SASB's FSA Credential: Master the Link Between Sustainability and Financial Performance

November 30, 2018

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3. Overview of Codification
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Panelists

Alex Davidson
Marketing Manager

Nicolai Lundy
Director of Education and Partnerships

Andreas Pappas
Education and Partnerships Associate

Lynn Xia
Sector Analyst, Consumer Goods, Food & Beverage
Overview of the FSA Credential
FSA – Master the Link Between Sustainability and Corporate Value

FSA Credential
Fundamentals of Sustainability Accounting Credential
fsa.sasb.org

Level I  Principles
- How sustainability information can be financially material
- The implications for companies and investors

Level II  Practices
- How to gain an enhanced understanding of a company’s performance and value from material sustainability information
FSA Level 1 Registrations

FSA Level 1 Registrations – 2016-2018

<table>
<thead>
<tr>
<th>Qtr1</th>
<th>Qtr2</th>
<th>Qtr3</th>
<th>Qtr4</th>
<th>Qtr1</th>
<th>Qtr2</th>
<th>Qtr3</th>
<th>Qtr4</th>
<th>Qtr1</th>
<th>Qtr2</th>
<th>Qtr3</th>
<th>Qtr4</th>
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<tr>
<td>2016</td>
<td></td>
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<td>2017</td>
<td></td>
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<td></td>
<td>2018</td>
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</table>

2016 2017 2018

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FSA Level I and II Summary Stats

Registration Stats as of 11/21/18
- # of FSA 1 Registrants (All-time): 815
- # of FSA 2 Registrants (All-time): 316

Credential Holder Stats as of 11/21/18
- # of FSA Credential holders: 240
- Top Job Functions of Credential Holders
  - Consultants
  - Investors
  - Sustainability within a company
Overview of the Codification Process
Rigorous Process Drives SASB Standards

Standards for each industry are rooted in evidence and shaped by market input.

- Industry Research
  Evidence of Financial Impacts
- Market Input
  Industry Working Groups and Issuer, Investor Consultation
- Evidence Vetting
  Standards Board Review
- Public Comment
  Exposure Drafts
- Revisions & Board Approval
- SASB Standard
  Average of 6 topics and 13 metrics

Standards maintenance
Ongoing
Launch of the Codified SASB Standards

Market input, research, and Standards Board review drive the Codification process

Market Input

IWG participants
- 141 companies (159)
- 19 industry associations
- 38 inst. investors (271)

Comment letters
- 120 comment letters
- 1,500+ individual comments

Impact on Standards

248 proposed revisions
48 amended revisions
181 new revisions

Provisional Standards
2012 - 2016

Research & Consultation
2016 - 2017

Technical Agenda
2017

Public Comment
2017 - 2018

Codification
Q4 2018

429 REVISIONS under final review by Standards Board

Market input, research, and Standards Board review drive the Codification process.
Codified Standards Launched on November 7, 2018

Standards launched at London Stock Exchange and NASDAQ
SUMMARY THEMES FROM PUBLIC COMMENTS

1. Companies ask for fewer quantitative metrics and more qualitative (discussion & analysis) metrics while investors ask for the opposite.

2. Companies and industry associations represent the largest source of public comments.

<table>
<thead>
<tr>
<th>Overview of Changes to Provisional Topics</th>
<th>% of Provisional Topics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Topic Deleted</td>
<td>3%</td>
</tr>
<tr>
<td>New Topic</td>
<td>2%</td>
</tr>
<tr>
<td>Topics Merged</td>
<td>1%</td>
</tr>
<tr>
<td>Topic Split</td>
<td>16%</td>
</tr>
<tr>
<td>Topic Wording Revised</td>
<td>13%</td>
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<table>
<thead>
<tr>
<th>Overview of Changes to Provisional Metrics</th>
<th>% of Provisional Metrics</th>
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<tr>
<td>Metric Deleted</td>
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<tr>
<td>Metric Removed (Whole topic deleted)</td>
<td>4%</td>
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<tr>
<td>New Metric</td>
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<tr>
<td>Metric Revised</td>
<td>16%</td>
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<tr>
<td>Metric Wording Improved</td>
<td>45%</td>
</tr>
<tr>
<td>Metric Moved to Another Topic</td>
<td>2%</td>
</tr>
</tbody>
</table>
Example Revisions in the Food & Beverage Sector

Updated scope of the **Agricultural Products industry** to exclude on-farm operations – resulted in removed topics and moved metrics

Revised metrics related to **antibiotics usage in the animal supply chain** in three industries

**Basis for Conclusions** for each industry provides the rationale for each revision between provisional and codified standard.
Sustainable Industry Classification System® (SICS®) is Updated

• **New SICS®**: 77 industries (formerly 79 industries) **in 11 sectors**

• **Update to sector names**
  - Food & Beverage (formerly Consumption I)
  - Consumer Goods (formerly Consumption II)
  - Extractives & Minerals Processing (formerly Non-Renewable Resources)

• **Update to industry names**
  - Examples:
    - Solar Energy to Solar Technology & Project Developers
    - Media Production & Distribution to Media & Entertainment

• **Update to industry mapping**
  - Examples:
    - Restaurants moved from Services sector to Food & Beverage sector
    - Cruise Lines moved from Services sector to Transportation sector
### General Issue Categories are revised

<table>
<thead>
<tr>
<th>General Issue Category</th>
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</thead>
<tbody>
<tr>
<td><strong>Environment</strong></td>
<td><strong>Human Capital</strong></td>
</tr>
<tr>
<td>GHG Emissions</td>
<td>Labor Relations</td>
</tr>
<tr>
<td>Fuel Management</td>
<td>Fair Labor Practices</td>
</tr>
<tr>
<td>Air Quality</td>
<td>Compensation and benefits</td>
</tr>
<tr>
<td>Energy Management</td>
<td>Employee Health, Safety and Wellbeing</td>
</tr>
<tr>
<td>Water and Wastewater Management</td>
<td>Employee Engagement, Diversity &amp; Inclusion</td>
</tr>
<tr>
<td>Waste and Hazardous Materials Management</td>
<td>Recruitment, development and retention</td>
</tr>
<tr>
<td>Ecological Impacts</td>
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<tr>
<td><strong>Social Capital</strong></td>
<td><strong>Leadership &amp; Governance</strong></td>
</tr>
<tr>
<td>Human Rights and Community Relations</td>
<td>Business Ethics and transparency of payments</td>
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<tr>
<td>Data Security</td>
<td></td>
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<tr>
<td>Customer Privacy</td>
<td>Competitive Behavior</td>
</tr>
<tr>
<td>Access and Affordability</td>
<td>Regulatory-capture and political-influence</td>
</tr>
<tr>
<td>Customer Welfare</td>
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</tr>
<tr>
<td>Selling Practices &amp; Product Labeling</td>
<td>Materials Sourcing &amp; Efficiency [moved to Business Model]</td>
</tr>
<tr>
<td>Fair marketing and advertising</td>
<td>Supply Chain Management [moved to Business Model]</td>
</tr>
<tr>
<td><strong>Business Model &amp; Innovation</strong></td>
<td>Critical Incident Risk Management</td>
</tr>
<tr>
<td>Product Design &amp; Lifecycle Inclusion</td>
<td>Systemic Risk Management</td>
</tr>
<tr>
<td>Product Packaging</td>
<td></td>
</tr>
<tr>
<td>Business Model Resilience</td>
<td></td>
</tr>
<tr>
<td>Product Quality and Safety [moved to Social Capital]</td>
<td></td>
</tr>
</tbody>
</table>
### Materiality Map is Updated

Hybrid topics have been split into distinct topics

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Current General Issue Categories</th>
<th>Biotechnology &amp; Pharmaceuticals</th>
<th>Medical Equipment &amp; Supplies</th>
<th>Health Care Delivery</th>
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</thead>
<tbody>
<tr>
<td>Environment</td>
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</table>

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Proposed General Issue Categories</th>
<th>Biotechnology &amp; Pharmaceuticals</th>
<th>Medical Equipment &amp; Supplies</th>
<th>Health Care Delivery</th>
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<td>Energy Management</td>
<td>Energy Management</td>
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<td>Energy Management</td>
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<td></td>
<td>Water and Wastewater Management</td>
<td>Water Management</td>
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Ongoing Standards Development Process
SASB standards will evolve along with the markets they serve

The SASB Oversight and Decision-Making

- Quarterly meetings of the Sustainability Accounting Standards Board

- Board meetings are public. Board meeting information is available on [https://www.sasb.org/standards/public-meetings-sasb/](https://www.sasb.org/standards/public-meetings-sasb/)

- General comment letters can be sent to comments@sasb.org; comments on standards can be made through [https://www.sasb.org/standards/exposure-drafts/](https://www.sasb.org/standards/exposure-drafts/)
Scope of FSA Update and Timeline

FSA Level I and Level II Study Guide/Exam Updates:

1. **Identify** changing aspects of the standards within each study guide and exam

2. **Implement** changes where provisional items have been updated
   - Changes will include text and contextual changes (e.g. renaming titles or changing examples)

Note: These changes should not affect anyone’s performance on the exam.

Project Timeline

- **Q4 2018**: FSA content planning/review
- **Early Q1 2019**: FSA Study guide and exam content revisions
- **Late Q1 2019**: Finalize changes and publish
Examples of Study Guide Changes

1. When standards content changes
   ▪ Part of a SASB standard (e.g. Sector/Industry/Topic/Metric) changes (e.g. renamed, added, removed, merged)

2. Standards content changes with an example
   ▪ Content exemplifying a certain part of the standard: case studies, sample questions, etc.

3. Rationale for standards content
   ▪ An explanation of why standards content is the way it is. For example: a certain topic was found likely to be material because…

4. Sample question content
   ▪ Sample questions based on the provisional standards may need to be updated or changed completely
Change Type 1: Standards Content Change

FSA Level I Study Guide Changes
• Pharmaceuticals Industry was merged with Biotechnology Industry

12.2. Disclosure Topics and Accounting Metrics

In addition to Disclosure Guidance, SASB standards also include one or more accounting metrics associated with each industry-specific disclosure topic, along with technical protocols for using the metrics.

12.2.1. Disclosure Topics

Disclosure topics represent the industry-specific impacts of broader sustainability issues. For example, Health & Nutrition is a disclosure topic in a number of Consumption industries, representing one aspect of the broader issue of Customer Welfare. This same issue, however, manifests itself in terms of Drug Safety & Side Effects in the Pharmaceuticals industry, Quality of Education & Gainful Employment in the Education industry, and so on. (See table.)

Six fundamental principles help guide SASB’s determination of topics for disclosure, aimed at balancing the needs of the various user groups.\textsuperscript{154}

\textsuperscript{154} The following principles are drawn from SASB’s 2013 Conceptual Framework.
Change Type 1: Standards Content Change

Level II Study Guide Changes
- Non-Renewable Resources Sector changed to Extractives & Minerals Processing Sector
- Accounting Metric NR0302-15 and NR0302-16 have been revised

<table>
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<tbody>
<tr>
<td>Sustainability accounting metric(s)</td>
<td></td>
</tr>
<tr>
<td>NR0302-15:</td>
<td>1) Proven and (2) probable reserves in or near areas of conflict (metric tons, %)</td>
</tr>
<tr>
<td>NR0302-16:</td>
<td>(1) Proven and (2) probable reserves in or near indigenous land (metric tons, %)</td>
</tr>
<tr>
<td>NR0302-17:</td>
<td>Discussion of engagement processes and due diligence practices with respect to human rights, indigenous rights, and operation in areas of conflict (discussion and analysis)</td>
</tr>
</tbody>
</table>
Level II Study Guide Changes

- Safety & Environmental Stewardship of Chemicals & Genetically Modified Organisms has been split into two topics:
  1. Safety & Environmental Stewardship of Chemicals and;
  2. Genetically Modified Organisms

Test Your Understanding

Below is a sample case study with sample exam questions. This "Test Your Understanding" section is designed to synthesize the concepts identified in Part I and demonstrate how they will appear in an exam, with explanations about why the sample question answer is correct and why the other answer choices are not.

Industry: Chemicals
Sector: Resource Transformation
SASB Disclosure Topic: Safety & Environmental Stewardship of Chemicals & Genetically Modified Organisms
Change Type 3: Rationale for Standards Content

Level II Study Guide Changes

• Energy & Feedstock Management Disclosure Topic has changed to Energy Management
• Metric RT0101-06 has been revised to (1) Total energy consumed, (2) percentage grid electricity, (3) percentage renewable, (4) total self-generated energy

However, it is important to remember that growth projections apply to cash flows—not just to revenues—and therefore they may also factor in the growth of expenses. For example, companies in the Chemicals industry make extensive use of fossil hydrocarbon feedstocks as inputs. These inputs face risks from supply disruptions and volatile, rising prices. The SASB standard for the industry includes the following topic and metric:

<table>
<thead>
<tr>
<th>Disclosure topic</th>
<th>Energy &amp; Feedstock Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability accounting metric(s)</td>
<td>RT0101-06: Percentage of raw materials from renewable resources</td>
</tr>
</tbody>
</table>
Change Type 4: Sample Question

Level I Sample Question Changes

- Labor Relations is no longer a Disclosure Topic in the Oil & Gas – Services industry so an entirely new (but similar) question will be written.

Which two statements, if true, provide the best evidence that Labor Relations is not likely to be a topic that warrants disclosure for most companies in the Oil & Gas – Services industry? (Choose two)

- A. “Labor relations is a frequent topic in media coverage of the industry and shareholder resolutions in the industry but it is not important to our customers or our board of directors.”
- B. “The industry is not unionized and strikes are a rare occurrence within the industry. Workers are generally extremely well paid and labor relations are healthy for the most part.”
- C. “There are instances where labor relations is material in a specific set of circumstances—such as in Gabon in 2013—but it is not material across the industry.”
- D. “Surveyed customers and suppliers indicated that cost containment strategies warranted disclosure except where it concerned what they viewed as a non-issue—labor relations—even though labor costs account for the 3rd greatest share of costs.”
Questions?

Alex Davidson
Marketing Manager

Nicolai Lundy
Director of Education and Partnerships

Andreas Pappas
Education and Partnerships Associate

Lynn Xia
Sector Analyst, Consumer Goods, Food & Beverage
FSA Anniversary
Celebration Details
Anniversary Celebration – Dec. 7

- Want to celebrate all those in the FSA Credential community
- Will ask you to share your enthusiasm for the FSA Credential in the following ways:
  - Pre-written Social Media Posts for Twitter and LinkedIn
    - For both Credential holders and non-credential holders
  - #FSACredential Hashtag
Thanks!

Thanks for attending! If you would like to learn more visit fsa.sasb.org.