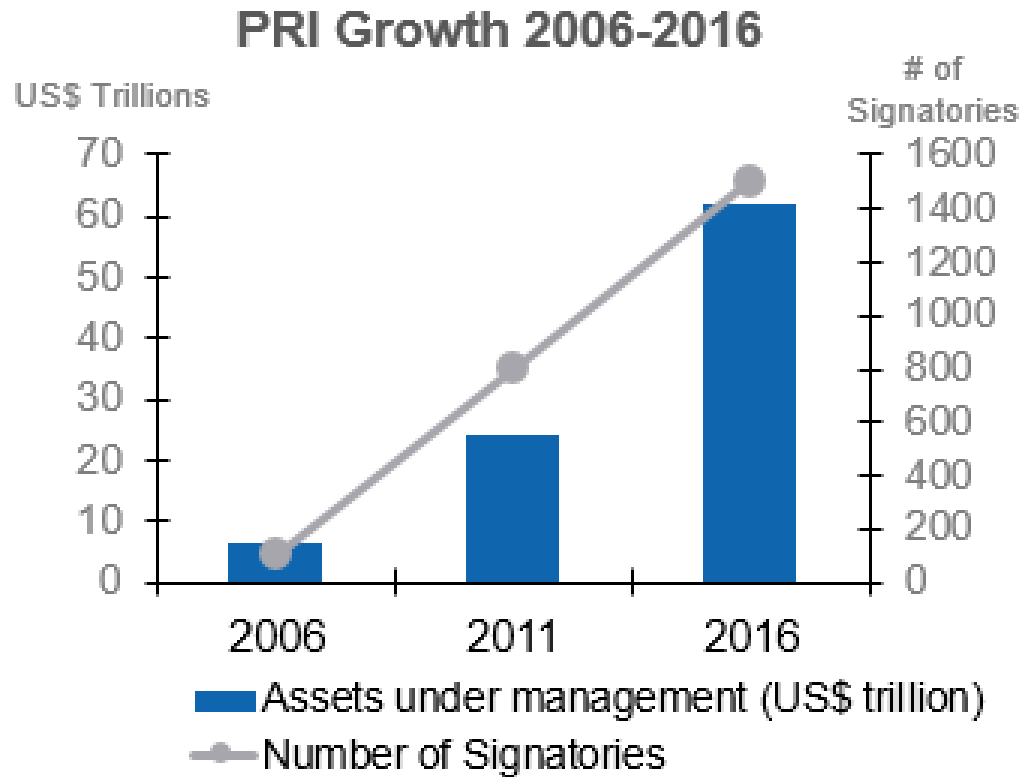
Benchmarking

Consistent units

Complete data set

Investors Care about Sustainability

A rapidly increasing share of institutional assets are managed with ESG issues in mind



89% of the world's top 100 asset managers are signatories to the Principles for Responsible Investment (PRI), including Blackrock, Vanguard, SSGA, Fidelity Investments, JP Morgan and PIMCO

Pain Points for Investors

Investors are dissatisfied with the quality of ESG disclosure

Investor Needs

Investor confidence in the quality of the ESG information received from issuers



Issuer Reporting

Issuer confidence in the quality of the ESG information reported



Source: PwC, *ESG Pulse*, 2016.

High degree of investor dissatisfaction with the current state of ESG disclosure

% Investors Dissatisfied

Disclosure of ESG-related risk/opportunity that could affect business models	93%
How sustainability risks/opportunities are identified and quantified in financial terms	82%
Ease of comparing peer companies based on ESG data disclosed	92%
Key performance indicators related to each identified material issue	68%
Use of standards for disclosure of ESG data to investors (50% want industry-specific)	71%

Sources: EY, *Is your non-financial performance revealing the true value of your business*, 2017; PwC, *Sustainability Goes Mainstream*, May 2014; *ESG Pulse*, 2016.

WHAT IS SASB?



SASB Overview

Industry-specific standards to guide disclosure of material ESG factors to investors

The SASB develops and disseminates industry-specific sustainability accounting standards. SASB standards:

- Help companies disclose material, decision-useful ESG factors to investors in a cost-effective way.
- Address investor demand, enabling evaluation of ESG-related risk across companies and portfolios.
- Reduce information asymmetry, enable performance benchmarking across companies, and facilitate more accurate pricing of risk.



Facts about SASB

- Independent standards setter
- Follows rigorous, evidence-based, market-informed process
- Maintains industry-specific standards for 79 industries in 11 sectors
- Standards process is led by nine-member standards board
- Designed for use in mandatory financial filings
- Guided by U.S. securities law definition of materiality
- Operated under the auspices of the SASB Foundation, a 501c3 organization

The SASB Foundation Board

Fiduciary duty to oversee the funding and operations of the SASB and staff

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Philanthropist, Founder of Bloomberg LP,
and the 108th Mayor of New York City

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Curtis Ravenel

Global Head, Sustainable Business and
Finance – Bloomberg LP

The SASB Standards Board

Standard-setting, maintaining technical agendas, and proposing standards updates

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Sector Chair for Infrastructure

Jeffrey Hales, PhD

SASB Vice Chair

Professor, Georgia Institute of Technology –
Ernest Scheller Jr. College of Business
Sector Chair for Financials

Verity Chegar

Vice President and ESG Strategist,
BlackRock
*Sector Chair for Extractives & Minerals
Processing*

Lloyd Kurtz, CFA

Senior Portfolio Manager, Head of Social Impact
Investing, Wells Fargo Private Bank
*Sector Chair for Health Care & Resource
Transformation*

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Chairman, Committee of Sponsoring
Organizations of the Treadway
Commission (COSO)
Senior Managing Director, Protiviti
*Sector Chair for Technology &
Communications*

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Senior Counsel, Baker & McKenzie LLP, Inc.
Sector Chair for Services

Elizabeth Seeger

Director, KKR
Sector Chair for Consumer Goods

Kurt Kuehn

Former CFO, UPS
Sector Chair for Transportation

Stephanie Tang, JD

Senior Corporate Counsel and Assistant
Corporate Secretary, the Clorox Company
*Sector Chair for Food & Beverage and
Renewable Resources & Alternative Energy*

Institutional Investor Support for Improved ESG Disclosure

SASB's Investor Advisory Group includes investors with over \$20 trillion in assets

Aberdeen

Calvert 

 NORTHERN TRUST

STATE STREET
GLOBAL ADVISORS

 apg
All Pensions Group


CAPITAL GROUP™

nuveen | TIAA INVESTMENTS

UAW RETIREE
Medical Benefits Trust 


bcimc

 Domini.



 UBS

BLACKROCK®

 Goldman Sachs
Asset Management

 ONTARIO TEACHERS' PENSION PLAN

 Vanguard®

 Breckinridge
CAPITAL ADVISORS

JARISLOWSKY FRASER
GLOBAL INVESTMENT MANAGEMENT


PGGM



 CalPERS



PIMCO

WELLS FARGO ASSET MANAGEMENT

CALSTRS

Nordea

QM^α

 Wespath
BENEFITS | INVESTMENTS

SASB STANDARDS



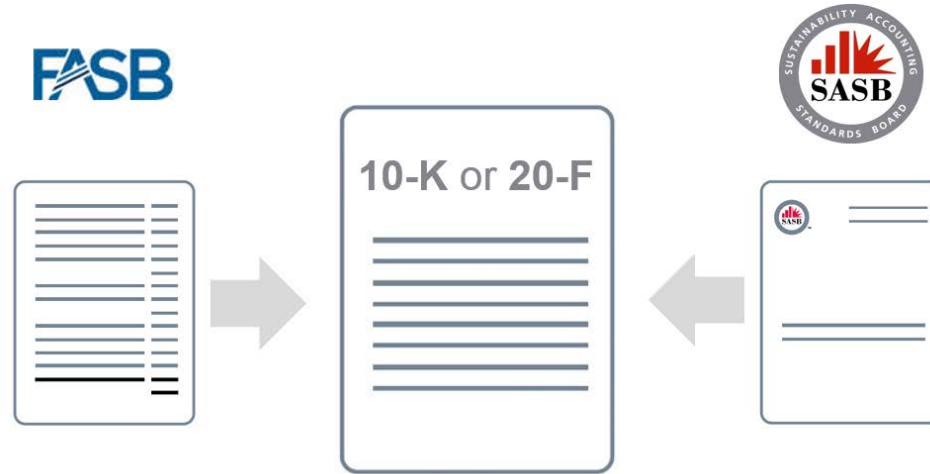
The SASB Difference

SASB standards are created for the market, by the market

-  **Material**
-  **Decision-Useful**
-  **Cost-Effective**
-  **Industry-Specific**
-  **Evidence-Based**
-  **Market-Informed**

Designed for Integration into Mandatory Public Filings

Standards help companies meet existing requirements to disclose material information in public filings



US Supreme Court Definition of Material Information



“Material information” is defined by the U.S. Supreme Court as presenting a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the “total mix” of information made available.

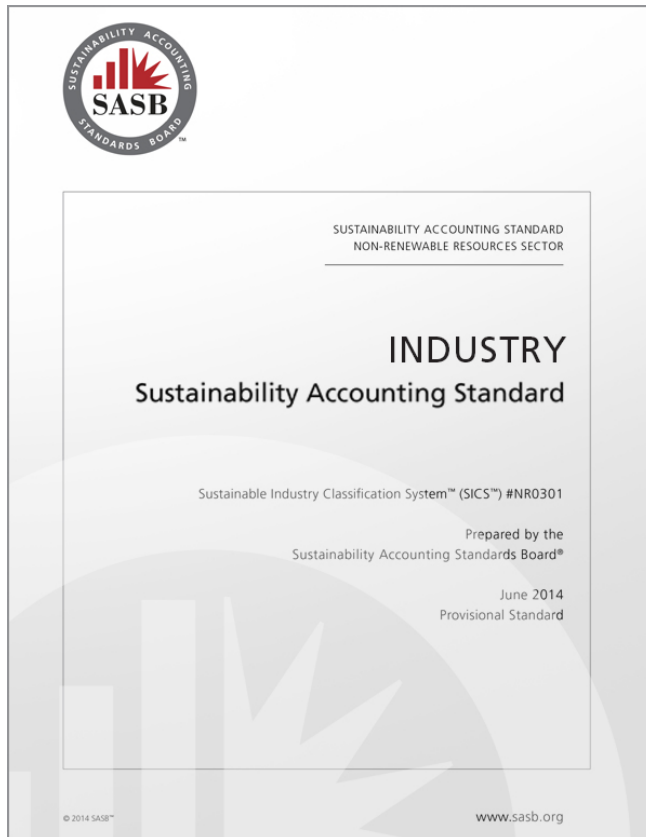
TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976)

Power a variety of investor activities

- Drive data-driven corporate **engagement**
- Improve quality of **fundamental equity and credit analysis** by incorporating a broader information set
- **Construct alternative indexes** consisting of companies with strong performance on SASB's metrics
- Expand **risk reporting** to Boards to encompass sustainability risks in addition to traditional risk measures like volatility
- Develop a better understanding of sector-specific risks at the total fund level to inform **risk allocation and risk management**
- Improve understanding of systemic risks to guide **policy advocacy**

Cost-Effective Disclosures

SASB standards prioritize most important issues in each industry



- SASB standards average 5 topics and 13 metrics (78 percent quantitative) per industry.
- SASB metrics are aligned with over 200 existing frameworks, regulations, and certifications.

Sustainable Industry Classification System (SICS™)

SASB maintains standards for 79 industries in 11 sectors

INDUSTRY-SPECIFIC

Health Care

- Biotechnology & Pharmaceuticals
- Medical Equipment & Supplies
- Health Care Delivery
- Health Care Distributors
- Managed Care
- Drug Retailers



Financials

- Commercial Banks
- Investment Banking & Brokerage
- Asset Management & Custody Activities
- Consumer Finance
- Mortgage Finance
- Security & Commodity Exchanges
- Insurance



Technology & Communications

- Electronic Manufacturing Services & Original Design Manufacturing
- Software & IT Services
- Hardware
- Semiconductors
- Telecommunication Services
- Internet Media & Services



Extractives & Minerals Processing

- Oil & Gas – Exploration & Production
- Oil & Gas – Midstream
- Oil & Gas – Refining & Marketing
- Oil & Gas – Services
- Coal Operations
- Iron & Steel Producers
- Metals & Mining
- Construction Materials



Transportation

- Automobiles
- Auto Parts
- Car Rental & Leasing
- Airlines
- Air Freight & Logistics
- Marine Transportation
- Cruise Lines
- Rail Transportation
- Road Transportation



Services

- Education
- Hotels & Lodging
- Casinos & Gaming
- Leisure Facilities
- Advertising & Marketing
- Media & Entertainment
- Professional & Commercial Services



Resource Transformation

- Chemicals
- Aerospace & Defense
- Electrical & Electronic Equipment
- Industrial Machinery & Goods
- Containers & Packaging



Renewable Resources & Alternative Energy

- Biofuels
- Solar Technology & Project Developers
- Wind Technology & Project Developers
- Fuel Cells & Industrial Batteries
- Forestry & Paper
- Pulp & Paper Products



Food & Beverage

- Agricultural Products
- Meat, Poultry & Dairy
- Processed Foods
- Non-Alcoholic Beverages
- Alcoholic Beverages
- Tobacco
- Food Retailers & Distributors
- Restaurants



Consumer Goods

- Household & Personal Products
- Multiline and Specialty Retailers & Distributors
- Drug Retailers & Convenience Stores
- E-Commerce
- Apparel, Accessories & Footwear
- Building Products & Furnishings
- Appliance Manufacturing
- Toys & Sporting Goods



Infrastructure

- Electric Utilities & Power Generators
- Gas Utilities & Distributors
- Water Utilities & Services
- Waste Management
- Engineering & Construction Services
- Home Builders
- Real Estate Real Estate Services



SASB Standards Are Rooted in Evidence

First three steps of six-step process focus on evidence collection

Process	Type of Evidence	Testing	Legal Basis
1 Surfacing Issues	Evidence of interest to Investors	<ul style="list-style-type: none">• Is the topic important to the total mix of information?• Would it be of interest to the reasonable investor?	U.S. Supreme Court def. (TSC Industries v. Northway) <ul style="list-style-type: none">• "total mix of information" of interest to the "reasonable investor"
2 Determining Materiality	Known trend or uncertainty with a demonstrated financial impact	<ul style="list-style-type: none">• Does performance on the topic affect revenue/cost (or cash flows), assets/liabilities, or cost of capital?• Is this topic a known trend or uncertainty that is reasonably likely to occur? If so, will it have a measurable effect?	Item 303 of Regulation S-K <ul style="list-style-type: none">• Known trends, uncertainties• Material effect on financial condition, operating performance• Two-step test (SEC 1989 MD&A guidance)
3 Characterizing Nature of Financial Impact	Type and magnitude of financial impact	<ul style="list-style-type: none">• What is the probability of impact occurring and the range of magnitude, given the underlying performance on the issue?• Is this an industry common factor or a company-specific risk?	Basic v. Levinson <ul style="list-style-type: none">• Probability + Magnitude

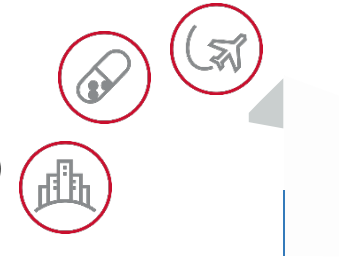
Participation in Standards Development & Codification

Balanced input from investors and issuers

Industry Working Group Participation (provisional phase)



Consultation Participation (codification phase)



>2,800

PARTICIPANTS

141 Companies

\$7.5 TRILLION IN MARKET CAP

\$23.4T

ASSETS UNDER MANAGEMENT

19 Industry Associations

REPRESENTING HUNDREDS OF COMPANIES

\$11.0T

MARKET CAPITALIZATION

271 Industry Consultations

38 INSTITUTIONAL INVESTORS

FRAMING QUESTIONS & ANSWERS

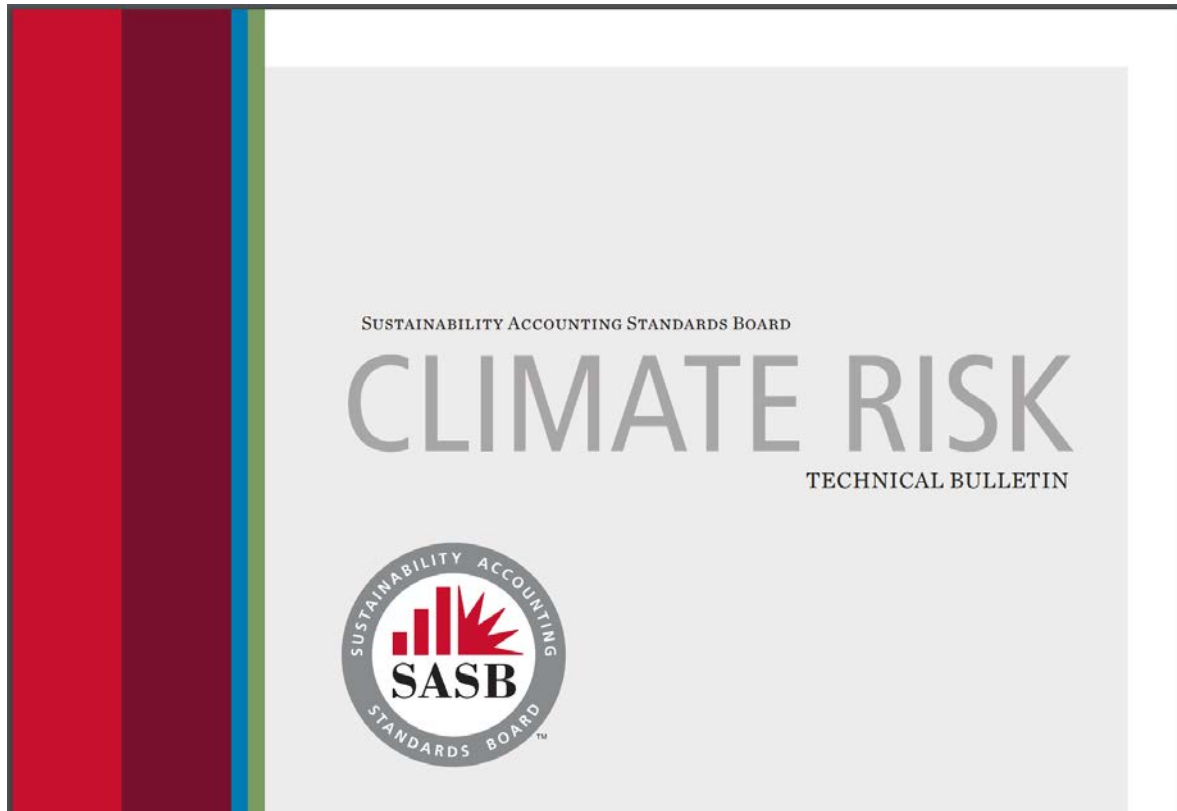


Framing Questions for Grinnell's Discussion

- How can institutional investors assess the climate hazard of particular investments?
- Do investors have to exit a sector of the economy entirely (i.e., divest) in order to impact climate?
- How can institutional investors positively impact climate? What empirical evidence supports the effectiveness of such actions?
- What resources can guide effective action?

Assessing Climate Risk

SASB's Technical Bulletin Finds Climate Risk is Ubiquitous



Climate risk manifests in 72 of 79 industries – but in differently in each

Not possible to avoid climate risk – it must be managed:

- Sector allocation
- Selecting best performers within a sector
- Engaging with companies/asset managers

Considering Divestment

Fossil fuel production is only part of the equation

The New York Times

Here's How Far the World Is From Meeting Its Climate Goals

By BRAD PLUMER and NADJA POPOVICH NOV. 6, 2017

Even before the election of Mr. Trump, the goal set by former President Barack Obama of slashing United States emissions 26 to 28 percent below 2005 levels by 2025 would have been difficult to hit. While emissions from the United States power sector are falling rapidly — as hundreds of coal plants retire in favor of cleaner natural gas, wind and solar — other sectors, like transportation and heavy industry, have proven harder to clean up.

- Divestment is a blunt instrument – focuses on a few industries, rather than all contributors
- Will divestment change the availability or cost of capital for fossil fuel companies?
- Investment supports engagement

Investor Actions

SASB's Theory of Change: information driving a performance race to the top



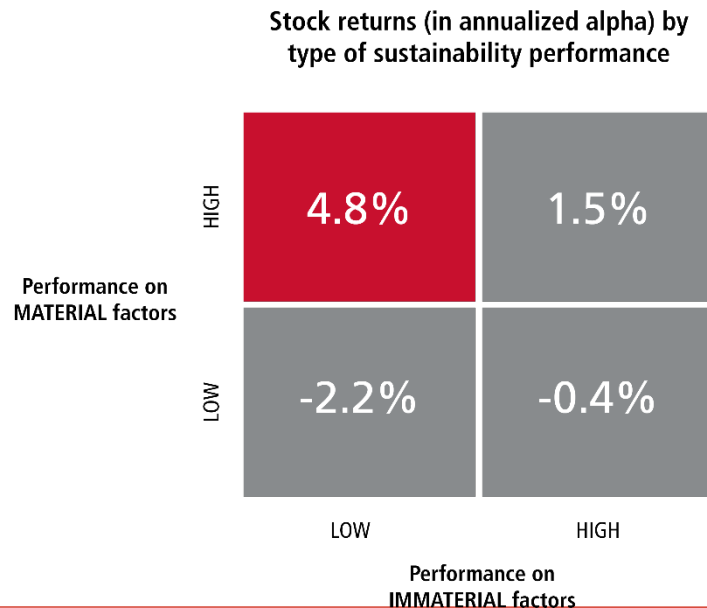
DISCLOSURE drives **CAPITAL ALLOCATION** drives **OUTCOMES**

- With comparable information, investors can allocate capital to the companies/investments with the best sustainability strategies and performance
- Investors can engage with portfolio companies and influence their actions

Supporting Evidence

Research on disclosure practices & SASB's approach to materiality

- Mary Graham's analysis of 18 disclosure policies demonstrated improvements in disclosure achieve up to 50% certifiable public benefit performance improvements (A. Fung, 2007)
- Using SASB's framework, Harvard researchers found that **firms with good performance on 'material sustainability issues' and concurrently poor performance on 'immaterial sustainability issues' enjoy the strongest financial returns.**
- They also found that 80 percent of disclosures are immaterial, having no correlation to positive financial performance.



“Corporate Sustainability: First Evidence on Materiality”

Mozaffar Khan, George Serafeim, and Aaron Yoon

The Accounting Review, Vol. 91, No. 6 (Nov. 9, 2016)

RESOURCES



Resources: SASB's Materiality Map™

A first view of exposure to material sustainability risks across a diversified portfolio



SASB Materiality Map™

SASB's Materiality Map identifies likely material sustainability issues on an industry-by-industry basis. This map serves as a snapshot of likely material sustainability issues at the time of our initial analysis and may be subject to change as issues and industries are ever-evolving. Click on a highlighted cell at the sector-level and then on any highlighted cell at the industry-level to see suggested accounting metrics and additional information for each issue.

Sector Level Map

- Issue is likely to be material for more than 50% of companies in the industry
- Issue is likely to be material for less than 50% of companies in the industry
- Issue is not likely to be material for any of the companies in the industry

Industry Level Map

- Not likely a material issue for companies in the industry
- Likely a material issue for companies in the industry

ISSUES	Health Care						Financials	Technology and Communications	Non-Renewable Resources	Transportation	Services
	Biotechnology	Pharmaceuticals	Medical Equipment and Supplies	Health Care Delivery	Health Care Distribution	Managed Care	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Environment											
GHG emissions											
Air quality											
Energy management											
Fuel management											
Water and wastewater management											
Waste and hazardous materials management											
Biodiversity impacts											
Social Capital											
Human rights and community relations											
Access and affordability											
Customer welfare											
Data security and customer privacy											
Fair disclosure and labeling											
Fair marketing and advertising											
Human Capital											
Labor relations											
Fair labor practices											
Employee health, safety and wellbeing											
Diversity and inclusion											
Compensation and benefits											
Recruitment, development and retention											
Business Model and Innovation											
Lifecycle impacts of products and services											
Environmental, social impacts on assets & operations											
Product packaging											
Product quality and safety											
Leadership and Governance											
Systemic risk management											
Accident and safety management											
Business ethics and transparency of payments											
Competitive behavior											
Regulatory capture and political influence											

Resources: SASB Across Asset Classes

SASB standards enable ESG integration across multiple asset classes

PUBLIC EQUITIES

- Data-driven corporate engagement
- Input to fundamental equity analysis
- Construct alternative indexes

CORPORATE FIXED INCOME

- Input to credit analysis and internal credit rating assignment
- Assess quality of disclosure for insight into risk

PRIVATE EQUITY

- Identify focus areas for fund and portfolio company due diligence
- Report to GPs and LPs on performance on material ESG topics

REAL ASSETS

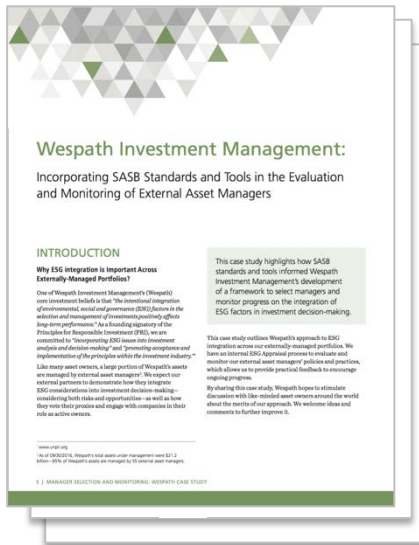
- Use SASB's Infrastructure sector standards to guide risk assessment and performance reporting for real assets

Resources: Case Studies

SASB ESG Integration Insights provides case studies on using SASB standards

Thought leadership series demonstrating use of SASB standards by institutional investors

Case studies



Webinars



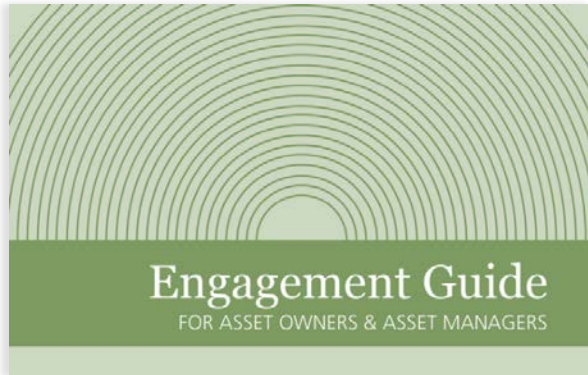
Case studies compiled and published annually



*ESG Integration Insights is available in the SASB Library at www.sasb.org

Resources: Engagement Guides and Tools

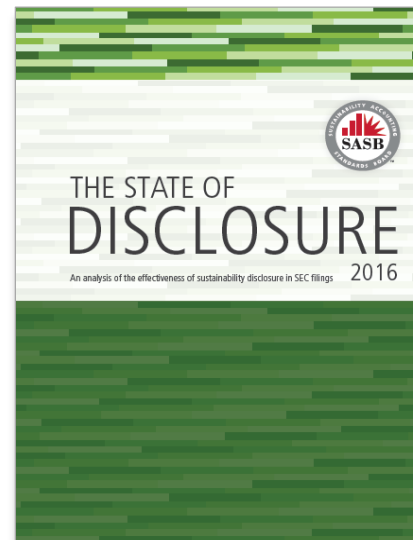
SASB's Engagement Guide, Field Guide and State of Disclosure Reports can guide discussion with companies about ESG issues



Industry-specific guidance on how asset owners and asset managers can use SASB standards to inform their engagement with companies. Provides questions that investors can ask to assess long-term risks at companies for all 79 industries



Distills SASB's standards for 79 industries into one easy-to-use reference manual



Annual reference document for investors and other users of financial information to better understand the current state of disclosure on SASB's topics and metrics

Q & A

