

Commenting on SASB's Standards?

EHS Audit Should Do this Instead

The Sustainability Accounting Standards Board (www.sasb.org) was founded in 2011, dedicated to improving comparable, meaningful, investor-quality disclosures of material environmental, social and governance (ESG) issues in public filings made by publicly-traded companies. This is typically in the Management Discussion and Analysis (MD&A) section of the Form 10-K. SASB sticks with the definition of "materiality" as is applied by law for investors, and requires no new law or regulation for adoption.

SASB has published exposure draft standards for each of 79 industries, as classified by SASB's unique Sustainability Industry Classification scheme. SASB has also released Proposed Changes to Provisional Standards, and has invited stakeholder comment - through December 31, 2017.



Why Bother to Comment?



SASB always intended the standards to be dynamic. The world changes – and so do the issues that can pose material impact on investors. SASB used algorithms, researchers, and stakeholder outreach to develop the exposure draft standards. They've done the same in proposing the Proposed Changes to Provisional Standards. SASB has considered factors, such as level of regulatory enforcement, level of shareholder activity, and risk to operational continuity. Some parameters were added, some were modified, and some were dropped. Many remained just as they were.

SASB has essentially done industry's homework, and has invited industry to proofread. The open comment period invites perspectives from everyone. Companies arguably have the most at stake – with the expectation that they will provide meaningful disclosures on the topics identified. There could be value in doing a reality check on the proposed changes.



Environmental, Health & Safety (EHS) Audit may be considering submitting comments. With less than a month to go, you can still make it – but why? Companies can already elect to omit parameters that aren't relevant, include other parameters that are material (for example, for a subsidiary). So there is already flexibility in the standards. I suggest that **EHS Audit** can provide greater value elsewhere.



How Can EHS Audit Provide Greater Value?

1. **Find out what your company discloses now, and compare to peers.** Read the SASB standard for your company's industry. Look at your company's last 10-K. Download the latest State of the Disclosure report – it's at www.SASB.org . If your company has signed up for SASB's Navigator (check with Investor Relations), see how you fare relative to peers.
2. **Look at the design of your program, and your 2018 Audit Plan.** The SASB standards identify material ESG risks – about a dozen. Are the EHS parameters in the scope of your EHS auditing program? Are these in your 2018 audit plan? Have these risks even been considered for the program? Many EHS auditing programs remain squarely focused on compliance; the program design and scope have not kept pace with changing risks.

3. **Check in with other 2LODs.** EHS Audit is typically a second line of defense (2LODs) function, reporting to – and serving at the pleasure of – company management. See if other 2LOD functions (quality, supply chain, business continuity, IT) have adapted to changing issues and risks. If they have (IT is often in the lead), they may have suggestions on how to make the transition. If none have, then management has a bigger problem.



4. **Talk to Internal Audit.** Internal Audit is obliged to raise risk issues with those charged with governance. If Internal Audit hasn't focused on SASB disclosure topics involving EHS (or doesn't know about SASB yet!!), then EHS Audit can do Internal Audit – and the company – a favor by raising the issue. EHS Audit can position itself as a resource to mitigate risk.
5. **Advocate – or get help.** EHS Audit may be checking for new regulations, maintaining compliance protocols, and scheduling this year's audits on the regular cycle. But if EHS Audit is “too busy” doing the same thing while risks in the world change around them, this puts both the organization and the EHS Audit function at risk. If a very basic gap analysis (Steps 1 – 3 above) identifies gaps, adjust the EHS Audit program accordingly. If the team is unaccustomed to doing gap assessments or auditing in conjunction with SEC filings, then get help from a resource who is. Don't forget that one aspect of “risk” is opportunity. A strategic approach to mitigating risk can also result in competitive advantage – but only if you recognize it and act upon it.