

What You Should Know About the New Sustainability Accounting Standards Board “SASB”



FUNDAMENTALS OF
SUSTAINABILITY ACCOUNTING

Accounting for a
Sustainable Future™

Stephen G. Austin, CPA, MBA

Swenson Advisors, LLP

May 5, 2016

The SASB Mission

Improved non-financial disclosure results in enhanced market efficiency

The mission of SASB is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors.

That mission is accomplished through a rigorous process that includes evidence-based research and broad, balanced stakeholder participation.

Facts about SASB

- Independent 501(c)3 non-profit
- American National Standards Institute (ANSI) accredited standards developer
- Developing industry-specific standards for 10 sectors and 79 industries
- Guided by the U.S. Supreme Court's definition of materiality, SASB prioritizes topics of disclosure and standardizes the form of disclosure





Strong Leadership

Informed by experience, credibility, character, commitment, and vision

Michael R. Bloomberg – Chair

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

Mary Schapiro – Vice Chair

Promontory Advisory Board Vice Chair
Former Chairman – SEC

Audrey Choi

CEO – Institute for Sustainable
Investing, Morgan Stanley

Shawn Lytle

President – Delaware
Management Holdings, Inc.

Curtis Ravenel

Global Head, Sustainability
Initiatives – Bloomberg LP

Jack Ehnes

CEO – CalSTRS

Clara Miller

President – The F.B. Heron
Foundation

Jean Rogers, PhD, PE

Chief Executive Officer &
Founder – SASB (Ex-officio)

Steven O. Gunders, CPA, MBA

Partner – Deloitte & Touche LLP
(Retired)

Catherine Odelbo, MBA

Executive Vice President,
Corporate Strategy and
Partnerships – Morningstar Inc.

Laura Tyson, PhD

Director, Institute for Business
and Social Impact – Berkeley
Haas School of Business

Dan Hanson, CFA

Partner and Director of U.S.
Equities – Jarislowsky Fraser
USA

Kevin Parker

CEO – SICM

Elisse Walter, JD

Former Chairman – SEC

Robert H. Herz

Former Chairman – FASB

Aulana Peters, JD

Former Commissioner – SEC

Edward D. White, JD

Managing Partner – Fahr LLC

Erika Karp, MBA

CEO – Cornerstone Capital Inc.

Arnie Pinkston, JD

General Counsel, Allergan
(Retired)





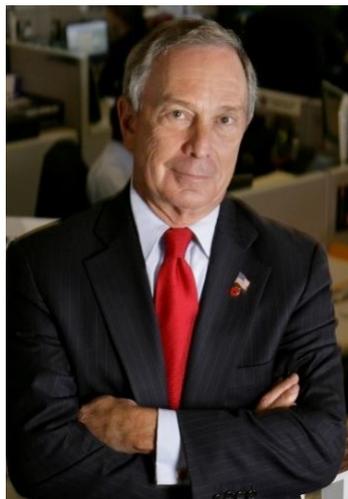
“SASB standards serve two primary stakeholder groups, through SASB standards, **corporations** have cost-effective way to manage and disclose on the sustainability issues that are most germane to their industry. **Investors** have decision useful information that they can use to benchmark corporate performance on sustainability issues.”



Dr. Jean Rogers
Founder and Executive Director
SASB



“The new SASB standards allow us – for the first time – to identify and measure exposure to climate risk across companies and industries. Climate change affects all markets and presents risks that investors can no longer ignore. The standards help them understand their exposure while also directing capital to the strongest performing companies.”



Michael Bloomberg

Chairman, SASB

What the World Needs Now: Sustainability Accounting Standards

May 3, 2016



Why SASB?



- Megatrends are reshaping the business landscape
 - Such as: population growth, food scarcity, climate change, and resource constraints
- Financial accounting alone cannot capture the complete picture of a company's value
- A variety of frameworks have emerged in response to the demand for non-financial information in corporate reporting



Why SASB? (continued)



- Investors demand reliable and comparable sustainability information with clear links to financial performance
- The Standards address sustainability topics that are likely to affect the financial condition or operation performance of a company or an entire industry
- The Standards provide companies with a way to better satisfy the requirement of Regulation S-K



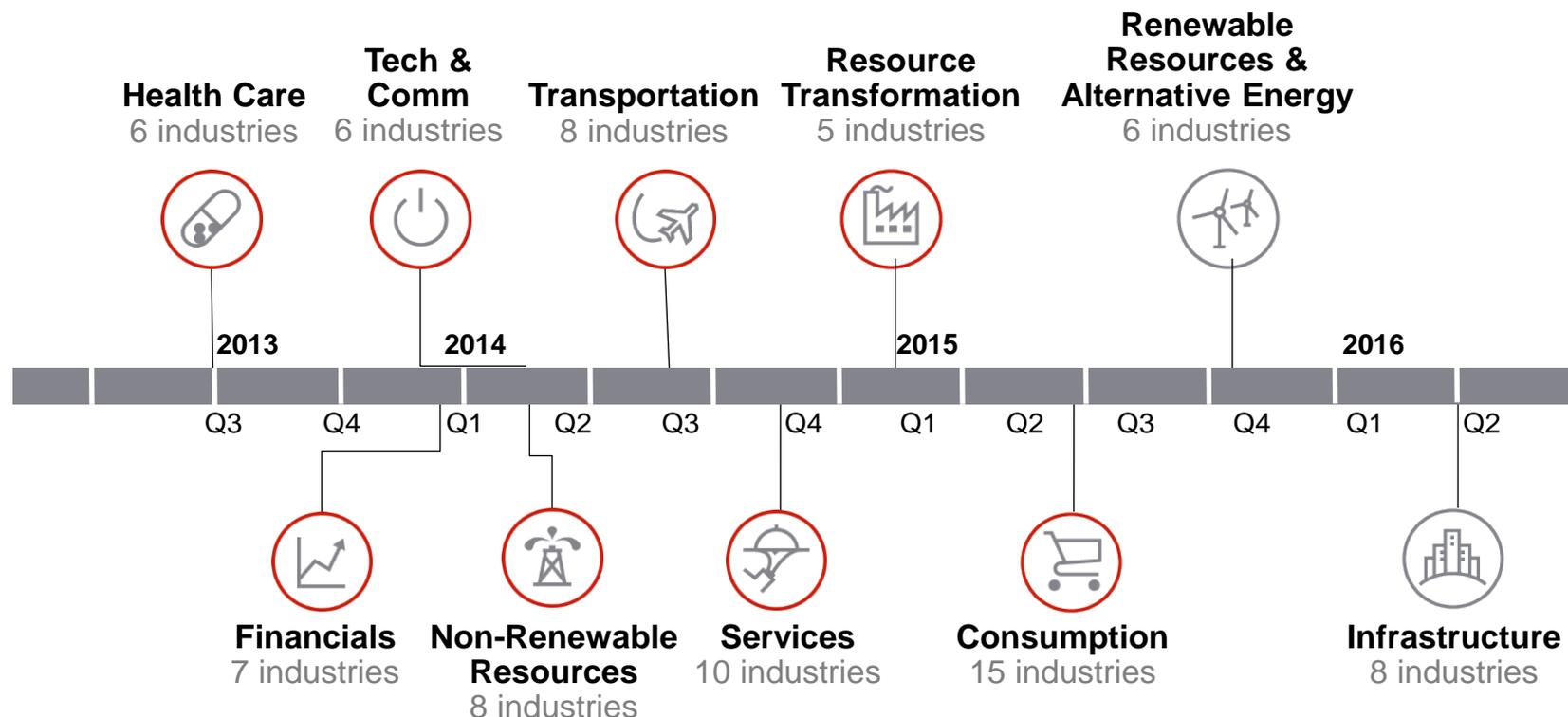
SASB Facts



- ✓ SASB standards are designed for the disclosure of material sustainability information in mandatory SEC filings, such as Form 10-K and 20-F
- ✓ SASB is also an ANSI-accredited standards developer. Accreditation by ANSI signifies that SASB's procedures to develop standards meet ANSI's requirements for openness, balance, consensus, and due process
- ✓ SASB is not affiliated with FASB, GASB, IASB, AICPA or any other accounting standards boards

Consistent Progress

The SASB projected by 2016, to have issued standards for 79 industries in 10 sectors



2016 Completion of Provisional Developments



- As of March 2016, the SASB's completed a full set of provisional standards for 79 industries in 10 sectors
- The development of the provisional standards is an important step:
 - For the first time, we can **begin to see patterns of material ESG risk and exposure across an equities portfolio**
 - For the first time, we have **standards that can characterize the nature of that risk and enable investors to understand and price it**



Major Themes from Standards Setting

Interesting patterns have begun to emerge after 10 sectors and 79 industries

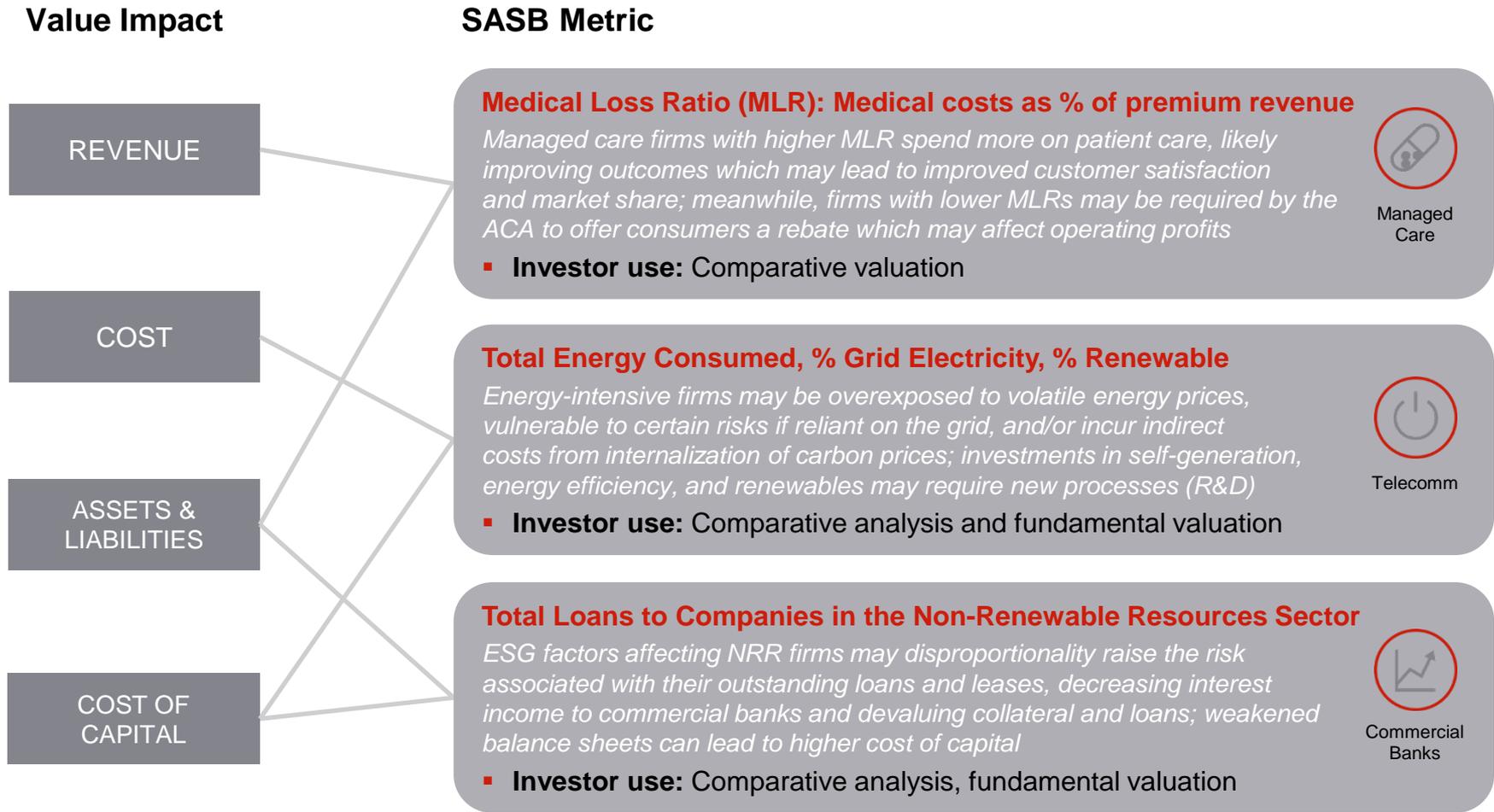
	Market cap of companies affected	Percentage of equity market
<p>▪ CLIMATE CHANGE</p> <p>Event readiness in health care delivery, carbon intensity of reserves in oil and gas, emissions from refining, vulnerability of real estate and insurance, impact on crop yields</p>	\$33.8T	93%
<p>▪ PRODUCT ALIGNMENT & SAFETY</p> <p>Counterfeit drugs, food quality and nutrition, car and airline safety, responsible gambling and drinking, product design and take-back</p>	\$29.1T	80%
<p>▪ RESOURCE INTENSITY & SCARCITY</p> <p>24/7 health care facilities and data centers, fuel management in transport rare earth minerals in manufacturing, water consumption in beverages, oil and gas, agriculture</p>	\$26.9T	75%
<p>▪ ACCESS & AFFORDABILITY OF SERVICES</p> <p>Orphan drugs and pricing, access to medicine and coverage, transparency in procedures and billing, financial inclusion and capacity building</p>	\$8.3T	23%
<p>▪ FINANCING & RESPONSIBLE LENDING</p> <p>Responsible lending and transparency of terms in mortgages, consumer finance, and education, financial literacy initiatives</p>	\$3.9T	11%





Explicit Financial Links

Each of SASB's evidence-based metrics is tied to specific financial impacts



No New Regulation Required

SASB standards rest on existing regulation and support disclosure in the MD&A

Regulation S-K requires companies to:

- Disclose *material information* as appropriate in SEC filings such as Form 10-K and 20-F.
- Disclose management's view on *known trends, events, and uncertainties* that are reasonably likely to have a material impact on results of operations and financial condition.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-10864

ACME WIDGET CORPORATION
(Exact name of registrant as specified in its charter)

MINNESOTA (State or other jurisdiction of incorporation or organization)	41-1321939 (I.R.S. Employer Identification No.)
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UNITEDHEALTH GROUP CENTER
9900 BREN ROAD EAST
MINNETONKA, MINNESOTA
(Address of principal executive offices)

55343
(Zip Code)

Registrant's telephone number, including area code: (952) 936-1300

Securities registered pursuant to Section 12(b) of the Act:

COMMON STOCK, \$01 PAR VALUE (Title of each class)	NEW YORK STOCK EXCHANGE, INC. (Name of each exchange on which registered)
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Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2005, was approximately \$65,178,318,867 (based on the last reported sale price of \$52.14 per share on June 30, 2005, on the New York Stock Exchange).*

As of February 15, 2006, there were 1,356,292,073 shares of the registrant's Common Stock, \$01 par value per share, issued and outstanding.

Note that in Part III of this report on Form 10-K, we "incorporate by reference" certain information from our Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 2, 2006. This document will be filed with the Securities and Exchange Commission (SEC) within the time period permitted by the SEC. The SEC allows us to disclose important information referring to it in that manner. Please refer to such information.

* Only shares of voting stock held beneficially by directors, executive officers and subsidiaries of the company have been excluded in determining this number.

Form 10-K (MD&A)



Standards Provide Reliable Information



- Historically, the use of financial statistics have given investors the information they need, but today it is not an adequate picture of all the company does and its future
- SASB is filling the need by giving relevant, comparable information on sustainability issues that are useful to investors
- Investors need comparable, standardized data on significant risks and opportunities of companies to make investment decisions, enabling them to compare one company to another



What Sustainability Issues Impact Corporate Value? Examples

- It differs by Industry
 - Managed **health care** company discloses plan performance information (governance)
 - **Biotechnology** company provides additional non-financial information about employee recruitment, development and retention
 - **Oil and gas** producer provides disclosures about policies in place to ensure compliance on key environmental and social issues it has made a commitment to

What Sustainability Issues Impact Corporate Value? Examples (continued)



- It differs by Industry
 - A **medical** company explains its goals and performance in ethically marketing its products to its global customer base
 - **Financial institution** describes its commitment to emissions trading by disclosing non-financial information on its commitment to the brokerage of emissions allowances and credits and the financing of carbon offsetting projects

Benefits of Sustainability Reporting



- **Provides greater transparency**
On social or governance goals
- **Gain competitive advantage**
Results from fostering greater investor confidence in a company's commitment to sustainability
- **Manage long-term risk**
If they are consistently reporting on them and measuring expectations vs. actual performance, companies may go beyond merely meeting regulatory requirements and focus on sustainability issues and manage those factors more effectively and efficiently
- **Response to stakeholder pressure**
Sustainability standards can be used to effectively respond to stakeholders (i.e. consumers, investors, and regulatory entities)
- **Control the entity's social reputation**
Implementing SASB Standards means an organization is publishing its measures of sustainability and can more effectively control its social reputation

Industry-Specific Sustainability Information



- For each industry, SASB considers a comprehensive list of sustainability issues
- The list is then narrowed down to a smaller set of key, industry-specific topics

SASB's Universe of Sustainability Issues



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
- Diversity and inclusion
- Compensation and benefits
- Recruitment, development, and retention

Business Model and Innovation

- Lifecycle impacts of products and services
- Environmental and social impacts on assets and 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

- Materials sourcing
- Supply chain management

Sustainable Industry Classification System

SICS™ industries are grouped by resource intensity and sustainability impacts

Health Care

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



Technology & Communications

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



Renewable Resources & Alternative Energy

- Biofuels
- Solar Energy
- Wind Energy
- Fuel Cells & Industrial Batteries
- Forestry & Paper



Transportation

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



Non-Renewable Resources

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



Infrastructure

- Electric Utilities
- Gas Utilities
- Water Utilities
- Waste Management
- Engineering & Construction Services
- Home Builders
- Real Estate Owners, Developers & Investment Trusts
- Real Estate Services



Services

- Education
- Professional Services
- Hotels & Lodging
- Casinos & Gaming
- Restaurants
- Leisure Facilities
- Cruise Lines
- Advertising & Marketing
- Media Production & Distribution
- Cable & Satellite



Resource Transformation

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



Financials

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



Consumption

- Agricultural Products
- Meat, Poultry & Dairy
- Processed Foods
- Non-Alcoholic Beverages
- Alcoholic Beverages
- Tobacco
- Household & Personal Products
- Multiline and Specialty Retailers & Distributors
- Food Retailers & Distributors
- Drug Retailers & Convenience Stores
- E-Commerce
- Apparel, Accessories & Footwear
- Building Products & Furnishings
- Appliance Manufacturing
- Toys & Sporting Goods

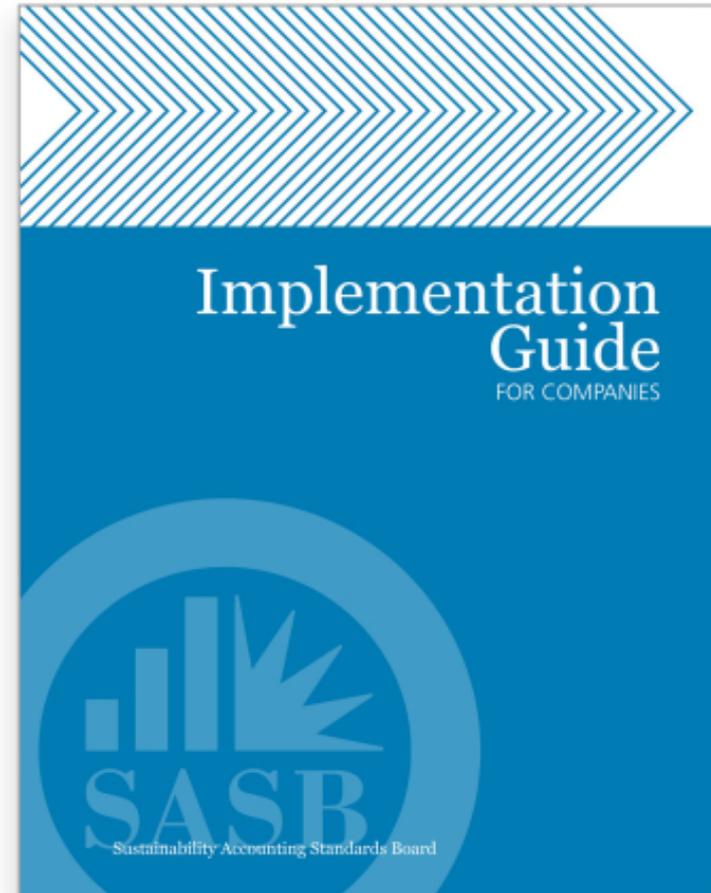


SASB Implementation Guide for Companies



Guide is intended to:

1. Identify the sustainability topics most likely to be material to an investor
2. Understand the current state of disclosure and performance on those topics
3. Enhance existing reporting processes to more effectively disclose material information on sustainability topics





SASB Implementation Guide (continued)

With an average of five topics and 14 metrics per industry, SASB Standards offer a cost-effective way to meet the needs of investors and an efficient alternative to the demands of sustainability surveys and questionnaires

Research show that by focusing on the limited set of sustainability-related risks and opportunities identified by the SASB standards (those reasonably likely to have material impact), companies can achieve superior results, including return on sales, sales growth, return on assets, and return on equity, in addition to improved risk-adjusted shareholder returns

SASB Implementation Guide



Facilitates the completion of the steps needed to help companies easily integrate the Standards into existing processes.

- Step 1: Materiality Assessment**
Select topics for implementation
- Step 2: Disclosure Analysis and Benchmarking**
Assess readiness and alignment gaps
- Step 3: Performance Evaluation and Benchmarking**
Identify Strengths weaknesses, opportunities, and threats
- Step 4: Implementation Considerations**
Integrate into existing business processes
- Step 5: Disclosure Considerations**
Develop narrative for MD&A

Materiality Assessment

– Five Factor Test



Purpose of the Five-Factor Test:

- To act as a method to identify topics that may present risks and/or impact the financial condition or results of operation for companies in a given industry
- Surfaces instances of investor interest in the topic

Materiality Assessment

– Five Factor Test



1. Direct Financial Impacts & Risk

Assesses the likelihood that corporate performance on the topic will have a direct and measurable impact on near or medium-term financial performance



2. Legal, Regulatory & Policy Drivers

Existing, evolving, or emerging regulation may influence company actions and affect financial performance by forcing the internalization of certain costs and/or by creating upside opportunity associated with sustainability-related externalities



3. Industry Norms, Best Practices & Competitive Drivers

Peer actions and disclosure on industry issues may create pressure for high standards of performance related to the management and disclosure of sustainability topics in order to remain competitive and satisfy investors



4. Stakeholder Concerns and Social Trends

Stakeholders may raise concerns that could influence medium-or-long-term financial or operating performance or create acute short-term financial impacts through changes in customer demand, influence on new regulations, and disruptions to business viability

Materiality Assessment

– Five Factor Test



5. Opportunity for Innovation

New products and business models to address the topic can drive market expansion or have the potential for a disruptive change that provides new sources of competitive advantage. Financial impacts and risks associated with these innovations may be of interest to investors



Applying the SASB Five-Factor Test

Systematically consider the test for each topic:

- Understand the triggers
- Catalog key finding
- Draw insights regarding topics that are reasonably likely to have material impacts

A company may also choose to rate each issue on the Five Factors for the purpose of tracking trends over time



Applying the SASB Five-Factor Test (continued)

When assessing whether management (or mismanagement) of the topic is reasonably likely to have an effect on the financial condition or operating performance of the company, the company should consider the following aspects of financial impact for each of the Five Factors:

- Type of direct impact(s) on results of operations and financial condition
- Likelihood of impact(s)
- Time frame of impact(s) (short, medium, or long term)
- Magnitude of impact(s)

Sample Assessment Using the SASB Five-Factor Test



Figure 1. Sample Assessment
Using the SASB Five-Factor Test

SUSTAINABILITY ISSUE / OPPORTUNITY						Total Score	Notes / Comments
	Direct Financial Impacts & Risk	Legal, Regulatory & Policy Drivers	Industry Norms & Competitive Drivers	Stakeholder Concerns & Social Trends	Opportunities for Innovation		
ENVIRONMENT							
GHG Emissions	10	10	7	7	7	41	Hydrocarbon reserve exposure to climate change mitigation efforts
Air Quality	5	7	5	5	5	27	More strategic approach to pollutants including NO ₂ , VOCs, and PM
Water Management	8	6	7	5	10	36	Need plan to secure water supplies without exacerbating stressed regions
Biodiversity Impacts	3	7	2	6	2	20	Some exposure to protected areas and endangered species
SOCIAL CAPITAL							
Security, Human Rights & Rights of Indigenous Peoples	4	8	6	9	4	31	Improve risk management plan for operations in areas of conflict
Community Relations	3	5	5	10	2	25	Strengthen community outreach in later project stages
LEADERSHIP & GOVERNANCE							
Business Ethics & Payments Transparency	5	9	5	8	1	28	Significant operations in areas of high corruption
Health, Safety & Emergency Management	5	8	6	7	3	29	Renew focus on emergency preparedness and response, safety culture
Reserves Valuation & Capital Expenditures	10	9	3	7	7	36	Significant CAPEX for exploration/development of new fossil fuel reserves
Management of the Legal & Regulatory Environment	3	4	5	3	4	19	Minimal political activity around company's core operations

0 = no impact

5 = potential for impact

10 = significant impact

(immediacy, likelihood, magnitude of impact)

36-50

high risk/opportunity = likelihood of significant impacts

21-35

medium risk/opportunity = potential for modest impacts

0-20

low risk/opportunity = not significant at this time

SASB Categorizes the Current State of Disclosure



None

No disclosure on the topic

BOILERPLATE

Generic statements that could apply to any given company in any given industry or language that appears in the 10-K disclosures of multiple registrants

INDUSTRY-SPECIFIC

Disclosure that is understood in the context of the industry in question

METRICS

Disclosure that includes quantitative metrics, regardless of whether they are SASB metrics, to measure performance around the issue. Goals and target figures are not considered as metrics, unless they are accompanied by performance metrics toward those targets

SASB Metrics and Disclosure



SASB metrics are designed to:

- Improve the decision-usefulness of the company's disclosures on the topic
- Exhibit financial or operating performance on the topic
- Provide comparability at an industry level
- Be well-defined, with criteria that are understandable and suitable for assurance
- Enable reporting on both an absolute basis and a normalized comparison through activity metrics (e.g., per square foot, per volume of sales)
- Allow for an accompanying narrative and presentation of past or future trend/uncertainty

Example 10K for Processed Foods Co.



Energy & Fleet Fuel Emissions

Energy is a critical input to our operations, and it constitutes a significant share of our operating costs and our carbon footprint. Energy efficiency is key to preserving margins and therefore important to our financial results. In 2009, we initiated a Company-wide cost-management plan that included implementing several energy-efficiency measures. One of the results of this initiative was a twelve percent reduction in total energy consumed in 2014 as compared to 2010.

Operational energy consumed, percentage grid electricity, percentage renewable

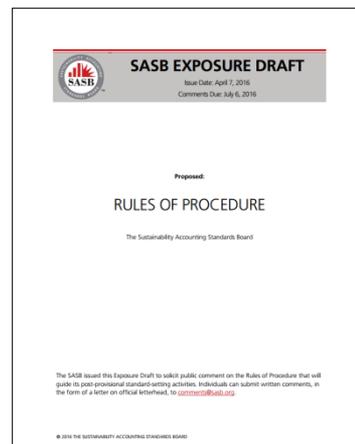
Our two primary sources of energy are public utilities and natural gas. We are currently piloting the use of biomass as an energy source but do not expect it to replace our existing power sources to a substantial degree. For the past three years, we have also piloted the purchase of Green-e Energy Certified renewable energy certificates (RECs), but we are not currently planning to expand these purchases. In addition to focusing on efficiency, we are working to reduce our reliance on grid electricity in order to reduce price risk. Through prudent use of hedging instruments, we can lower the variability in the price we pay for natural gas and, as a result, further limit energy price risk. Over the medium and long term, these measures can help us control costs and preserve margins.

Metric	Year Ended December 31,		
	2012	2013	2014
Operational energy consumed (in thousands of gigajoules)	26,890	26,233	25,490
Percentage grid electricity	43%	40%	39%
Percentage renewable	1%	2%	2%

SASB's Next Phase of Standards Development



- SASB is now entering a period of consultation on the provisional standards and proposed process to codify and maintain them
- SASB has opened **three key documents** for a 90-day public comment period



- SASB invites feedback on its foundational documents through July 6, 2016
- For the next 12-18 months, SASB also invites consultation on the provisional standards

Additional Tools & Resources



Website: Using SASB (using.sasb.org)

Standards Navigator - Online resource for using SASB Standards. Provides SASB's industry-specific disclosure topics, metrics, and technical protocols in an, interactive format

SICS Look Up Tool - Identifies the primary SICS industry for nearly all of the 13,000+ U.S. publicly listed companies, enabling investors and corporations to determine which SASB sustainability accounting standard is applicable to that company

Mock 10-Ks - Disclosure that includes quantitative metrics, regardless of whether they are SASB metrics, to measure performance around the issue. Goals and target figures are not considered as metrics, unless they are accompanied by performance metrics toward those targets



To further support implementation

ERP Partners

SASB has a number of ERP Partners who provide software and data management technology

Advisory Partnership

SASB program for consultants and other corporate advisors

Questions?

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