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Sustainability Accounting Standards Board
1045 Sansone Street
Suite 450
San Francisco, CA 94111

Re: Exposure Draft on SASB Rules of Procedure and Conceptual Release

Dear SASB:

CFA Institute [1] welcomes the opportunity to comment on the SASB's Rules of Procedure and Structural Framework. We commend the SASB on their transparency and opening up these rules of procedure and conceptual framework to public scrutiny and public comment. In this comment letter we will answer the questions posed by the SASB in their requests for comment and add additional comment or questions where we feel such comment or further clarity is needed.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. CFA Institute has more than 136,000 members in 145 countries and territories, including more than 129,000 Chartered Financial Analyst® charterholders, and 147 member societies.

CFA Institute supports the SASB in its mission to make the sustainability reporting process less burdensome by working with investors and issuers to focus on the sustainability/ESG data that matters most. Issuers and investors both have struggled to focus on the sustainability indicators that are the most linked to value creation in their respective industries. There can be hundreds of such indicators and pieces of data that can be measured and gathered – it is therefore imperative that SASB continue to work with investors and issuers to identify the main indicators that both groups agree drive value.

[1] CFA Institute is a global, not-for-profit professional association of more than 140,000 investment analysts, advisers, portfolio managers, and other investment professionals in 145 countries, of more than 133,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 147 member societies in 73 countries and territories.

General Comments

The consultative documents provide some level of clarity regarding the processes and institutional structure of SASB's determination and updating of its individual and sector specific standards. That being said, missing to a large extent, is an articulation of a more macro and strategic-oriented picture of standard setting activities. A strategic articulation is desirable because investors' engagement with SASB standard setting process tends to hampered by the plethora of global initiatives aimed at improving ESG and other non-financial information. Across these initiatives, there is often differing language even across similar concepts, differing notions of materiality, different views on the priority of investor input and differing specificity of requirements.

Though SASB is focused on developing investor oriented, sector specific standards for US capital markets, SASB is also a member of the corporate reporting dialogue involving the International Integrated Reporting Council (IIRC), Global Reporting Initiative (GRI) and others. Concurrently, The Financial Stability Board is developing climate change disclosures and the approach is quite similar to the SASB approach. While intended to benefit investors, these multiple initiatives can also be confusing and burdensome for them to keep abreast of. An articulation of the medium versus long-term strategic direction of travel, including any possible alignment with other global initiatives, can facilitate investors' ability to meaningfully engage with SASB current focus on updating provisional standards.

Hence there is a need to answer the following questions: What is the time horizon of updating provisional standards? Is there any intended alignment with other global standard setting bodies that are aiming to also enhance the reporting of sustainability information? How is SASB's engagement with others involved in the sustainability space having an effect on the update of its standards? Do the described rules of procedure embed any engagement with or reporting evidence gleaned by other organizations that are focused on sustainability information?

Another overarching comment is that the enhancement of corporations' disclosure of sustainability information can serve two purposes namely: a) inform investors about long term value creation prospects and risks of reporting companies; and b) help manage businesses more sustainably. In other words, disclosure requirements can aim to provide incremental information for investors and/or to positively influence corporate behavior, management choices and focus. Though these two objectives are compatible and desirable, there is need to prioritize the objective of providing investor information and enhancing transparency. We raise this point as we observe the emphasis on stakeholder consensus in selection of topics. In addition, the criterion of usefulness of accounting metrics seems to give equal weight to investors' financial analysis needs and information required for managing sustainable companies.

Specific Comments

Rules of Procedure

Questions for Respondents

1. Does the process described reflect an approach to standard-setting that is transparent, market-informed, and balanced?

CFA Institute believes that the approach to standard-setting put forth by the SASB is transparent, and commend the SASB for placing such a premium on transparency in the standard setting process. The SASB standards are likely to be used by many investors and issuers alike, making it imperative that such standard setting is done in an open and transparent manner.

The description of the standard setting process includes investor representatives and those in the issuer community with the aim to set standards that both meet the needs of investors and focus on the key metrics that companies themselves believe to be important performance indicators.

We would like a bit more information on this process however. The Rules of Procedure goes into great detail about the internal and external committees on councils that oversee the standards. We believe it would be helpful for SASB to provide more information on the processes that were followed to get to the final standards we have today. Some of this is touched on in the companion *Conceptual Framework* document, but does not go into much detail on how the standards were set. For instance, though different sources and characteristics of evidence are described, the practical thresholds of accepting these different forms of evidence used to assess the suitability of standards could be demonstrated through additional practical examples.

We encourage the SASB to tell the story of how the standards are set – perhaps using one sector as an example – to help investors and issuers understand the process. Figure 1 and 2 of this document help us understand the steps in the process, but we believe taking an example of one sector/industry and walking SASB users through the process from beginning to end could be even more illuminating.

The notion of "balanced" standard setting could in some cases appear to be inconsistent with an approach that explicitly prioritizes investors' information needs. More specifically, it is not clear whether the objective of balanced standard setting is to encourage companies to provide the most relevant and material information to investors within the constraints of the cost-effectiveness of generating such information, or whether the aim is to only include metrics where there is a consensus and acceptance from both issuers and investors.

From the description of attributes of decision-useful information within the conceptual framework, it seems to be that SASB is emphasizing the relevance of information for both investors and issuers. If so, this could establish an unnecessarily high threshold for considering information that investors find useful as relevant. In other words, if information is relevant for investors but is not used to manage the business- then such information could ostensibly be excluded from SASB standards.

"Cost Effectiveness"- It is also not clear how cost-effectiveness of information is established. Is it based on anecdotal claims by issuers? Is any evidence sought to verify any particular cost assertions? What are the components of costs considered as constraining? Is it systems and personnel costs only or does it also include the hard to define, measure and verify proprietary costs? There are lessons to be learnt from the financial accounting standard setting cycle- where during the launch of new standards (e.g., stock options, business combinations, and derivatives) companies were sometimes inclined to overstate costs and be unduly concerned about other anticipated adverse impacts of the then newly proposed information. In other words, SASB due process and evidence gathering approach should ensure there is no assumption of costs constraints that have not been empirically substantiated.

2. Will the process described ensure outcomes that facilitate material, decision-useful, and cost-effective disclosures?

We believe the process described by the SASB should lead to outcomes that facilitate material, decision-useful, and cost-effective disclosures. However, we encourage the SASB to constantly meet with issuers, investors, regulators and other interested parties to ensure that the standards are kept up to date and relevant to users.

We expect and encourage the SASB to provide the high level of transparency about such efforts so that all interested parties can see the processes and actions involved in keeping the SASB standards up to date.

We also encourage the SASB to make sure that they listen to the voices of investors, issuers and regulators outside of the United States, even though the SASB standards currently only apply to US companies. The standards set out by SASB will surely be used by investors and issuers outside the US as the metrics used will apply to non-US firms in industries covered by the SASB. Investors outside the US will offer a diversity of experiences and opinions that can only strengthen the standards over the long term.

Standards Approval and Codification and Updates

The SASB Rules of Procedure states that as part of the standards approval and codification process the SASB conducts a systematic review of the Provisional Standards. We would like to know on what time table the SASB expects such a review to take place, and in the future if they have such a timetable for updating the standards.

Public Comment Periods

The SASB states that survey portions of public comment will generate quantitative measures of the degree of agreement with SASB's standardization against a target of 75 percent. We would like to know the rationale for choosing this 75% threshold, and more information on what happens if this threshold is not met.

Sustainability Accounting Standards Updates

We encourage the SASB to further discuss what could necessitate an update to the standards. Are updates planned on a cycle of years, more frequent for fast changing industries? What are the tests for deciding when a standard needs updating and how is that decision made?

Evidence Based Standard Setting

Companies' reporting and investors financial analysis of material sustainability metrics is in a relatively nascent state. Hence, at this stage of standards development, SASB understandably has to give ample weight to multiple sources of evidence of materiality, decision usefulness and cost effectiveness. However, we would expect with more market experience, there will be greater reliance on evidence that is sourced from investors and issuers.

3. Is the governance structure clear and appropriate? Is it likely to ensure quality outcomes?

We feel that the SASB has set up a robust governance structures that should lead to quality outcomes, though with SASB still in its early stages, the test of these governance structures will be born out over time. We welcome the following features of the governance structures:

- Standards council size: Nine members is an appropriate number and unlikely to compromise the council's effectiveness.
- Standards council composition: Three of the nine investor representatives is an adequate representation of investors and stacks up well in comparison to financial accounting standard setting organizations.

However, we believe that the SASB can provide more clarity concerning the roles and responsibilities of each body described in the Rules of Procedure. The document describes at a relatively high level, the roles and responsibilities as well of the people that make up the Standards Setting Organization (SS0), the Standards Council and the Standards Oversight Committee (SOC or Committee). For those new to the SASB standards it may take a while to differentiate each of these entities and understand the individuals that make up these groups and the responsibilities of each group. We have the following specific questions:

- SOC and SC: What is the level of transparency around deliberations by the SOC and SC?

- SOC: As we understand the SOC is responsible for SC appointments, due process complaints and has fiduciary oversight over the SSO. What does fiduciary oversight over the SSO entail? Does the SOC have any involvement in the appointment and evaluation of the investors, preparer and intermediaries working groups?
- SC Agenda Setting: Is this purely informed by the interaction between the SSO and the SC? Do external stakeholders have any forums for articulating their views on SC agenda choices?
- Working groups: What are the governance mechanisms around these working groups? What is the level of transparency around the deliberations undertaken by these working groups?

We suggest a table early in this description detailing who makes up each group, what their roles and responsibilities are and are not, what they produce and what constituencies they serve. We believe such a table would complement Figure 3 on page 3 and lead to a better understanding of each entity. We also suggest the SASB detail how often each group will meet and publish any charters or by-laws for each group. This data is provided concerning some of the groups, but not all of them.

It is also necessary for SASB to articulate the mechanisms and frequency of assessing the overall effectiveness of its different institutional organs. There is a particular need to articulate the link between internal/ external resourcing inputs versus organization outcomes.

Conceptual Framework

Questions for Respondents

1. *Do you find this Conceptual Framework understandable? If not, which particular section(s) of this document do you find difficult to understand? Do you have suggestions on how to make those sections clearer?*

   Yes, to a large extent, we find the Conceptual Framework understandable. The document gives readers a clear understanding of the fundamental principles that guide SASB's work. The document could be made even more understandable by the inclusion of additional practical illustrations of judgments based on principles and criteria of selecting accounting metrics.

2. *Does the discussion in Section 1 of this Conceptual Framework appropriately and clearly answer each of the five fundamental questions? If not, why not? Are there any other fundamental questions you believe need to be discussed in this section?*

In developing the first set of sustainability accounting standards for the U.S. capital markets, the SASB addresses a set of fundamental questions:

1. What is sustainability accounting?
2. What is the purpose of sustainability accounting?
3. How does it differ from financial accounting?
4. Who is its intended audience?
5. How will it be used?

We believe that the Conceptual Framework appropriately answer each of the five fundamental questions set out by SASB. It may be too early to answer the question of how the standards will be used.

Like any innovation, the standards will be used by users the SASB has not anticipated. We therefore encourage the SASB to keep track of how people are using the standards that were not intended by the SASB. This will help the SASB to keep up to date with the standards and to make sure that they are serving all the constituencies needed.

3. *Are the principles and criteria discussed in Section 4 of this Conceptual Framework sufficient to produce outcomes that meet SASB's core objectives useful, and cost-effective)? If not, why not? Are there any other principles or criteria you believe SASB should consider when selecting topics and/or metrics?*

We believe that most of the articulated principles of topic selection and criteria for metrics are aligned with investor interests and are largely sufficient to provide useful standards. The principle that does not seem to be aligned with investor interests is the need for topics to be reflective of stakeholder consensus. As articulated earlier, we would advocate an approach that explicitly prioritizes investor information needs and make such needs only subject to preparer cost-effectiveness constraints and not on whether they are useful for managing companies. After all, these standards are voluntary and by definition do not impose avoidable costs- as individual companies can anyway opt not to provide any metrics that they consider not to be decision useful.

Concerning the criteria for accounting metrics, we would ask why "timely" is not one of the criteria for inclusion. CFA Institute does not want to encourage short-term thinking and has written and spoken extensively on the topic, but we still feel that information should be considered timely to be of use to investors. We have the following additional comments:

- Fair representation and neutral: These notions as described in the conceptual framework seems quite similar to faithful representation attribute as described by financial accounting standard. We would advocate the use of same terms as far as possible with those applied in other established literature (e.g. accounting standard setters' literature). Developing and emphasizing common language where appropriate will be helpful for SASB's stakeholder engagement.

- Useful: The determination of useful information should be primarily based on usefulness for investors, rather than usefulness to both companies and investors. As noted above, this would simply end up setting a high threshold before a metric is considered useful.
- Distributive: This notion seems to connote the ability to discriminate sustainability factors across firms. In statistics, there is a wealth of distribution characteristics or properties that allow relative judgment assessment. The precise meaning of distributive in this case is unclear and this could lead to diversity of stakeholder interpretations. Is it continuous variable or categorical variable characteristics? Hence, it may be worth considering a less technical term to describe the notion of metrics with discriminating ability.

4. *Are there any other matters or issues that you believe the SASB should consider in finalizing the revisions to its Conceptual Framework?*

We would like to see more attention paid to governance issues in the standards. On page three of the Conceptual framework, figure 1 illustrates the SASB Universe of Sustainability Issues. The leadership and governance issues listed do not include such important governance issues as; executive compensation, succession planning, board structure, related party transactions and others.

We feel that the corporate governance of companies is a risk or an opportunity for every public company – regardless of sector. We therefor feel that it is imperative that the SASB adequately address the important governance issues that apply to all companies in order to offer users of the SASB standards a better understanding of which governance issues can influence the value of the companies in which they invest.

If SASB standards are adopted by investors – but they do not include adequate information on governance risks it may reflect poorly on the standards if such governance issues were not addressed in the wake of a large corporate governance blow up.

We would also like to see a more detail on how investors, issuers and other parties helped to and will help to shape the standards. The technical details of how this works are laid out somewhat in the rules of procedure document, but we believe it would be instructive to investors for the SASB to tell the story of how one sector standards came to be. Such a document would walk the reader through the details of how standards were proposed, vetted, negotiated and decided upon in more detail than can be done by simply outlining the process.

Concluding Remarks

CFA Institute welcomes the opportunity to comment on SASB's Rules of Procedure and Conceptual Release. Should you have questions or would like to discuss these matters further, please do not hesitate to contact us.

Yours faithfully,

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