SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)

Dr. Nicolás García Torea
Department of Economics and Business Administration
Universidad de Burgos
09001 Burgos
Spain
ngtorea@ubu.es

Capítulo de libro aceptado en: ***Encyclopedia on Sustainable Management***. Springer Nature.

Se debe citar como: Garcia-Torea, N. (2022). Sustainability Accounting Standards Board (SASB). En Idowu, S., Schmidpeter, R., Capaldi, N., Zu, L., del Baldo, M., & Abreu, R. (Eds.), *Encyclopedia on Sustainable Management*. Springer Nature. https://doi.org/10.1007/978-3-030-02006-4_841-1

SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB)

Dr. Nicolás García Torea

Department of Economics and Business Administration

Universidad de Burgos

09001 Burgos

Spain

ngtorea@ubu.es

Definition

The Sustainability Accounting Standards Board (hereafter SASB) is a non-profit organization founded in 2011 that develops industry specific sustainability accounting standards for the production of information on material non-financial topics for US investors. Currently, SASB has produced sustainability accounting standards covering material issues for 77 industries that operates in 10 different sectors. SABS aims that its standards will be integrated into listed companies' fillings to the Securities and Exchange Commission. This chapter provides a brief description of SASB as an organization and its governance structure. Afterwards, it summarizes the key characteristics of the process that SASB follows to develop the standards. This process is based in industry expert feedback and public consultation. The chapter concludes with some guidance offered by SASB on how firms should apply their guidelines when producing disclosures on material social, environmental and governance topics.

Introduction

The Sustainability Accounting Standards Board (hereafter SASB) is a non-profit organization that produces sustainability accounting standards that guide firms to report on environmental, social and governance topics material for investors within a specific industry. SASB was founded in 2011 with the purpose of offering the providers of financial capitals, mainly investors, information that allows them to evaluate the non-financial impacts of the corporations in which they invest or plan to invest. As acknowledged in its webpage, SASB expects to help the decision-making process of investors by promoting a "shared understanding of companies' sustainability performance" and increase long-term value creation by promoting sustainability.

In contrast to previous global international initiatives for the elaboration of sustainability disclosures, such as the Global Reporting Initiative or the International Integrated Reporting Council, SASB focuses on United States listed companies (Flasher et al., 2018). Specifically, it seeks that its sustainability accounting standards will be integrated into the 10-K and 20-F mandatory fillings of the Securities and Exchange Commission (hereafter, SEC). The organization has the accreditation of the American National Standards Institute that grantees that its sustainability accounting standards are developed through an open, balanced, consensual and due process (Khan et al., 2016).

Another significant difference with respect to Global Reporting Initiatives is the targeted audience of the information produced with the standards. While the Global Reporting Initiative Standards aims to elaborate useful information to firms' key stakeholders, SASB, similarly to the International Integrated Reporting Council, focuses on producing disclosures that are relevant for the participants of capital markets. This is consequent to the growing relevance of certain social and environmental topics for investors, as shown in the increasing number of CSR resolutions submitted by activist shareholders (Proffitt and Spicer 2006). In this regard, SASB covers those particular non-financial issues that could end up in having an impact in the financial performance of firms.

SASB organizational structure

SASB is dependent on the Sustainability Accounting Standards Board Foundation (hereafter SASB Foundation). Similarly to Financial Accounting Standards Board and the International Accounting Standards Board, the SASB Foundation has a dual governance structure: The SASB Foundation's Board of Directors and the Standards Board. On the one hand, the SASB Foundation's Board is the governance board. It is in charge of deciding strategic and operational issues. It is also responsible for monitoring the Standards Board and nominating its members. On the other hand, the Standards Board is the technical board and it is in charge of the standard-setting process itself.

As stated in its webpage, the SASB Foundation gets no governmental funding. Its financial resources come from two different sources: (i) contributions from private individual, firms and philanthropic entities, and (ii) commercial activities (e.g. publications, training, etcetera).

Sustainability Accounting Standards and the standard-setting process

The Sustainability Accounting Standards covers material topics for investors that are industry-specific. As of November 2018, SASB has produced standards with suggested metrics for 77 industries across 11 sectors. The standards are considered to be easy to be implemented by companies.

The standards are included in the SASB Materiality Map. The SASB Materiality Map is an interactive tool that identifies material topics for each specific sector and industry. Once that companies determine their material topics using the Map, they can download the corresponding standard to report on them.

Each standard provides explanations on three areas. Firstly, it offers accounting metrics for the material industry-specific issues. Secondly, it includes a technical protocol that guides firms for the compilation of data. Finally, it also provides metrics for normalization (SASB, 2018).

SASB's standard-setting involves a five-phase process. In the first and second phases, SASB gathers feedback from research and expert consultation, respectively (Lee et al., 2018). Afterwards, in the third phase the outcome of the two initial phases is subject to a technical analysis by specific industry-working groups. During these first phases, SASB performance a materiality test to identify which are the material topics for the industry. Khan et al. (2016) describe the way in which SASB conducts this test, that consists of three elements: the interests test, the financial impact test and the forward-looking test. The interest test evaluates the relevance of an issue through (i) a keyword search in Bloomberg as well as in SEC filings and documents, and (ii) the assessment of the industry working group participants. The financial impact test evaluates the influence of a topic on the financial situation and performance of firms. This test relies on investor and market data and news. Finally, the forward-looking test evaluates the likelihood of the future financial impact of a topic that fails to meet the financial test but that could be material for financial capital providers. The outcome of phase 3 is an exposure draft (fourth phase, which is open to public consultation for 90 days during the fifth phase. The final standard is published considering the feedback obtain during this consultation period and after the review of the Standards Board. SASB allows the possibility of updating the standards to make changes and adjustments (Khan et al., 2016).

The composition and functioning of the industry-working groups is described in SASB industry-working groups due process report (SASB, 2015). These groups include member from three different types of stakeholder groups with experience in the specific industry: financial statement preparers, information users and public constituencies (Flasher et al., 2018). The feedback from the industry-working group is collected by means of an online survey and outreach consultation (Khan et al., 2016).

Application of the Sustainability Accounting Standards

SASB published a document that offers guidance on how companies should apply the Standards (see SASB, 2018). The standards distinguish three types of elements. Elements introduced by the term "shall" are required should the company seeks their disclosures to be considered in accordance with the SAB standards. Elements introduced by the term "should" offer recommended guidance. Finally, elements introduced by the term "may" offer optional guidance.

Regarding the reporting boundaries to be considered when compiling data, SASB states that the firm should consider the same entities that are included when producing consolidated financial statements.

In relation to the reporting format, SASB provides the following suggestion when applying the standards. First, the financial data included in non-financial disclosures should be aligned with the data provided in the financial statements. Second, metrics should be normalized and be expressed in the International System of Unit so that an adequate comparison and benchmarking is enabled. Third, the firm should also describe the uncertainty related to the reporting of certain aspects, as well as the estimates used for measuring certain elements. Fourth, the information provided should be referenced to the firm's fiscal year.

Finally, SASB allows firms to omit disclosure topics or specific metrics, as well as to make change to metrics However, both omissions and changes should be disclosed as well as their justification.

Cross-references

→ See **Corporate social responsibility reporting**

→ See **CSR communication**

→ See **Global Reporting Initiative**

→ See **Integrated reporting**

→ See **Reporting**

→ See **Reporting frameworks**

→ See **Sustainability report & sustainability reporting**

References

Flasher, R., Luchs, C. K., & Souza, J. L. (2018). Sustainability assurance provider participation in standard setting. Research in Accounting Regulation, 30(1), 20-25.

Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. The Accounting Review, 91(6), 1697-1724.

Lee, S., Kim, B., & Ham, S. (2018). Strategic CSR for airlines: does materiality matter?. International Journal of Contemporary Hospitality Management, 30(12), 3592-3608.

Proffitt Jr, W.T., & Spicer, A. (2006). Shaping the shareholder activism agenda: Institutional investors and global social issues. Strategic Organization, 4(2), 165-190.

Sustainability Accounting Standards Board (ASB). Webpage. https://www.sasb.org/. Date of access: 7th June 2019.

Sustainability Accounting Standards Board (SASB). (2015b). SASB Industry Working Groups Due Process Report, Infrastructure Sector. Available at https://www.sasb. org/wp-content/uploads/2015/09/INF- IWG- Due- Process- Report.pdf

Sustainability Accounting Standards Board (SASB) (2018). SASB Standards Application Guidance. Available at https://www.sasb.org/wp-content/uploads/2018/11/SASB-Standards-Application-Guidance-2018-10.pdf