Sustainability Accounting Standards Board
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September 11, 2018

Brent J. Fields
Secretary
United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: SEC Draft Strategic Plan, Fiscal Years 2018-2022 (Release No. 34-83463)

Dear Mr. Fields:

I am submitting this letter on behalf of the Sustainability Accounting Standards Board (SASB) in response to the Commission's request for comment on its Draft Strategic Plan (Strategic Plan). The Strategic Plan contains statements of mission, vision and values reflecting the SEC's continued commitment to the protection of investors. We appreciate this opportunity to provide comments on these important goals.

The SASB is an independent, non-profit standard-setting organization established in 2011 to set, interpret, and maintain industry-specific sustainability standards. These standards are designed to assist companies (public and private) in disclosing financially material, decision-useful, sustainability information to their investors. SASB's standards-setting is accomplished through a rigorous process that includes evidence-based research and balanced stakeholder participation.

SASB has developed a provisional set of 79 industry-specific standards. After extensive outreach to stakeholders we have made revisions in many of these standards and expect to issue codified standards in October of this year.[1] An increasing number of companies are already using the standards (in their provisional form), and we anticipate that a substantial number of companies will use them after codification.

[1] One revision made by SASB included renaming certain industries and sectors, resulting in the reduction of separate SASB industry standards from 79 to 77.

SASB's mission coincides with the disclosure mission of the SEC: we believe that investors should have access to information that is important to their investment and voting decisions. The Strategic Plan describes this as one the SEC's "core principles," that is, "requiring sellers of securities to make material disclosures to facilitate informed decision-making." SASB facilitates the fulfillment of that principle by developing industry-specific standards that, importantly, are based on well-established principles of materiality.

The Strategic Plan does not mention sustainability disclosures – which include ESG (environmental, social, and governance) information – as a specific area that warrants the attention of the Commission and its staff. In our comments below we urge that the Commission note the importance of this issue in the Strategic Plan. Our major points are as follows:

1. Investor interest in sustainability/ESG factors is substantial and growing.

In 2016, SASB submitted a comment letter in response to the SEC's Concept Release: Business and Financial Disclosure Required by Regulation S-K. The S-K Concept Release included a handful of pages (four, out of 92) that asked for comment about the adequacy of sustainability disclosures made by public companies. The response to that modest foray into the sustainability field was overwhelming: most commenters on the Concept Release supported improved sustainability disclosures in SEC filings, and for many commenters this was their only area of concern. Support came from a broad range of individual investors, pension and investment funds, and others. This response demonstrated the importance of the issue to investors; as noted in a Sullivan & Cromwell law firm client memorandum, "the sustainability topic is clearly on the table at this point, and the Commission will sooner or later have to – and should – address it."[2]

There is ample evidence that investor interest in ESG issues continues to grow. For example, 90 percent of the world's top 100 asset managers, including Blackrock, Vanguard, and Fidelity, have now signed onto the Principles for Responsible Investment, which (among other things) commits them to incorporate ESG issues into investment analysis and decision-making processes. Similarly, SASB has established an Investor Advisory Group that includes asset managers and owners with over $26 trillion in assets; members of this group support SASB's efforts in a number of ways, including encouraging the uptake of SASB standards as a means by which companies communicate their performance on financially-material ESG issues for their industry to investors.

[2] SASB prepared an analysis of the comments on the Reg S-K Concept Release: "Business and Financial Disclosure Required by Regulation S-K – the SEC's Concept Release and Its Implications" (September 13, 2016)

2. SASB does not believe that additional SEC rulemaking is needed.

As discussed in SASB's comment letter on the Regulation S-K Concept Release, SASB does not believe that SEC rulemaking in this area is necessary. The "known trends or uncertainties" requirement of Regulation S-K, Item 303, should lead to disclosure of much material sustainability information. Further, line-item disclosures would not be appropriate for sustainability issues. Sustainability issues are often not material for all companies, and, when they are material, they tend to manifest in unique ways and require industry-specific metrics. Requiring generally applicable line-item disclosures would result in additional unnecessary corporate reporting burdens.

Moreover, SASB's view – developed through extensive interaction with investors – is that, in addition to use in SEC filings, SASB standards might appropriately be used in a range of investor communications, as long as the company has in place governance processes and internal controls that are similar to those employed for traditional financial reporting. It is up to a company's management to determine the means by which it reports information to investors. SASB standards might be used in an annual report to shareholders, an integrated report, on a company website, or in a corporate sustainability report.

3. Although rulemaking is not needed, SEC support or encouragement for better sustainability disclosures or other supportive actions would be significant.

The Strategic Plan includes the following Goal 1.4: "Modernize design, delivery and content of disclosure so investors, including in particular retail investors, can access readable, useful and timely information to make informed investment decisions." And, in discussing this goal, the Strategic Plan states the SEC "will continue to reexamine business and accounting disclosure requirements . . ."

These assertions are particularly relevant to sustainability. Numerous studies and commentators have described the inadequacy of current disclosures. Most recently, a Government Accountability Office study of ESG investing by retirement plans concluded that few retirement plans focus on ESG factors because of, according to asset managers interviewed by the GAO, a "lack of consistent and comparable data on relevant ESG factors and regulatory uncertainty."[3] Several of the interviewed asset managers cited the need for better information because "they expect incorporating ESG factors to improve the long-term performance of retirement plan portfolios", explaining

[3] GAO Report, "Retirement Plan Investing: Clearer Information on Consideration of Environmental, Social and Governance Factors Would be Helpful" (May 2018, pg. 13).

further that “companies that have effective ESG practices are better managed in the long run and therefore are better performers financially.”[4]

Further, there is a broad consensus that a single set of investor-focused, materiality-based standards – the basis of SASB’s approach – would be highly useful for investors. This has been stated by numerous commentators and experts. For example, the comment letter on the Strategic Plan recently submitted by the UN Principles for Responsible Investing organization urges “common metrics” to allow for “comparability by industry, portfolio, and across time-series.”[5] The GAO study describes the SASB’s work and states that the asset managers who were interviewed “supported ongoing industry efforts to standardize reporting of material ESG factors by companies, particularly the work of the [SASB]”.[6]

We therefore encourage the SEC to note the importance of sustainability disclosures – a matter that is clearly “on the table” at this point – in the discussion of Goal 1.4. Thus, in the context of examining “business and accounting disclosure requirements”, as stated in Goal 1.4, the Strategic Plan might make a specific reference to sustainability-related disclosures. Going forward, the Commission might consider doing the following to improve the quality of sustainability-related information available to investors:

- SEC leadership could direct the Division of Corporation Finance to review periodic filings and other materials available on issuer websites, with a view towards using its comment letter process to improve disclosure in SEC filings of material sustainability issues that issuers are already addressing.

- The Commission staff might perform its own study of the adequacy of disclosures in this area; such a study would be in line with the suggestions of the many commenters on the Regulation S-K Concept Release.

- As suggested in our comment letter on the Concept Release, the Commission might consider acknowledging that SASB is a credible organization whose standards, while not mandatory, should be considered by companies seeking to make better disclosures of their sustainability risks.[7]

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[4] Id. pg. 24.
[5] PRI comment letter (July 25, 2018)
[6] GAO Report, pg. 17.
[7] SASB’s S-K Concept Release comment letter noted precedents for such an action by the Commission. For example, in its adoption of a final rule under Section 404 of the Sarbanes-Oxley Act, the Commission referred to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework as an acceptable approach for management’s evaluation of internal control. SASB, like COSO, should be viewed as credible and complementary to the SEC’s mission. SASB’s standards are developed with substantial due process, using the materiality standard established under federal securities laws. SASB’s structure is modeled after that of the FASB, with an independent standards-setting body operating under the aegis of a non-profit foundation. A number of

Again, we appreciate the Commission's consideration of our comments. Please contact me for additional information.

Regards,

Jeffrey Hales
Chair, SASB Board

cc: Chairman Jay Clayton
Commissioner Kara M. Stein
Commissioner Robert J. Jackson Jr.
Commissioner Hester M. Peirce

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individuals involved with the SASB have rich SEC and regulatory experience – including (on the SASB Foundation Board) two former SEC chairs, a former Director of the Division of Corporation Finance, and a former chair of the FASB, and (on the SASB standards-setting board)` a former SEC General Counsel/PCAOB Board Member.