



Sustainability Accounting Standards Board
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July 19, 2019

Mr. Charles LI Xiaojia
Hong Kong Exchanges and Clearing Limited
8/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Re: Consultation Paper on Review of the ESG Reporting Guide and Related Listing Rules

Dear Mr. LI Xiaojia:

We welcome the opportunity to respond to your consultation. We strongly support HKEX's objective to clarify ESG reporting guidance for publicly listed companies and ensure the framework remains fit for purpose, continues to promote the quality of ESG performance and reporting, and is up to date with investor and stakeholder expectations and international best practice.

By way of introduction, I write to you as the Director of Legal and Regulatory Policy for the Sustainability Accounting Standards Board (SASB). SASB is an independent non-governmental organization that issues industry-specific sustainability accounting standards for the disclosure of financially-material information to investors. Using a robust due process with significant market input, SASB has established standards for 77 industries across 11 sectors. Each SASB standard includes on average, six disclosure topics and thirteen associated metrics. SASB metrics are aligned with over 200 existing frameworks, regulations, and certifications, and are 74% quantitative. Our goal is to foster corporate disclosure of environmental, social and governance (ESG) and other sustainability data that is comparable, consistent, reliable and financially material—empowering investors to make better investment and voting decisions.

Although SASB is based in the United States, the standards are intended to be used globally. Indeed, although the standards, after many years of research, were codified only several months ago (in November of 2018), up to 80 public companies have already begun to use the standards, on a voluntary basis, either in their regulatory filings or in other reports.

SASB enjoys broad support from investors. SASB's Investor Advisory Group (IAG) includes 44 members from North America, Europe, and Asia with collective assets under management valued at \$USD 33 trillion.

SASB has completed the requested questionnaire. We offer the following comments to provide additional details and context on our submission.

A. Introducing Mandatory Disclosure Requirements

SASB is encouraged by HKEX's interest to promote high-quality ESG performance and reporting. Surveys and studies show that although most large companies issue various types of ESG reports this information is often not designed for capital markets – which require consistent, comparable, and reliable data.

In a 2016 PwC study, 92% of investors surveyed noted that sustainability data disclosed by most of the companies in which they invest was not comparable. The PwC survey showed, among other things, that inconsistency of sustainability data significantly hampers investor use of such data and confidence in it.

Sustainability data that is standardized – and therefore, consistent and reliable – will improve the comparability of information reported by companies within an industry.

SASB supports requirements that would lead to more companies making disclosures of financially material ESG factors, as these factors may impact the financial condition and operating performance of companies within an industry and are relevant to investor decision-making.

Governance Structure

SASB supports making explicit the obligation of boards and management to consider the materiality of ESG factors when making their public disclosures. SASB suggests that boards and management adopt a system of governance around developing and disclosing financially material sustainability information—including management involvement, board oversight, and internal control—that is substantially similar to what they use for financial reporting.

As noted by the Enterprise Risk Management Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), governance, including strong board oversight, is a prerequisite to effectively identifying, assessing and addressing the full spectrum of company risks. Incorporating ESG-related risks into a company’s governance structure and processes are critical to overcoming the challenges issuers face in managing these risks.

Reporting Principles - Materiality:

For many companies, consideration of materiality is made with a dual perspective, encompassing both investor-oriented financial materiality and externally-oriented environmental and social impact materiality, also known stakeholder materiality. HKEX could suggest that boards and management look at materiality through these two lenses - financial materiality and stakeholder materiality.

SASB standards are unique in the marketplace due to their focus on financial materiality. 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.

The SASB standards have identified, through a rigorous process that is evidence-based, and market informed, the financially material ESG issues that are *reasonably likely to affect the financial condition or operating performance of companies within an industry*.

SASB offers a useful tool for companies to focus their disclosure efforts and meet the HKEX Reporting Principle. We recommend that SASB's Materiality Map (<https://www.sasb.org/standards-overview/materiality-map/>) be included as a resource for issuers.

Reporting Principles - Quantitative:

The SASB standards provide companies with standardized quantitative metrics intended to measure performance on each financially material sustainability topic specific to their industry. 74% of the metrics are quantitative, to facilitate comparability over time. The SASB standards also provide detailed guidance on the methods to calculate the metrics, the disclosure boundary, and explain methods and assumptions used to prepare information. Where needed, quantitative information is accompanied by a narrative (qualitative) description of factors necessary to ensure completeness, accuracy, and comparability of the data reported, including strategy, competitive positioning, degree of control, performance, and trends over time.

We recommend that the SASB standards (www.sasb.org/standards) be included as resource for issuers to promote disclosure of quantitative metrics.

B. Introducing Aspects of Climate Change and Revising the Environmental KPIs

Climate Change KPIs

SASB's Technical Bulletin on Climate Risk is designed to help investors and companies understand and disclose their climate-related risks. The Technical Bulletin notes three key findings:

- First, climate risk impacts industries across the economy. SASB research demonstrates that 69 of 77 industries are significantly affected in some way by climate risk.
- Second, climate risk is diverse. Although climate risk is virtually omnipresent, cutting across every sector, it manifests itself differently from one industry to the next. For example, agricultural concerns must manage water as an increasingly stressed resource, oil and gas companies need to properly value reserves in a carbon-constrained world and be prudent about capital expenditures, and commercial banks must effectively manage the carbon embedded in their loan portfolio.
- Third, understanding climate risk requires specialized disclosures. Investors need industry-specific information to fully understand their exposure and evaluate how well companies are positioned to manage climate risk. It's not as simple as all companies disclosing the same metrics, such as carbon footprint or greenhouse gas (GHG) emissions. Investors need metrics that indicate how effectively companies are managing the climate-related risks that are relevant in each industry.

The SASB standards offer decision-useful climate-related metrics on an industry-specific basis. The SASB standards have identified the climate-related, financially material risks and opportunities faced by companies within an industry, along with metrics (KPIs) that capture those industry-specific risks and opportunities. For example, in health care, SASB metrics seek to understand how extreme weather events can affect both business continuity and demand for services. In real estate, SASB metrics seek to illustrate the energy efficiency of buildings and the vulnerability of building stock to climate change due to geographic location. In oil and gas, SASB metrics seek to understand the amount of Scope 1 greenhouse gas emissions from flared hydrocarbons and other combustion.

SASB standards are referenced as a resource by the EU Non-Financial Reporting Directive (EU NFRD) and are among the most frequently referenced tools by the Task Force on Climate-related Financial Disclosure (TCFD) for implementing the TCFD Recommendations.

SASB's Climate Risk Technical (<https://library.sasb.org/climate-risk-technical-bulletin>) summarizes the climate-related disclosure topics and metrics across the 77 industry-specific standards. This may be a useful resource for HKEX to reference for issuers.

SASB, alongside the Carbon Disclosure Standards Board, has designed the TCFD Implementation Guide (<https://library.sasb.org/tcf-implementation-guide/>) to provide entities with mock-disclosures to communicate the material climate-related financial risks and opportunities they face.

C. Upgrading disclosure obligations of the Social KPIs

Comply or Explain

SASB recognizes that standardized disclosures of financially material sustainability information to investors is a relatively new area of practice, and certain accounting metrics may be infeasible to disclose in the near term for some entities. SASB encourages entities to use the standards to guide investor disclosures even if certain disclosure topics and/or associated metrics must be omitted and/or modified. An entity that omits one or more disclosure topics and/or accounting metrics should disclose the omission(s), as well as the rationale for the omission(s). The HKEX may also consider guidance that suggests that if an entity believes it necessary to modify a metric, the entity shall disclose the fact that the metric was changed, as well as the rationale for the change.

D. Revising the Social KPIs

SASB's standards cover five broad sustainability dimensions: the environment, human capital, social capital, business model and innovation, and leadership and governance. Therefore, the SASB standards include many social KPIs. However, as mentioned earlier, different sustainability topics affect different industries in different ways and thus require industry-specific metrics. For example, although Health and Safety risks touch many industries, the most meaningful metric for health and safety varies across industries. SASB's standards include different health and safety metrics for Oil and Gas (injury and fatality management), Meat, Poultry & Dairy industry (exposure to pesticides), or Casinos and Gaming (exposure to smoking). The SASB standards have identified industry-specific metrics and methodologies for reporting on Employment Types, Rate of Fatalities, Supply Chain Management, and Anti-Corruption.

SASB's Materiality Map (www.sasb.org/materiality) and the SASB standards (www.sasb.org/standards) provide an open-source platform that can be used by issuers to guide disclosure of industry-specific, financially material information to investors. We recommend that HKEX reference these tools as useful resources for issuers.

Thank you for considering these recommendations. If you have any additional questions or comments, please contact me at: [REDACTED].

Sincerely,

[REDACTED]

Thomas L. Riesenber
Director of Legal and Regulatory Policy
Sustainability Accounting Standards Board

Part B Consultation Questions

Please indicate your preference by checking the appropriate boxes. Please reply to the questions below on the proposed change discussed in the Consultation Paper downloadable from the HKEX website at:

<http://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/May-2019-Review-of-ESG-Guide/Consultation-Paper/cp201905.pdf>.

Where there is insufficient space provided for your comments, please attach additional pages.

Timeframe for Publication of ESG Reports

1. Do you agree with our proposal to amend Main Board Listing Rule 13.91 and GEM Listing Rule 17.103 to shorten the time required to publish an environmental, social and governance (“**ESG**”) report from three months after the publication of the annual report to within four months for Main Board issuers or three months for GEM issuers from the financial year-end date?

Yes

No

Please give reasons for your views.

NO COMMENT

Printed Form of ESG Reports

2. Do you agree with our proposal to amend the Listing Rules and the Guide to clarify that issuers are not required to provide printed form of the ESG report to shareholders unless responding to specific requests, but are required to notify shareholders that the ESG report has been published on the Exchange’s and the issuer’s websites?

Yes

No

Please give reasons for your views.

NO COMMENT

Introducing Mandatory Disclosure Requirements

General

3. Do you agree with our proposal to amend the Guide to introduce Mandatory Disclosure Requirements (“MDR”)?

Yes

No

Please give reasons for your views.

We welcome the opportunity to respond to your consultation. We strongly support HKEX’s objective to clarify ESG reporting guidance for publicly listed companies and ensure the framework remains fit for purpose, continues to promote the quality of ESG performance and reporting, and is up to date with investor and stakeholder expectations and international best practice.

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SASB supports requirements that would lead to more companies making disclosures of financially material ESG factors, as these factors may impact the financial condition and operating performance of companies within an industry and are relevant to investor decision-making.

Governance Structure

4. If your response to Question 3 is positive, do you agree with our proposal to introduce an MDR requiring a statement from the board containing the following elements:

(a) a disclosure of the board's oversight of ESG issues?

(b) the process used to identify, evaluate and manage material ESG-related issues (including risks to the issuer's businesses); and

(c) how the board reviews progress made against ESG-related goals and targets?

Yes

No

Please give reasons for your views.

SASB supports making explicit the obligation of boards and management to consider the materiality of ESG factors when making their public disclosures. SASB suggests that boards and management adopt a system of governance around developing and disclosing financially material sustainability information—including management involvement, board oversight, and internal control—that is substantially similar to what they use for financial reporting.

As noted by the Enterprise Risk Management Integrated Framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), governance, including strong board oversight, is a prerequisite to effectively identifying, assessing and addressing the full spectrum of company risks. Incorporating ESG-related risks into a company's governance structure and processes are critical to overcoming the challenges issuers face in managing these risks

Additional details can be found in our accompanying letter.

5. Do you agree with our proposal to set out in a note that the board statement should include information on the issuer's current ESG management approach, strategy, priorities and goals/targets and an explanation of how they relate to the issuer's businesses?

Yes

No

Please give reasons for your views.

This proposal aligns with SASB's Standards Application Guidance which notes that disclosure to investors should be accurate and reliable, and should consider including a narrative of the following:

a. The entity's governance around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities.

b. The entity's strategic approach regarding actual and potential impacts of topic-related risks and opportunities on the organization's businesses, strategy, and financial planning, over the short, medium, and long term.

c. The entity's process to identify, assess, and manage topic-related risks, and how these risks are integrated into the entity's overall risk management process.

d. The entity's use of metrics or targets to assess and manage topic-related risks and opportunities.

Reporting Principles

6. Do you agree with our proposal to amend the Guide to introduce an MDR requiring disclosure of an explanation on how the issuer has applied the Reporting Principles in the preparation of the ESG report?

Yes

No

Please give reasons for your views.

The Reporting Principles align well with SASB's approach to sustainability accounting, which consists of defining operational metrics on financially material, industry specific topics likely to affect the financial and operating performance of companies within an industry. SASB metrics, 74% of which are quantitative, seek corporate disclosures of sustainability data that is consistent and balanced.

We are supportive of the Reporting Principles as they not only align with the SASB Conceptual Framework, but also the TCFD Recommendations' seven fundamental principles for effective disclosure and the Climate Disclosure Standards Board Framework (CDSB). The alignment among TCFD, SASB, and CDSB has been detailed in the "Converging on Climate Risk" report (https://www.cdsb.net/sites/default/files/sasb_cdsb-tcf-convergingonclimaterisk-091317-web.pdf).

7. Do you agree with our proposal to amend the Reporting Principle on "materiality" to make it clear that materiality of ESG issues is to be determined by the board and that the issuer must disclose a description of significant stakeholders identified, the process and results of the issuer's stakeholder engagement (if any), and the criteria for the selection of material ESG factors?

Yes

No

Please give reasons for your views.

For many companies, consideration of materiality is made with a dual perspective, encompassing both investor-oriented financial materiality and externally-oriented environmental and social impact materiality, also known stakeholder materiality. HKEX could suggest that boards and management look at materiality through these two lenses - financial materiality and stakeholder materiality.

SASB standards are unique in the marketplace due to their focus on financial materiality. 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.

The SASB standards have identified, through a rigorous process that is evidence-based, and market informed, the financially material ESG issues that are reasonably likely to affect the financial condition or operating performance of companies within an industry.

SASB offers a useful tool for companies to focus their disclosure efforts and meet the HKEX Reporting Principle. We recommend that SASB's Materiality Map (<https://www.sasb.org/standards-overview/materiality-map/>) be included as a resource for issuers.

8. Do you agree with our proposal to amend the Reporting Principle on “quantitative” to:

- (a) require disclosure of information on the standards, methodologies, assumptions and/or calculation tools used, and source of the conversion factors used for the reporting of emissions/energy consumption (where applicable); and
- (b) clarify that while key performance indicators (“KPIs”) for historical data must be measurable, targets may be expressed by way of directional statements or quantitative descriptions?

Yes

No

Please give reasons for your views.

We agree that entities should disclose the standards, methodologies, assumptions and/or calculation tools used.

The SASB recognizes that normalizing performance data is important for the analysis of disclosures pursuant to the SASB standards. For example, SASB industry standards contain activity metrics that are designed to assist in the accurate evaluation and comparability of reporting.

On KPIs, SASB's Conceptual Framework (<https://www.sasb.org/wp-content/uploads/2019/05/SASB-Conceptual-Framework.pdf>) notes that like financial accounting information, sustainability accounting information should capture past and current performance, and can also be forward-looking to the extent that it helps management describe known trends, events, and uncertainties that may reveal an actual or potential impact on the financial condition or operating performance of a reporting entity. Sustainability data - both qualitative and quantitative - can help issuers communicate and to more completely represent company performance.

The SASB standards provide companies with standardized quantitative metrics intended to measure performance on each financially material sustainability topic specific to their industry. 74% of the metrics are quantitative, to facilitate comparability over time. The SASB standards also provide detailed guidance on the methods to calculate the metrics, the disclosure boundary, and explain methods and assumptions used to prepare information. Where needed, quantitative information is accompanied by a narrative (qualitative) description of factors necessary to ensure completeness, accuracy, and comparability of the data reported, including strategy, competitive positioning, degree of control, performance, and trends over time.

We recommend that the SASB standards (www.sasb.org/standards) be included as resource for issuers to promote disclosure of quantitative metrics

Reporting Boundary

9. Do you agree with our proposal to amend the Guide to include an MDR requiring an explanation of the ESG report's reporting boundary, disclosing the process used to identify the specific entities or operations that are included in the ESG report?

Yes

No

Please give reasons for your views.

We agree as this would provide decision-useful information for the investor. SASB's Standards Application Guidance provides specific guidance that:

"reporting boundaries for disclosures shall include all parent and subordinate entities that are consolidated for financial reporting purposes. Disclosures for consolidated entities shall not be adjusted for minority interests. Unconsolidated entities shall be excluded from the reporting boundaries. However, the entity should disclose information about unconsolidated entities to the extent that the entity considers such information necessary to understand the effect of one or more SASB disclosure topics on the entity's financial condition or operating performance."

Introducing Aspect on Climate Change and Revising the Environmental KPIs

Climate Change

10. Do you agree with our proposal to introduce a new Aspect A4 requiring:

- (a) disclosure of policies on measures to identify and mitigate the significant climate-related issues which have impacted, and those which may impact the issuer; and
- (b) a KPI requiring a description of the significant climate-related issues which have impacted, and those which may impact the issuer, and the actions taken to manage them?

Yes

No

Please give reasons for your views.

SASB agrees with the proposal, which is consistent with SASB's Standards Application Guidance. Specifically, SASB's Standards Application Guidance notes entities should consider including a narrative description of material factors necessary to ensure completeness, accuracy, and comparability of the data reported, as appropriate. The narrative description may include a discussion of the following:

- a) The entity's governance around the risks and opportunities related to climate change including board oversight of and management's role in assessing and managing such risks and opportunities.
- b) The entity's strategic approach regarding actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning, over the short, medium, and long term.
- c) The entity's process to identify, assess, and manage climate-related risks, and how these risks are integrated into the entity's overall risk management process.
- d) The entity's use of metrics or targets to assess and manage topic-related risks and opportunities.

SASB's Technical Bulletin on Climate Risk is designed to help investors and companies understand and disclose their climate-related risks. The Technical Bulletin notes three key findings:

- First, climate risk impacts industries across the economy. SASB research demonstrates that 69 of 77 industries are significantly affected in some way by climate risk.
- Second, climate risk is diverse. Although climate risk is virtually omnipresent, cutting across every sector, it manifests itself differently from one industry to the next. For example, agricultural concerns must manage water as an increasingly stressed resource, oil and gas companies need to properly value reserves in a carbon-constrained world and be prudent

about capital expenditures, and commercial banks must effectively manage the carbon embedded in their loan portfolio.

- Third, understanding climate risk requires specialized disclosures. Investors need industry-specific information to fully understand their exposure and evaluate how well companies are positioned to manage climate risk. It's not as simple as all companies disclosing the same metrics, such as carbon footprint or greenhouse gas (GHG) emissions. Investors need metrics that indicate how effectively companies are managing the climate-related risks that are relevant in each industry.

The SASB standards offer decision-useful climate-related metrics on an industry specific basis. The SASB standards have identified the climate-related, financially material risks and opportunities faced by companies within an industry, along with metrics (KPIs) that capture those industry-specific risks and opportunities. For example, in health care, SASB metrics seek to understand how extreme weather events can affect both business continuity and demand for services. In real estate, SASB metrics seek to illustrate the energy efficiency of buildings and the vulnerability of building stock to climate change due to geographic location. In oil and gas, SASB metrics seek to understand the amount of Scope 1 greenhouse gas emissions from flared hydrocarbons and other combustion.

SASB standards are referenced as a resource by the EU non-financial reporting (EU NFR) Directive and among the most frequently referenced tools by the Task Force on Climate-related Financial Disclosure (TCFD) for implementing the TCFD Recommendations.

SASB, alongside the Carbon Disclosure Standards Board, has designed the TCFD Implementation Guide (<https://library.sasb.org/tcfid-implementation-guide/>) to provide entities with mock-disclosures to communicate the material climate-related financial risks and opportunities they face.

SASB's Climate Risk Technical (<https://library.sasb.org/climate-risk-technical-bulletin>) summarizes the climate-related disclosure topics and metrics across the 77 industry-specific standards. This may be a useful resource for HKEX to reference for issuers.

Please see our accompanying letter for additional information

Targets

11. Do you agree with our proposal to amend the Environmental KPIs to require disclosure of a description of targets set regarding emissions, energy use and water efficiency, waste reduction, etc. and steps taken to achieve them?

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information.

GHG Emissions

12. Do you agree with our proposal to revise an Environmental KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas (“**GHG**”) emissions?

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information.

Upgrading the Disclosure Obligation of the Social KPIs

13. Do you agree with our proposal to upgrade the disclosure obligation of all Social KPIs to “comply or explain”?

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information.

Revising the Social KPIs

Employment Types

14. Do you agree with our proposal to revise a KPI to clarify “employment types” should include “full- and part-time” staff?

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information.

Rate of Fatalities

15. Do you agree with our proposal to amend the KPI on fatalities to require disclosure of the number and rate of work-related fatalities occurred in each of the past three years including the reporting year?

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information

Supply Chain Management

16. Do you agree with our proposal to introduce the following new KPIs in respect of supply chain management?

(a) Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.

(b) Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information

Anti-corruption

17. Do you agree with our proposal to introduce a new KPI requiring disclosure of anti-corruption training provided to directors and staff?

Yes

No

Please give reasons for your views.

Please see our accompanying letter for additional information.

Encouraging Independent Assurance

18. Do you agree with the proposal to revise the Guide's wording on independence assurance to state that the issuer may seek independent assurance to strengthen the credibility of ESG information disclosed; and where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for assurance clearly in the ESG report?

Yes

No

Please give reasons for your views.

A core objective of SASB is to produce standards for information that is decision-useful and reliable. Capital markets require information disclosed to be accurate and unbiased. Third-party assurance will almost certainly lead to more reliable reporting in this area. Assurance also builds confidence in the quality, reliability, and comparability of sustainability performance data reported by companies through building awareness of internal process requirements making it more likely that the data will be relied on and used for decision making (internally and externally).

The SASB standards are designed to serve as a basis for suitable criteria if an entity chooses to seek third-party assurance.

End -